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

2012
Annual Report

Haitian Hydropower International Limited

is a clean energy company specializing in small hydropower development in China.

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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 (the “GEM Listing Rules”) for the purpose 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement herein or this report misleading; (iii) all opinions expressed in this report have been arrived at after due an careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

Executive Directors

Mr. Lin Yang *(Chairman)*
Mr. Zheng Xuesong *(Chief Executive Officer)*
Mr. Chen Congwen
Mr. Lin Tian Hai

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. Lin Yang
Mr. Chan Kam Fuk
Mr. Chen Congwen
Mr. Cheng Chuhan
Mr. Lin Tian Hai
Mr. Zhang Shijiu

Compliance Officer

Mr. Lin Yang

Company Secretary

Ms. Lam Sau Ping Melanie

Authorised Representatives

Mr. Lin Tian Hai
Ms. Lam Sau Ping Melanie

Auditor

SHINEWING (HK) CPA Limited
Certified Public Accountants

Registered Office

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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

Room 10, 21st Floor
B1 Building
Wanda Square Second Stages
Finance Street, Aojiang Road
Aofeng Avenue, Taijiang District
Fuzhou City, Fujian Province
PRC

Corporate Information

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

Compliance Adviser

Ample Capital Limited

Company Website

www.haitianhydropower.com

Stock Code

08261 (since 6 July 2012)

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present the full year results of Haitian Hydropower International Limited (the "Company", together with its subsidiaries referred to as the "Group") for the year ended 31 December 2012.

The year 2012 has been a significant year for the Group. The shares of the Group were successfully listed on GEM on 6 July 2012. The successful listing was not only a great recognition of the Group's historical achievements, but also laid a solid foundation for the continuous expansion and improvement of the Group's businesses going forward.

Business Review

The Group is engaged in the operation and management of small hydropower plants in the PRC which were either developed by itself or acquired from other parties. During the year under review, the Group possessed three wholly-owned hydropower plants in Fujian Province in the PRC, namely Ma Tou Shan Hydropower Plant in Fuan City, Qianping Hydropower Plant in Zhouning County and Jiulong Hydropower Plant in Zhouning County.

In September 2012, the Group vigorously initiated a capacity expansion project of Jiulong Hydropower Plant in Zhouning County. The capacity expansion project is currently undergoing the preliminary preparation stage, and the construction of major works is expected to commence in third quarter of 2013. Based on the experiences of the Group in constructing Ma Tou Shan Hydropower Plant in Fuan City and Qianping Hydropower Plant in Zhouning County, the Board believes that the capacity expansion project will last for 20 months and is expected to be completed successfully in 2014.

Financial Review

Due to the increased precipitation in Fujian Province in 2012, the Group's revenues recorded substantial growth. For the year ended 31 December 2012, electricity sold of the Group amounted to 94,636 MWh, representing an increase of 23.9% as compared to that of last year. Revenues from power generation amounted to RMB27.8 million, representing an increase of 26.4% as compared to RMB22.0 million of last year. Profit attributable to the owners of the Group amounted to RMB1.6 million after deducting the listing fee of RMB4.1 million, representing a decrease of 64.4% as compared to the same period of last year. Since July 2012, on-grid tariff of the three wholly-owned hydropower plants under the Group increased by 3.5% simultaneously.

Outlook

Looking ahead, the Group will continue to seek and acquire small and medium-size hydropower plants with promising outlooks and appreciation potential. Since the "Twelve Five" plan has encouraged the development of hydropower, improved the tariff setting mechanism and facilitated the continuous and healthy development of small hydropower plants, the Board believes that small and medium-size hydropower plants have greater potential for future developments and investments, and will continue to present the Group with unprecedented development opportunities and benefits. As such, the Group will strive to optimize the operation and management of its existing projects and accelerate the acquisition of and facilitate the operation and management of newly-acquired projects, in an effort to improve the performance of its existing businesses.

Chairman's Statement

Acknowledgements

Finally, I would like to take this opportunity to express my sincere gratitude to the continuous support and trusts from our shareholders, clients and business partners. In addition, I would like to thank our directors and employees for their enormous contribution and unwavering commitments to the Group. Based on the successful operation of the Group, we continue to be optimistic about the outlook for its business developments going forward. Through the implementation of our established business strategies, we intend to further enhance the value of the Group and render satisfactory investment returns for our shareholders.

Lin Yang
Chairman
20 March 2013

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 31 December 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 operational details of the hydropower plants are listed as below:

Ma Tou Shan Hydropower Plant (福安市馬頭山水電站)

Ma Tou Shan Hydropower Plant is located on Qianyang Stream of Saijiang Basin (賽江流域茜洋溪) in Xibing Town (溪柄鎮), Fuan City (福安市) of Fujian Province. With a total installed capacity of 11.25 MW, Ma Tou Shan Hydropower Plant commenced power generation for sale in June 2007. Ma Tou Shan Hydropower Plant is an impoundment dam reservoir hydropower plant which is built with a water diversion structure (dam) spanning the river and a water conveyance facility (tunnels and penstocks) which conveys water to the powerhouse. The powerhouse contains two 5.0 MW and one 1.25 MW vertical water turbine generators (直立式水輪發電機組). The reservoir has a design of a total capacity of approximately 9,980,000 m^3, which possesses the function of "seasonal adjustment (季調節)", i.e. the reservoir could store excess water in the high precipitation season for the use of electricity generation in low precipitation season during the same year.

Indicators	2012	2011
Installed capacity (MW)	11.25	11.25
Electricity sold (MWh)	35,231	27,699
Applicable on-grid tariff (RMB/KWh), including VAT	0.331	0.32

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 year ended 31 December 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 the operating company will not be disqualified from CDM project.

Management Discussion and Analysis

Qianping Hydropower Plant (周寧縣前坪水電站)

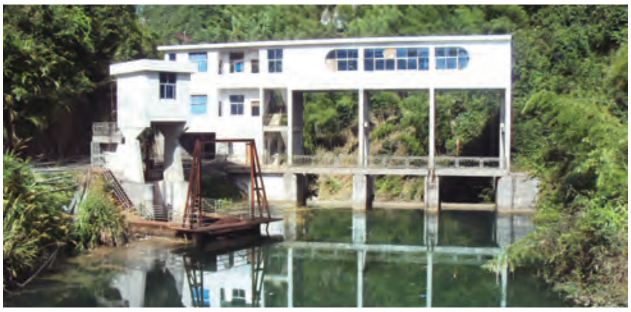
Qianping Hydropower Plant is located on the Longting Stream (龍亭溪) of the Muyang Basin (穆陽溪流域), Zhouning County (周寧縣) of Ningde City (寧德市) in Fujian Province. With a total installed capacity of 10 MW, Qianping Hydropower Plant commenced power generation for sale in June 2008. Qianping Hydropower Plant is an impoundment dam reservoir hydropower plant which is built with a water diversion structure (dam) spanning the river and a water conveyance facility (tunnels and penstocks) which conveys water to the powerhouse. The powerhouse contains two 5.0 MW horizontal water turbine generators. The dam controls a catchment area of approximately 44 km^2. The reservoir has a design of total capacity of approximately 3,340,000 m^3, which possesses the function of "seasonal adjustment (季調節)", i.e. the reservoir could store excess water in the high precipitation season or the use of electricity generation in low precipitation season during the same year.

Indicators	2012	2011
Installed capacity (MW)	**10**	10
Electricity sold (MWh)	**36,114**	31,146
Applicable on-grid tariff (RMB/KWh), including VAT	**0.331**	0.32

Jiulong Hydropower Plant (周寧縣九龍水電站)

Jiulong Hydropower Plant is located at Qibu town (七步鎮), Zhouning County (周寧縣) of Ningde City (寧德市) in Fujian Province. It comprises cross stream hydrological works which divert the water from upstream of Bapu Stream (八蒲溪), a tributary of Muyang Stream (穆陽溪), into Qibu Stream (七步溪). Jiulong Hydropower Plant has a total installed capacity of 5.0 MW. It commenced power generation for sale in April 2003. Jiulong Hydropower Plant was acquired by the Group in May 2010.

Jiulong Hydropower Plant is an impoundment dam reservoir hydropower plant which is built with a water diversion structure (dam) spanning the river and a water conveyance facility (tunnels and penstocks) which conveys water to the powerhouse. The powerhouse contains two horizontal water turbine generators (卧式水輪發電機組). The dam controls a catchment area of approximately 46 km^2. The reservoir has an adjusted capacity (水庫調節庫容) of approximately 59,000 m^3, which possesses the function of "daily adjustment (日調節)", i.e. the reservoir could store excess water in the high water hours for the use of electricity generation in low water hours during 24 hours.



Indicators	2012	2011
Installed capacity (MW)	5	5
Electricity sold (MWh)	23,291	17,548
Applicable on-grid tariff (RMB/KWh), including VAT	0.301	0.29

Extension Development of Jiulong Hydropower Plant

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 plants 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.

In September 2012, the preliminary preparation works for Jiulong Hydropower Plant extension project have been initiated and it is expected that the mainframe construction will start in third quarter of 2013. Depending on the construction progress, the Directors of the Company believe the mainframe construction will be completed in fourth quarter of 2014 and the project will start to contribute revenue to the Group in 2015.

Acquisition of Hydropower Plants

As a core of expansion strategy, the Group continues to seek to acquire small and medium-size hydropower plants with attractive return and appreciation potential. As at the date of this report, the Group has identified a few potential hydropower plants in Fujian Province and is currently conducting preliminary reviews and feasibility studies. It is expected that negotiation will be initiated for the target hydropower plants and an acquisition will be concluded in the first half year of 2013.

Financial Review

Turnover

The revenue, gross profit and gross profit margin of Group for the year ended 31 December 2011 and year ended 31 December 2012 are shown below:

The Group recorded a turnover of Renminbi ("RMB") 27.8 million for the year ended 31 December 2012 representing a 26.4% increase as compared to RMB22.0 million for the year ended 31 December 2011.

The Group's revenues to date have been derived from the sale of electricity generated by the Hydropower Plants to local power grids in Fujian Province. Ma Tou Shan Hydropower Plant, Qianping Hydropower Plant and Jiulong Hydropower Plant were contributed approximately 38.1%, 39.1% and 22.8% to the Group's total turnover for the year ended 31 December 2012.

Management Discussion and Analysis

The Group's turnover was increased due to higher power sale. The volume of electricity sold for the year ended 31 December 2012 increased by approximately 23.9% from 76,393 MWh to 94,636 MWh. The increase of power sale was resulted from increased precipitation. The precipitation in Fuan City, Fujian Province was 1,739.0 mm in the year ended 31 December 2012 and the precipitation in Zhouning County, Fujian Province was 2,149.7 mm in the year ended 31 December 2012. In addition to the precipitation, the average on-grid tariff of the hydropower plants which increased by 3.5% from 1 July 2012 also had positive impact on the Group's turnover for the year ended 31 December 2012.

Gross Profit and Gross Margin

The Group achieved a gross profit of approximately RMB20.6 million for the year ended 31 December 2012 (2011: RMB15.4 million) representing an increase of 33.8% as compared to that in 2011. Gross margin, calculated as gross profit divided by turnover, for the year ended 31 December 2012 amounted to 74.1% (2011: 70.0%). The increase in gross margin in 2012 was mainly attributable to revenue and cost which increased by 26.4% and 9.1% respectively compared with prior year. Smaller growth in cost was resulted from fixed cost (such as depreciation) occupying 65.3% of total cost of sales for the year ended 31 December 2012 (2011: 71.7%).

Administrative Expenses

The administrative expenses of the Group primarily comprised listing expenses and staff costs. For the year ended 31 December 2012, the Group's administrative expenses increased to approximately RMB8.7 million compared to approximately RMB3.5 million for last year, representing an increase of approximately 148.6%. The increase was mainly attributed to the incurring of listing expenses of approximately RMB4.1 million for the year ended 31 December 2012 (2011: RMB1.2 million).

Finance Cost

The finance cost of the Group represented interest expenses on bank loans. For the year ended 31 December 2012, finance cost recorded by the Group was approximately RMB9.2 million (2011: RMB8.7 million). The increase in finance cost was due to the increased borrowing during the year.

Income Tax Expense

Owing to increased profit, the income tax of the Group increased by 35.3% from approximately RMB1.7 million for the year ended 31 December 2011 to approximately RMB2.3 million for the year ended 31 December 2012.

Profit and Total Comprehensive Income

Mainly due to the incurring of listing expenses, the profit and total comprehensive income of the Group decreased by 64.4% from approximately RMB4.5 million for the year ended 31 December 2011 to RMB1.6 million for the year ended 31 December 2012.

Management Discussion and Analysis

Basic and Diluted Earnings per Share

Basic and diluted earnings per share for the year ended 31 December 2012 amounted to RMB cents 0.19 (2011: RMB cents 0.59), representing a decrease of 67.8% as compared with 2011.

Liquidity and Financial Resources

The Group generally finances its operations from internally generated cash flows, shareholders' funds and bank borrowings. The Group maintained strong cash and bank balances of approximately RMB89.7 million as at 31 December 2012 (2011: RMB16.9 million). As at 31 December 2012, the Group had net current assets of RMB80.8 million (2011: net current liabilities of RMB9.0 million).

The current ratio, as at 31 December 2012, represented by a ratio between current assets over current liabilities, was 6.7 (2011: 0.7) and the gearing ratio as at 31 December 2012, represented by a ratio between total debt over total assets, was 48.5% (2011: 62.4%). Improvement of both ratios were mainly resulted from continuing generation of operating cash flow and the net proceeds raised from the placing of shares on 6 July 2012.

Bank Borrowings

As at 31 December 2012, the Group's bank borrowings amounted to approximately RMB113.2 million, bearing interest rates from 7.2% to 8.1% per annum.

Pledge of Assets

The bank borrowings of approximately RMB113.2 million (2011: RMB102.5 million) as at 31 December 2012 were secured by prepaid lease payments, certain property, plant and equipment and trade receivables of the Group. Details of pledge of assets of the Group are set out in note 32 to the financial statements.

Foreign Exchange Exposure

The Group's income and expenditure during the year ended 31 December 2012 were principally denominated in Renminbi ("RMB"), and most of the assets and liabilities as at 31 December 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 year under review.

Capital Structure

Except for approximately HK$59.5 million of net proceeds raised through the initial placing (the "Placing") of the shares of nominal value of HK$0.01 each at the Placing price of HK$0.30 each on 6 July 2012, there has been no material change in the capital structure of the Group from 6 July 2012 to 31 December 2012.

The total number of the issued shares of the Company was 1,000,000,000 as at 31 December 2012.

Management Discussion and Analysis

Contingent Liabilities

As at 31 December 2012, the Group did not have any significant contingent liabilities.

Final Dividend

The Directors do not recommend the payment of the final dividend for year ended 31 December 2012 (2011: Nil).

Employees and Remuneration Policies

As at 31 December 2012, the Group employed approximately 62 employees, as compared to 56 employees as at 31 December 2011, including directors and the chief executive. Total staff costs for the year under review, including directors' and the chief executive emoluments, amounted to approximately RMB2.6 million (2011: approximately RMB1.8 million). 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 and share option scheme.

Significant Investment Held, Material Acquisition and Disposal of Subsidiaries and Affiliated Companies, and Plans for Material Investment or Capital Assets

There was no significant investment held, material acquisition or disposal of subsidiary and affiliated companies during the year ended 31 December 2012. Save for disclosed in the Annual Report, there is no plan for material investments or capital assets as at 31 December 2012.

Other Information

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

The following is a comparison of the Group's future plan as set out in the Company's prospectus dated 28 June 2012 (the "Prospectus") with actual business progress for the year ended 31 December 2012.

Business objectives as stated in the Prospectus	Actual business progress up to 31 December 2012
Possible acquisition of hydropower plants	The Group has identified a few potential hydropower plants in Fuijian Province and is currently conducting preliminary reviews and feasibility studies. It is expected that negotiation will be initiated for the target hydropower plants and an acquisition will be concluded in the first half year of 2013.
Enhancement of technologies and facilities of existing hydropower plants	The Group has commenced the extension development of existing Jiulong Hydropower Plant and appointed external professional parties who are in the process of designing the construction and preparing the environmental impact assessment report. The mainframe construction is expected to start in third quarter of 2013 and to complete in the fourth quarter of 2014.
Enhancement of technologies and facilities of newly acquired hydropower plants	The Group will implement the technologies upgrade of the hydropower plant acquired in future.
Enhancement of safety management	The Group has implemented steps and procedures to review the safety policy and upgraded the safety equipment for the three operating hydropower plants.

Management Discussion and Analysis

The net proceeds from the Placing from the date of listing (i.e. 6 July 2012) (the "Listing Date"), to 31 December 2012 had been applied as follows:

	Use of proceeds in the same manner and proportion as shown in the Prospectus from the Listing Date to 31 December 2012 HK$'000	Actual use of proceeds from the Listing Date to 31 December 2012 HK$'000
Possible acquisition of hydropower plants (Note 1)	46,818	–
Enhancement of technologies and facilities of existing hydropower plants (Note 2)	14,740	560
Enhancement of technologies and facilities of newly acquired hydropower plants	–	–
Enhancement of safety management	90	80
Total	61,648	640

Note 1: Actual use of proceeds was lower as compared to the use of proceeds which was mainly because the Group is still identifying potential acquisition targets.

Note 2: The Group has just commenced design and environment evaluation works for the extension development of Jiulong Hydropower plants. The mainframe construction is expected to start in third quarter of 2013.

The actual net proceeds from the placing of the shares of the Company were approximately HK$59.5 million, which was lower than the estimated net proceeds of approximately HK$62.3 million, mainly due to the Placing price of the shares fixing at HK$0.30 per share, lower than the midpoint of the indicative Placing price range of HK$0.31 per share in the Prospectus. Accordingly, the allocation of the net proceeds from the Placing for acquisition of hydropower plants would be adjusted. 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.

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to ascertain the business growth of the Group.

All the unutilised balances have been placed in licensed banks in Hong Kong and in the PRC.

Directors and Senior Management Profiles

Biographical details of the directors of the Company and the senior management of the Group are set out as follows:

Executive Directors

Mr. Lin Yang, aged 50, is the founder of the Group. He was appointed as an executive Director of the Company since 27 August 2010 and is the chairman of the Board. Mr. Lin is also a director of Fujian Dachan Hydropower Development Co., Ltd since 3 August 2008 and a director of Fuan Liyuan Hydraulic Power Co., Ltd since 9 September 2008, these companies are the indirect wholly-owned subsidiaries of the Company, Mr. Lin is responsible for the overall strategic direction of the Group. He possess many years of experience in corporate planning, business development and project investment. Mr. Lin was appointed a duty chairman of the Third Standing Committee of the China Commercial Association General of Canada, Fujian Commerce Association of Canada (加拿大中華總商會福建商會第三屆常務理事會常務副會長) in 2006.

Mr. Zheng Xuesong, aged 40, has been an executive director of the Company since 14 October 2010. He has over 15 years of experience in hydropower plants development and management. Mr. Zheng has been the general manager of Fujian Dachuan Hydropower Development Co., Ltd and Fuan Liyuan Hydraulic Power Co., Ltd since 2003. Mr. Zheng is the cousin-in-law of Mr. Lin Yang. In 2010, Mr. Zheng was appointed as the vice chairman of Energy Association of Ningde City of Fujian province (寧德市能源行業協會).

Mr. Chen Congwen, aged 45, has been an executive director of the Company since 14 October 2010. He has over 20 years of experience in finance and corporate management. Mr. Chen is the brother-in-law of Mr. Lin Yang. During the period from August 1988 to November 2003, Mr. Chen worked as finance manager for Fuan City Administration Bureau for Industry and Commerce (福安市工商行政管理局).

Mr. Lin Tian Hai, aged 26, was appointed as an executive director of the Company on 30 January 2013. Mr. Lin holds a Bachelor Degree of Business Administration and Management from the University of Toronto in Canada. He has worked in private equity and investment banking sectors and has substantial experiences in project management and corporate financing. Mr. Lin Tian Hai is the son of Mr. Lin Yang.

Directors and Senior Management Profiles

Independent Non-Executive Directors

Mr. Zhang Shijiu, aged 68, was appointed as an independent non-executive director of the Company on 18 June 2012. Mr. Zhang completed a five and a half years' course in river hub and hydropower station construction in water conservancy engineering (水利工程系河川樞紐與水電站建築專業) at Tsinghua University in 1968. Mr. Zhang was approved as a High Class Engineer (高級工程師) by the Fujian Province Human Resources Bureau (福建省人事局) on 5 June 1992. Mr. Zhang was approved as Water Dam Safety Appraisal Expert (水利大壩安全鑒定專家) by Fujian Province Water Resources Board (福建省水利水電廳) on 22 January 1998. Mr. Zhang worked for Fujian Province Ningde District Water Conservancy Power Bureau (福建省寧德地區水利電力局) for more than 30 years and retired from being a chief engineer in September 2007. Prior to joining the Group, Mr. Zhang acted as an independent non-executive director of a listed company in the PRC, namely, Fujian Mindong Electric Power Co., Ltd. (福建閩東電力股份有限公司) (Stock Code: 000993.SZ) from June 2002 and resigned in June 2003 because of his own personal working schedule.

Mr. Cheng Chuhan, aged 40, has been an independent non-executive director of the Company since 14 October 2010. Mr. Cheng graduated from Fuzhou University (福州大學) with a bachelor degree in Economics in 1994. Mr. Cheng has over 15 years of experience in accounting and auditing industry.

Mr. Chan Kam Fuk, aged 47, has been was appointed as an independent non-executive director of the Company since 14 October 2010. Mr. Chan is the sole-proprietor of Dominic K. F. Chan & Co., CPA, an accounting firm in Hong Kong. He is a practising certified public accountant in Hong Kong, member of CPA Australia, and certified tax adviser of the Taxation Institute of Hong Kong. Prior to joining the Group, Mr. Chan acted as an executive director of a Hong Kong listed company, namely, Ecopro Hi-Tech Holdings Limited (now known as China Gogreen Assets Investment Limited) (Stock Code: 397) from 15 January 2001 and retired on 31 August 2001, and acted as an independent non-executive director of two Hong Kong listed companies, namely, Info Communication Holdings Limited (now known as Sage International Group Limited) (Stock Code: 8082) and Wing Hing International Holdings Limited (now known as Taung Gold International Limited) (Stock Code: 621) for the periods from 30 September 2004 to 14 December 2007 and from 30 October 2009 to 20 April 2010 respectively. Mr. Chan retired as executive director of China Gogreen Assets Investment Limited and resigned as independent non-executive director of Info Communication Holdings Limited and Wing Hing International (Holdings) Limited because of his own personal working schedule. In addition, Mr. Chan acted as an executive director of Swing Media Technology Group Ltd., a corporation listed in the Singapore Exchange ("SGX") from 19 May 2003 and resigned as non-executive director on 11 November 2006 because of his own personal working schedule, and an independent non-executive director of Superior Fastening Technology Limited (now known as Renewable Energy Asia Group Limited) which shares are also listed on the SGX from 28 October 2003 and retired by rotation on 30 July 2010. There are no other matters needed to be brought to the attention of the Shareholders and the Stock Exchange for Mr. Chan's resignation in various listed companies. Mr. Chan has extensive experience in finance, auditing and accounting. Mr. Chan graduated from The University of Southern Queensland, Australia with a Master of Professional Accounting in 1998 and from the City University of Hong Kong with the degree of Master of Science in Finance in 1995.

Directors and Senior Management Profiles

Senior Management

Mr. Chen Xinbin, aged 39, is currently the assistant general manager of the Company. He was issued the certificate of his qualification as a Safe Production Supervisor (安全生產管理人員) by Fujian Administration of Work Safety (福建省安全生產監督管理局) and Fujian Office of the State Electricity Regulatory Commission (國家電力監督委員會福建省電力監督專員辦公室) in August 2010 which is valid until 17 August 2013. Mr. Chen took correspondence course in Electrical Power System and its Automatization (電力系統及其自動化專業函授課程) at Fuzhou University (福州大學) from September 2000 to January 2004 and fulfilled the requirements for graduation. Mr. Chen was approved as a Middle Class Hydropower Engineer (水利水電專業中級工程師) by Ningde Human Resources Bureau (寧德市人事局) on 4 December 2006. Prior to joining the Group in January 2008, Mr. Chen worked for Huanglanxi Hydropower Co., Ltd (黃蘭溪水力發電有限公司) responsible for operation of hydropower plant from 1998 to 2008.

Mr. Zhang Qigui, aged 38, has worked as an operation supervisor (運行主任) and technical head (技術站長) with Qianyuan Hydropower since October 1999 at the Jiulong Hydropower Plant. Mr. Zhang took a three years' course in Electrical and Mechanical Engineering (機電工程三年制普通專科) at The Open University of Fujian (福建廣播電視大學) and fulfilled the requirements for graduation in 1999.

Ms. Wu Xiaoqing, aged 29, is the finance manager of the Company. Ms. Wu completed a two years' course in Accounting (會計學(財會方向)兩年制專科) at The Open University of China (中央廣播電視大學) in 2007. She joined the Company since June 2010.

Directors' Report

The Board is pleased to present their first annual report together with the audited financial statements of the Group for the year ended 31 December 2012 after its listing on the GEM on 6 July 2012.

Group Reorganisation

The Company is a limited liability company incorporated in the Cayman Islands on 27 August 2010.

Under a group reorganisation scheme (the "Reorganisation") in June 2012 to rationalise the structure of the Group in preparation for the initial public offering of the shares of the Company on GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Reorganisation are set out in the History and Development section of the Prospectus.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 37 to the financial statements. The Group is principally engaged in the investment, development, and operation of hydropower plants in China.

Segmental Information

The Group's segment information and revenue for the year ended 31 December 2012 are set out in Notes 8 to the consolidated financial statements respectively.

Results and Dividends

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 35 to 40.

The Directors do not recommend the payment of final dividends for the year ended 31 December 2012. Details of dividends paid during the year ended 31 December 2012 are set out in Note 14 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 36 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

Distributable Reserves

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB61,999,000. The amount of RMB61,999,000 includes the Company's share premium and special reserve, net of retained profit which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Property, Plant and Equipment and Prepaid Lease Payment

Details of the movements in property, plant and equipment and prepaid lease payment of the Group during the year are set out in Notes 16 and 17 to the consolidated financial statements respectively.

Summary of Financial Information

A summary of the published results and assets and liabilities of the Group, as extracted from the consolidated financial statements, is set out on page 88 of this Annual Report. This summary does not form part of the audited financial statements.

Share Capital

Details of the Company's share capital and movements during the year are set out in Note 26 to the consolidated financial statements.

Pre-emptive Rights

There are no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Directors' Report

Directors

The Directors during the year and up to the date of this annual report were:

Executive Directors

Mr. Lin Yang *(Chairman)*	
Mr. Zheng Xuesong	
Mr. Chen Congwen	
Mr. Huang Xiaodong	*(Resigned on 30 January 2013)*
Mr. Lin Tian Hai	*(Appointed on 30 January 2013)*

Independent Non-executive Directors

Mr. Zhang Shijiu	*(Appointed on 19 June 2012)*
Mr. Cheng Chuhan	
Mr. Chan Kam Fuk	

Pursuant to Article 83(3) of the Company's articles of association, all Directors shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' and Senior Management's Biographies

Biographies details of the Directors and the senior management of the Group are set out on pages 14 to 16 of this Annual Report.

Directors' Service Contracts

All executive Directors, except for Mr. Lin Tian Hai, have entered into service contracts with the Company for a period of three years commencing 6 July 2012 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. Mr. Lin Tian Hai, the executive director, has entered into service contract with the Company for a period of one year commencing 30 January 2013 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

Other than those disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Independence Confirmation

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The company considers that all of the independent non-executive Directors is independent.

Emoluments of Directors and Five Highest Paid Individuals

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Note 13 to the consolidated financial statements.

Management Contracts

As at 31 December 2012, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

Emolument Policy

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

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 year under review and there were no outstanding share options under the Scheme as at 31 December 2012. Details of the scheme is set out in Note 33 to the consolidated financial statements.

Directors' Interests in Contract

No contract of significance to which the Company, or any of its holding company or subsidiaries was a party, and in which a Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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 year under review.

Non-Competition Undertaking

In order to eliminate any future competing business with the Group, a deed of non-competition undertaking dated 19 June 2012 (the "Deed") was given by Mr. Lin and Victor River Limited ("Victor River") in favour of the Group.

In addition, in order to protect the interests of the independent Shareholders, the following arrangements will be adopted by the Company in respect of the implementation of the Deed:

(a) the independent non-executive directors will review, on an annual basis, the compliance with the Deed by Mr. Lin and Victor River;

(b) Mr. Lin and Victor River undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive directors and the enforcement of the Deed;

(c) the Company will disclose decisions with basis on matters reviewed by the independent non-executive directors relating to compliance and enforcement of the deed in the annual reports of the Company; and

(d) Mr. Lin and Victor River will make an annual declaration on compliance with the Deed in the annual report of the Company.

Confirmation on compliance with the terms of the Deed from the Listing Date to the date of this report was received from each of Mr. Lin and Victor River. The independent non-executive directors had reviewed and confirmed that Mr. Lin and Victor River have complied with the Deed and the Deed has been enforced by the Company in accordance with its terms.

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

As at 31 December 2012, the interests or short positions of the Director 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 Securities and Futures Ordinance, Cap. 571 of the Law of Hong Kong ("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, 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.

Saved as disclosed above, as at 31 December 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.

Directors' Rights to Acquire Shares or Debentures

Other than as disclosed under the sections "Share Option Scheme" and "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, at no time during the year ended 31 December 2012 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

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

So far as the Directors are aware, as at 31 December 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 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 Limited (Note)	Beneficial owner	750,000,000 Shares	75
Ms. Chen Congling (Note)	Interest of spouse	750,000,000 Shares	75

Note: Victor River Limited 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 Limited 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 Limited.

Saved as disclosed above, as at 31 December 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 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.

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 year ended 31 December 2012.

Compliance Adviser's Interest in the Company

As at 31 December 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.

Connected Transactions

The Directors are not aware of any connected transactions of the Group that shall be disclosed in this Annual Report under the GEM Listing Rules.

Corporate Governance

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 25 to 32.

Events after the Reporting Period

The Group has no significant events after the reporting period.

Code of Conduct regarding 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 year under review. The Company was not aware of any non-compliance since the listing of the Company on GEM on 6 July 2012.

Sufficiency of Public Float

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

Auditor

SHINEWING (HK) CPA Limited ("SHINEWING") was appointed as auditor of the Company on 15 October 2012 and the consolidated financial statements for the year ended 31 December 2012 was audited by SHINEWING. A resolution for the re-appointment of SHINEWING as auditor of the Company will be proposed at the 2013 AGM.

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

Fuzhou, the PRC, 20 March 2013

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2012.

Corporate Governance Practices

The Group is committed to achieving high standard of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability. The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. Before the Listing Date, the CG Code was not applicable to the Company. During the period from the Listing Date to 31 December 2012, the Company has complied with the code provisions set out in the CG Code. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and the CG Code and align with the latest developments.

Board of Directors

Board Composition

The Board of the Company currently comprises seven members, of which four are executive Directors namely Mr. Lin Yang (Chairman), Mr. Zheng Xuesong (Chief executive officer ("CEO")), Mr. Chen Congwen and Mr. Lin Tian Hai and three are independent non-executive Directors namely Mr. Zhang Shijiu, Mr. Cheng Chuhan and Mr. Chan Kam Fuk. Each of the Directors' respective biographical details is set out in the section headed "Directors and Senior Management Profiles" of this Annual Report. The Board included at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise at all times during the year ended 31 December 2012. The family relationships among the board members, if any, are disclosed under "Directors and Senior Management Profiles" section in this Annual Report.

Role and Function

The Board is responsible for overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

Delegation by the Board

The Board also reserves for its decisions on all major matters of the Company, including the approval and monitoring of major policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the executive Directors and senior management. The delegated functions and work tasks are reviewed from time to time. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board.

Board Meetings

Appropriate notices are given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to all Directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation. Minutes of Board meetings and meetings of Board committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

Number of Meetings and Attendance Records

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. From the date of Listing and up to 31 December 2012, two Board meetings were held and the attendance records of individual Directors are set out below:

Name of Directors	Meeting attended/ Eligible to attend Board
Executive Director	
Mr. Lin Yang	2/2
Mr. Zheng Xuesong	2/2
Mr. Chen Congwen	2/2
Mr. Huang Xiaodong *(Appointed on 14 October 2010 and resigned on 30 January 2013)*	2/2
Independent non-executive Directors	
Mr. Zhang Shijiu	2/2
Mr. Cheng Chuhan	2/2
Mr. Chan Kam Fuk	2/2

Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are segregated and are held by Mr. Lin Yang and Mr. Zheng Xuesong respectively to ensure their respective independence, accountability and responsibility. The Chairman is responsible for the Group's strategic planning and the management of the operations of the Board, while the Chief Executive Officer takes the lead in the Group's operations and business development. There is a clear division of responsibilities between the Chairman and Chief Executive Officer of the Company which provides a balance of power and authority.

Appointment and Re-election of Directors

All the Directors, including independent non-executive Directors, are appointed for a term of three years and subject to retirement by rotation and eligible for re-election in accordance with the Company's Articles. At each annual general meeting, not less than one third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years.

Confirmation of Independence

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the period from the Listing Date to 31 December 2012.

Directors' Continuous Professional Development

All Directors should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive an induction package covering the Group's business and the statutory and regulatory obligations of a director of a listed company

The Directors have been informed of the requirement under Code Provision A.6.5 of the CG Code regarding continuous professional development. For the year ended 31 December 2012, the Company has received training information from each Director, pursuant to the content of which, the Company considers that the training of Directors was in compliance with the requirements under Rule A.6.5 of the Listing Rules.

During the year ended 31 December 2012, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Type of continuous professional development programmes (Note)
Executive Directors	
Mr. Lin Yang	1&2
Mr. Zheng Xuesong	1&2
Mr. Chen Congwen	1&2
Mr. Huang Xiaodong *(Appointed on 14 October 2010 and resigned on 30 January 2013)*	1&2
Independent non-executive Directors	
Mr. Chan Kam Fuk	1&2
Mr. Cheng Chuhan	1&2
Mr. Zhang Shijiu	1&2

Notes:

1. Attending seminars/courses for development of professional skills and knowledge.

2. Reading materials in relation to regular update to statutory requirements, listing rules and other relevant topics related to listed company.

Company Secretary

The Company Secretary of the Company is Ms. Lam Sau Ping Melanie. The Company Secretary assists the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. She has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge in 2012.

Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 19 June 2012 with written terms of reference in compliance with Rule 5.28 and Rule 5.29 of the GEM Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, and oversee internal control procedures of the Company. As at 31 December 2012, the audit committee of the Company consists of three members, namely Mr. Zhang Shijiu, Mr. Cheng Chuhan and Mr. Chan Kam Fuk. Mr. Cheng Chuhan is the chairman of the audit committee.

During the period from the Listing Date to 31 December 2012, two meetings were held by the audit committee. The following table shows the attendance of individual members at the meetings held during the year:

Name of Directors	Meeting attended/ Eligible to attend
Independent non-executive Directors	
Mr. Cheng Chuhan	2/2
Mr. Chan Kam Fuk	2/2
Mr. Zhang Shijiu	2/2

Compliance Committee

The Company has established a compliance committee on 19 June 2012 with written terms of reference. The compliance committee comprises all the Directors, inter alias, Mr. Lin Yang, Mr. Zheng Xuesong, Mr. Chen Congwen, Mr. Huang Xiaodong, Mr. Cheng Chuhan, Mr. Zhang Shijiu and Mr. Chan Kam Fuk as at 31 December 2012. Mr. Zheng Xuesong has been appointed as the chairman of the compliance committee. The primary duties of the compliance committee are, amongst other things, to oversee the on-going compliance matters of the Company to ensure all licences, permits and approval and the renewals thereof are obtained, valid and subsisting where required and necessary under the relevant laws and regulations in a timely manner.

During the period from the Listing Date to 31 December 2012, two meeting were held by the compliance committee. The following table shows the attendance of individual members at the meetings held during the year:

Name of Directors	Meeting attended/ Eligible to attend
Executive Director	
Mr. Lin Yang	2/2
Mr. Zheng Xuesong	2/2
Mr. Chen Congwen	2/2
Mr. Huang Xiaodong *(Appointed on 14 October 2010 and resigned on 30 January 2013)*	2/2
Independent non-executive Directors	
Mr. Cheng Chuhan	2/2
Mr. Chan Kam Fuk	2/2
Mr. Zhang Shijiu	2/2

After the shares of the Company were listed on GEM on 6 July 2012, the executive Directors and senior management of the Group attended ongoing quarterly training courses organised by Fujian Zhixinheng Law Firm in respect of compliance with relevant PRC laws and regulations and irrespective of whether there is any change in relevant laws and regulations, and to refresh and update the executive Directors and senior management of the Group on the relevant laws and regulations which concerns the Group, its management, business and/or operations.

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 19 June 2012 with written terms of reference in compliance with paragraph B1.1 and paragraph B1.3 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance based remuneration; and ensures none of the Directors determine their own remuneration. As at 31 December 2012, the remuneration committee consists of three members, namely Mr. Lin Yang, Mr. Cheng Chuhan and Mr. Chan Kam Fuk. Mr. Lin Yang is the chairman of the remuneration committee.

Details of the remuneration of Directors are set out in Note 13 to the consolidated financial statements. The remuneration committee did not hold any meeting during the period from the Listing Date to 31 December 2012.

Nomination Committee

The Company has established a nomination committee on 19 June 2012 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The nomination committee comprises three members namely, Mr. Cheng Chuhan, Mr. Zhang Shijiu and Mr. Chan Kam Fuk. Mr. Cheng Chuhan has been appointed as the chairman of the nomination committee. The primary duties of the nomination committee are, amongst other things, to recommend to the Board regarding candidates to fill vacancies on the Board.

The nomination committee did not hold any meeting during the period from the Listing Date to 31 December 2012.

Directors' Securities Transactions

The Group adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Company's specific enquiry, each Director had confirmed that during the period from the Listing Date to 31 December 2012, they had fully complied with the required standard of dealings and there was no event of non-compliance.

Shareholders' Rights

Convene an extraordinary general meeting

According to the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such a requisition must be signed by the Shareholder(s).

Enquires to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the principal place of business of the Company in Hong Kong or by e-mail to investor@haitianhydropower.com for the attention of the company secretary.

Putting forward proposals at a general meeting

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at shareholders' meeting. Proposal shall be sent to the Board or the Company Secretary by written requisition. Pursuant to the articles of association of the Company, shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures set out in "Convene an extraordinary general meeting" above.

Auditor's Remuneration

During the year ended 31 December 2012, the fees paid/payable to SHINEWING (HK) CPA Limited, the auditor of the Company, in respect of audit and non-audit services provided by them to the Group were as follows:

	2012 RMB'000	2011 RMB'000
Audit Service	570	—
Non-Audit service		
Reporting accountants for the Company's Listing exercise	732	332
Other service	122	—
Total	1,424	332

Internal Controls

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to executive management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management function within an established framework.

Directors' Responsibility Statement

The Board is responsible for the preparation of the financial statements. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Investor Relations and Communication

The Board recognises the importance of good communications with all shareholders. The Company encourages two-way communications with both its institutional and private investors. Extensive information about the Company's activities is provided in its Interim Report, Quarterly Report and this Annual Report, which are sent to shareholders of the Company. The annual general meeting provides a valuable forum for direct communication between the Board and the Company's shareholders. The Chairman of the Board as well as Chairmen of the Board Committees together with the external auditor will present to answer shareholders' questions. The annual general meeting circulars are distributed to all shareholders at least 21 clear days before the meeting. Separate resolutions are proposed at general meetings on each separate issue and voting of which are taken by poll pursuant to the GEM Listing Rules. Any results of the poll are published on the Company's website. All corporate communication with shareholders will be posted on the Company's website for shareholders' information.

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF HAITIAN HYDROPOWER INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Haitian Hydropower International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 87, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Tang Kwan Lai
Practising Certificate Number: P05299

Hong Kong
20 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Turnover	7	27,806	21,960
Cost of sales		(7,165)	(6,590)
Gross profit		20,641	15,370
Other income	9	1,201	3,021
Administrative expenses		(8,685)	(3,518)
Other operating expenses		(12)	(92)
Finance cost	10	(9,226)	(8,675)
Profit before tax		3,919	6,106
Income tax expense	11	(2,279)	(1,650)
Profit for the year and total comprehensive income for the year	12	1,640	4,456
Earnings per share (RMB cents)			
Basic and diluted	15	0.19	0.59

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	16	114,104	118,734
Prepaid lease payments	17	12,112	11,492
Goodwill	18	3,759	3,759
Intangible asset	19	8,701	8,903
		138,676	142,888
Current assets			
Trade and other receivables	20	5,005	3,951
Prepaid lease payments	17	272	256
Income tax recoverable		—	361
Bank balances and cash	21	89,672	16,922
		94,949	21,490
Current liabilities			
Trade and other payables	22	2,574	2,611
Amount due to a controlling shareholder	24	—	18,623
Income tax payables		789	765
Secured bank borrowings	25	10,800	8,500
		14,163	30,499
Net current assets (liabilities)		80,786	(9,009)
Total assets less current liabilities		219,462	133,879

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital	26	8,156	7
Reserves		108,161	39,110
Total equity		116,317	39,117
Non-current liabilities			
Secured bank borrowings	25	102,400	94,000
Deferred tax liabilities	27	745	762
		103,145	94,762
		219,462	133,879

The consolidated financial statements on page 35 to 87 were approved and authorised for issue by the board of directors on 20 March 2013 and are signed on its behalf by:

Lin Yang
Director

Zheng Xuesong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note i)	Special reserve RMB'000 (Note ii)	Statutory reserve RMB'000 (Note iii)	Capital reserve RMB'000 (Note iv)	Retained profits RMB'000	Total RMB'000
At 1 January 2011	7	—	362	29,993	692	24	3,583	34,661
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	4,456	4,456
Appropriation to statutory reserve	—	—	—	—	480	—	(480)	—
At 31 December 2011 and 1 January 2012	7	—	362	29,993	1,172	24	7,559	39,117
Issue of shares upon reorganisation ("Reorganisation") (Note 26(b))	1	—	—	18,622	—	—	—	18,623
Arising from Reorganisation (Note 26(d))	(7)	—	—	7	—	—	—	—
Capitalisation issue (Note 26(e))	6,116	(6,116)	—	—	—	—	—	—
Issue of shares upon placing of shares (Note 26(f))	2,039	59,131	—	—	—	—	—	61,170
Transaction costs attributable to placing of shares (Note 26(f))	—	(4,233)	—	—	—	—	—	(4,233)
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	1,640	1,640
Appropriation to statutory reserve	—	—	—	—	669	—	(669)	—
At 31 December 2012	8,156	48,782	362	48,622	1,841	24	8,530	116,317

Notes:

(i) Other reserve

It represents the deemed contribution from the controlling shareholder for offering a low interest rate loan to Haitian Hydropower International Limited and its subsidiaries (the "Group").

(ii) Special reserve

The special reserve represents the aggregate amount of :

(a) the capital of the subsidiaries which were acquired by Haitian Hydropower Group Limited upon the Reorganisation less the consideration payable to the then shareholders; and

(b) the difference between the nominal value of share capital and the amount due to Mr. Lin Yang capitalised for an issue of 90,000 shares of HK$0.01 each in the Company as part of the Reorganisation.

(iii) Statutory reserve

In accordance with the relevant regulations applicable in the People's Republic of China (the "PRC"), companies now comprising the Group established in the PRC are required to transfer at least 10% of their statutory annual profits after tax in accordance with the relevant statutory rules and regulations applicable to enterprises in the PRC to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies. The amount of the transfer is subject to the approval of the board of directors of the respective PRC companies.

(iv) Capital reserve

The capital reserve represents the exchange difference arising from capital injection in foreign currency.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
Profit before tax	3,919	6,106
Adjustments for:		
Depreciation for property, plant and equipment	4,805	4,724
Amortisation of prepaid lease payments	272	235
Amortisation of intangible asset	202	202
Gain on disposal of property, plant and equipment	(30)	—
Finance cost	9,226	8,675
Bank interest income	(192)	(47)
Operating cash flows before movements in working capital	18,202	19,895
(Increase) decrease in trade and other receivables	(1,962)	525
Decrease in trade and other payables	(37)	(65)
Cash generated from operations	16,203	20,355
Income tax paid	(1,911)	(3,735)
NET CASH FROM OPERATING ACTIVITIES	14,292	16,620
INVESTING ACTIVITIES		
Bank interest income received	192	47
Proceeds on disposal of property, plant and equipment	42	—
Purchase of property, plant and equipment	(187)	(978)
Prepaid lease payments	—	(1,922)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	47	(2,853)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
FINANCING ACTIVITIES		
Issue of shares upon placing of shares	61,170	—
New borrowings raised	21,000	110,000
Repayment of secured bank borrowings	(10,300)	(116,500)
Interest paid	(9,226)	(8,675)
Transaction costs attributable to placing	(4,233)	—
Repayment to a related company	—	(1,500)
Repayment to a controlling shareholder	—	(328)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	58,411	(17,003)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	72,750	(3,236)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	16,922	20,158
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	89,672	16,922

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. General

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 detailed in the section headed "Corporate Information" to the annual report.

The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 July 2012.

Pursuant to the reorganisation (the "Reorganisation"), the Company became the holding company of the companies now comprising the Company and its subsidiaries (the "Group") on 19 June 2012. Other than 周寧縣乾元水電開發有限公司 (Zhouning Qianyuan Hydropower Development Co., Ltd.)* ("Qianyuan Hydropower") which was acquired in May 2010, the Group has been under the control of management team headed by Mr. Lin Yang and is ultimately controlled by and beneficially owned by Mr. Lin Yang throughout the year or since their respective dates of incorporation or establishment up to 31 December 2012. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group has been prepared on the basis as if the Company has always been the holding company of the companies comprising the Group since the beginning of the earliest year presented, using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as set out in Note 3 below.

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows including the results and cash flows of the companies comprising the Group have been prepared as if the current group structure had been in existence throughout the two years presented. The consolidated statement of financial position of the Group as at 31 December 2011 has been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence as at that date.

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its 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 English name is for identification purpose only.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

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

The directors of the Company anticipate that the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and / or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[2]
Amendments to HKFRS 1	Government Loans[2]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)*-Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine[2]

* HK(IFRIC) represents the Hong Kong (International Financial Reporting Interpretation Committee).

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 1 Presentation of Financial Statements, the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and Amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these fives standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK(SIC)-Int 12 Consolidation — Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its investment with other entities as at 1 January 2013.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC)-Int 13 Jointly Controlled Entities — Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided that all of these standards are applied early at the same time.

The directors of the Company do not anticipate that the application of these five standards will have a significant impact on amounts reported in the consolidated financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. Significant Accounting Policies (Continued)

Business combinations under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less identified impairment loss, if any.

3. Significant Accounting Policies (Continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes. Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. Significant Accounting Policies (Continued)

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash.

Prepaid lease payments

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged to the consolidated statement of comprehensive income over the period of the rights using the straight-line method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 15 to 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a controlling shareholder, amount due to a subsidiary and secured bank borrowings are subsequently measured at the amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. Significant Accounting Policies (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for electricity sold. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Electricity revenue is recognised when electricity is supplied to the provincial grid companies, net of other sales taxes.

Rental income under operating leases on a straight-line basis over the lease term is recognised in accordance with the Group's accounting policy for operating leases (see the accounting policy below).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group sells carbon credits known as Certified Emission Reductions ("CERs"), generated from the electricity generation which have been registered as Clean Development Mechanism ("CDM") projects with CDM Executive Board ("CDM EB") of the United Nations under the Kyoto Protocol. Income from sale of CERs is recognised when the CERs are delivered and titles have passed, at which time all the following conditions are satisfied:

- the counterparties have contractually agreed to purchase the CERs;
- the sales prices have been agreed;
- relevant electricity has been generated; and
- CERs have been verified by the independent supervisors recommended by CDM EB and issued by CDM EB.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

3. Significant Accounting Policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Non-compliance with PRC regulatory requirements

The Group is subject to the regulatory requirements and guidelines set forth by certain PRC regulatory authorities. However, the Group has not complied certain requirements properly during the year ended 31 December 2011, such as obtaining the Electric Power Business Licences and Licence of Water Drawing before commencing sale of electricity, undergoing inspection on environmental production facilities, making contributions to social security and housing provident fund and not to advance loans to a related company. In the opinion of the directors of the Company, the Group adopted certain measures and took appropriate actions to rectify these non-compliances before July 2012. Hence, the Group would not be materially and adversely affected.

Income from sale of CERs

In considering whether an entity is eligible to participate in the CDM project and earn income from sale of CERs therefrom, the directors of the Company consider the general rules and specific requirements for the application and approval of CDM projects set forth in 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》, the "2005 CDM Measures") promulgated by the National Development and Reform Commission of the PRC ("NDRC") jointly with the Ministry of Science and Technology, the Ministry of Foreign Affairs and Ministry of Finance of the PRC on 12 November 2005. As stated in the 2005 CDM Measures, only companies that are wholly-owned or controlled by the Chinese parties may carry out CDM projects in the PRC. Consequently, a company controlled by foreign parties does not qualify to apply for carrying out CDM projects in the PRC.

NDRC and related PRC authorities promulgated the CDM Measures (Revised) on 3 August 2011 (the "2011 CDM Measures"). 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.

Despite the fact that one of the subsidiaries of the Group changed to foreign-owned enterprise before the effective of the 2011 CDM Measures, the directors of the Company are of the view, with reference to the PRC legal advisor's opinion, that the NDRC approval was obtained before the promulgation of the 2011 CDM Measures and accordingly, the 2011 CDM Measures would not have any impact on the qualification of that subsidiary in receiving the income from sales of CERs up to the report date.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Critical judgements in applying accounting policies (Continued)

Income from sale of CERs (Continued)

As advised by the PRC legal advisor, the 2011 CDM Measures was newly implemented and other PRC authorities may have different interpretations. As a result, should there be any different interpretations from other PRC authorities, the Group's qualification to CDM project and income from sale of CERs may be affected.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period.

Estimated impairment of property, plant and equipment

The management of the Group determines whether the property, plant and equipment is impaired, at least on an annual basis. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require significant judgements relating to items such as level of sales volume, selling price and amount of operating costs, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs. As at 31 December 2012, the carrying values of property, plant and equipment were approximately RMB114,104,000 (2011: RMB118,734,000). No impairment was recognised as at 31 December 2012 (2011: Nil).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. Estimation of the value-in-use requires the Group to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2012, the carrying value of goodwill was approximately RMB3,759,000 (2011: RMB3,759,000). Details of the recoverable amount calculation are disclosed in Note 18.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of intangible asset

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value-in-use of cash-generating units to which the asset is allocated. Estimation of the value-in-use requires the Group to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. As at 31 December 2012, the carrying value of intangible asset was approximately RMB8,701,000 (2011: RMB8,903,000). No impairment was recognised as at 31 December 2012 (2011: Nil).

5. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes secured bank borrowings net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividend, issuance of new shares as well as the raising of new debts or the repayment of existing debts.

6. Financial Instruments

(a) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)	93,939	19,164
Financial liabilities		
Amortised cost	115,467	123,485

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from subsidiaries, bank balances and cash, trade and other payables, amount due to a controlling shareholder, amount due to a subsidiary and secured bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group operates in the PRC with transactions denominated in RMB. Other than certain other receivables, bank balances and other payables which are denominated in Hong Kong dollars ("HK$"), currency other than the functional currency of the relevant group entities, most of the Group's financial instruments are denominated in RMB.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's monetary assets and liabilities denominated in currencies other than the respective foreign currencies of the relevant group entities at the reporting date are as follows:

	2012 RMB'000	2011 RMB'000
HK$		
Assets	9,738	1,306
Liabilities	(671)	(88)
	9,067	1,218

Sensitivity analysis

The Group is mainly exposed to HK$.

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in RMB against HK$ for the year ended 31 December 2012. 5% (2011: 5%) is the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2011: 5%) change in foreign currency rates.

A negative number below indicates a decrease in profit after tax for the year where RMB strengthen 5% (2011: 5%) against the relevant currency. For a 5% (2011: 5%), weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit after tax for the year.

	2012 RMB'000	2011 RMB'000
Post-tax profit or loss	(340)	(46)

6. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and secured bank borrowings (see Notes 21 and 25 respectively for details). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of the RMB base deposit/lending rate stipulated by the People's Bank of China arising from the Group's RMB denominated bank balances and secured bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year. The basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

100 basis points have been used for variable-rate bank balances while 200 basis points have been used for variable-rate borrowings for both years.

For variable-rate bank balances, if the interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit after tax and retained profits for the year ended 31 December 2012 would increase/decrease by approximately RMB694,000 (2011: RMB124,000).

For variable-rate borrowings, if the interest rates had been 200 basis points higher/lower and all other variables were held constant, the Group's profit after tax and retained profits for the year ended 31 December 2012 would decrease/increase by approximately RMB1,698,000 (2011: RMB1,538,000).

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults.

6. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's concentration of credit risk by geographical location is in the PRC, which accounted for 100% of the total trade receivables as at 31 December 2012 and 2011.

The Group has concentration of credit risk as all the trade receivables as at 31 December 2012 and 2011 were due from the Group's only two customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international authorised credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

6. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity risk tables

	On demand or within one year RMB'000	More than one year but not exceeding two years RMB'000	More than two years but not exceeding five years RMB'000	More than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2012						
Non-derivative financial liabilities						
Trade and other payables	2,267	—	—	—	2,267	2,267
Secured bank borrowings	19,146	18,327	54,054	64,349	155,876	113,200
	21,413	18,327	54,054	64,349	158,143	115,467

	On demand or within one year RMB'000	More than one year but not exceeding two years RMB'000	More than two years but not exceeding five years RMB'000	More than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2011						
Non-derivative financial liabilities						
Trade and other payables	2,362	—	—	—	2,362	2,362
Amount due to a controlling shareholder	18,623	—	—	—	18,623	18,623
Secured bank borrowings	16,753	16,505	46,999	68,787	149,044	102,500
	37,738	16,505	46,999	68,787	170,029	123,485

(c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

The directors of the Company consider that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.

The directors of the Company consider that the fair values of the other non-current financial liabilities approximate their carrying amounts as the impact of discounting is not significant.

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For the year ended 31 December 2012

7. Turnover

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

8. Segment Information

HKFRS 8 Operating Segments 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 consolidated statement of comprehensive income and consolidated statement of financial position respectively.

Information about geographical areas

As all the Group's turnover is derived from customers based in the PRC (country of domicile) and all the Group's non-current assets are located in the PRC, no geographical information is presented.

Information about major customers

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

	2012 RMB'000	2011 RMB'000
Customer A	10,606	8,248
Customer B	17,200	13,712

9. Other Income

	2012 RMB'000	2011 RMB'000
Bank interest income	192	47
Compensation income (Note)	—	160
Net exchange gain	859	842
Gain on disposal of property, plant and equipment	30	—
Rental income (net of outgoings: nil)	120	120
Income from sales of CERs (2011: net of outgoings of approximately RMB847,000)	—	1,852
	1,201	3,021

Note:

The amount represented compensation paid by an infrastructure constructor for disturbing the operation of the Group in the course of constructing expressways nearby during the year ended 31 December 2011.

10. Finance Cost

	2012 RMB'000	2011 RMB'000
Interest on borrowings not wholly repayable within five years	9,226	8,675

11. Income Tax Expense

	2012 RMB'000	2011 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")	2,296	1,667
Deferred taxation (Note 27)	(17)	(17)
	2,279	1,650

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("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 years.

(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 years.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2012 RMB'000	2011 RMB'000
Profit before tax	3,919	6,106
Tax calculated at tax rate of 25% (2011: 25%)	980	1,526
Tax effect of expenses not deductible for tax purpose	1,317	666
Tax effect of income not taxable for tax purpose	(18)	(542)
Income tax expense	2,279	1,650

Details of deferred taxation are set out in Note 27.

12. Profit For The Year

	2012 RMB'000	2011 RMB'000
Profit for the year has been arrived at after charging:		
Directors' and the chief executive's emoluments (Note 13)	502	205
Salaries, wages and other benefits	1,806	1,406
Retirement benefits scheme contribution (excluding directors and the chief executive)	275	202
	2,583	1,813
Auditor's remuneration	570	—
Depreciation for property, plant and equipment	4,805	4,724
Amortisation of prepaid lease payments (included in cost of sales)	272	235
Amortisation of intangible asset (included in administrative expenses)	202	202
Listing expenses	4,141	1,216
Operating lease charges in respect of properties	87	78

13. Directors' and Chief Executive's and Employees' Emoluments

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the seven (2011: six) directors and the chief executive were as follows:

Year ended 31 December 2012

	Fees RMB'000	**Salaries, allowances and other benefits** RMB'000	**Retirement benefits scheme contribution** RMB'000	**Total** RMB'000
Executive directors:				
Mr. Lin Yang	119	—	—	119
Mr. Zheng Xuesong (Note (i))	80	42	7	129
Mr. Chen Congwen	47	30	2	79
Mr. Huang Xiaodong (Note (ii))	37	35	7	79
Independent non-executive directors:				
Mr. Cheng Chuhan	32	—	—	32
Mr. Chan Kam Fuk	32	—	—	32
Mr. Zhang Shijiu (appointed on 19 June 2012)	32	—	—	32
Total	379	107	16	502

Year ended 31 December 2011

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Executive directors:				
Mr. Lin Yang	—	—	—	—
Mr. Zheng Xuesong	—	74	7	81
Mr. Chen Congwen	—	50	2	52
Mr. Huang Xiaodong	—	65	7	72
Independent non-executive directors:				
Mr. Cheng Chuhan	—	—	—	—
Mr. Chan Kam Fuk	—	—	—	—
Total	—	189	16	205

Notes:

(i) Mr. Zheng Xuesong is also the chief executive of the Company (the "Chief Executive") and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

(ii) Mr. Huang Xiaodong was resigned as the executive director of the Company and Mr. Lin Tian Hai was appointed as the executive director of the Company on 30 January 2013.

13. Directors' and Chief Executive's and Employees' Emoluments (Continued)

(a) Directors' and chief executive's emoluments (Continued)

No directors and chief executive waived or agreed to waive any emolument paid by the Group during the two years ended 31 December 2012. No emoluments were paid by the Group to any directors and the chief executive as an incentive payment for joining the Group or as compensation for loss of office during the two years ended 31 December 2012.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2011: three) were directors and the chief executive of the Company whose emoluments are included in the disclosures presented above. The emoluments of the remaining one (2011: two) individuals were as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances, and other benefits	95	112
Retirement benefits scheme contribution	4	6
	99	118

Their emoluments were individually below approximately RMB814,000 (2011: RMB831,000) (equivalent to HK$1,000,000) for the year ended 31 December 2012.

(c) No emoluments have been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2012.

14. Dividend

No dividend was paid or proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

15. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2012 RMB'000	2011 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share for the year attributable to the owners of the Company	1,640	4,456

	2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	872,268	750,000

The weighted average number of ordinary shares in issue during the year ended 31 December 2012 represents 750,000,000 ordinary shares in issue before the placing as if such shares were issued on 1 January 2011, and the weighted average of 250,000,000 ordinary shares issued upon placing.

The weighted average number of ordinary shares in issue during the year ended 31 December 2011 represented 750,000,000 ordinary shares, representing the number of shares of the Company immediately after the Reorganisation and the capitalisation issue 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 two years ended 31 December 2012.

16. Property, Plant and Equipment

	Buildings RMB'000	Dams RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2011	30,958	66,604	36,329	190	299	100	134,480
Additions	—	—	612	29	—	337	978
Transfer	—	—	153	—	—	(153)	—
At 31 December 2011	30,958	66,604	37,094	219	299	284	135,458
Additions	—	—	84	—	88	15	187
Disposals	—	—	—	—	(233)	—	(233)
At 31 December 2012	30,958	66,604	37,178	219	154	299	135,412
DEPRECIATION							
At 1 January 2011	1,529	4,160	6,004	68	239	—	12,000
Charge for the year	621	1,490	2,556	38	19	—	4,724
At 31 December 2011	2,150	5,650	8,560	106	258	—	16,724
Charge for the year	621	1,495	2,627	39	23	—	4,805
Eliminated on disposals	—	—	—	—	(221)	—	(221)
At 31 December 2012	2,771	7,145	11,187	145	60	—	21,308
CARRYING VALUES							
At 31 December 2012	28,187	59,459	25,991	74	94	299	114,104
At 31 December 2011	28,808	60,954	28,534	113	41	284	118,734

Depreciation is recognised so as to write off the cost of property, plant and equipment less their residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	45 years
Dams	45 years
Plant and machinery	5 – 45 years
Office equipment	3 – 10 years
Motor vehicles	5 – 8 years

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17. Prepaid Lease Payments

The carrying amount of prepaid lease payments of the Group analysed for reporting purposes as:

	2012 RMB'000	2011 RMB'000
Current assets	272	256
Non-current assets	12,112	11,492
	12,384	11,748

The prepayments for land use rights are under medium-term lease in the PRC and is amortised over 50 years on a straight-line basis.

18. Goodwill

	RMB'000
At 1 January 2011, 31 December 2011 and 31 December 2012	3,759

The recoverable amount of Qianyuan Hydropower, a cash generating unit (the "CGU") has been determined based on the value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management of the Group covering a 1-year period, and discount rate of 9.7% (2011: 9.7%). Cash flows beyond 1-year period are assumed constant with zero growth rate. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of CGU. In the opinion of the directors of the Company, no impairment was provided for both years.

19. Intangible Asset

	RMB'000
COST	
At 1 January 2011, 31 December 2011 and 31 December 2012	9,240
AMORTISATION	
At 1 January 2011	135
Charge for the year	202
At 31 December 2011	337
Charge for the year	202
At 31 December 2012	539
CARRYING VALUES	
At 31 December 2012	8,701
At 31 December 2011	8,903

The intangible asset represents the development right granted by the relevant authority for the Group to develop an additional hydropower plant in Bapu Stream, Zhouning County, Fujian Province, the PRC for an operating period of 50 years. The right is amortised over the remaining operating period.

20. Trade and Other Receivables

	2012 RMB'000	2011 RMB'000
Trade receivables	4,248	1,292
Prepayments	282	1,709
Deposits and other receivables	475	950
	5,005	3,951

The Group did not hold any collateral over these balances.

The Group allows a range of credit period of 15 to 30 days to its trade customers. The following is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2012 RMB'000	2011 RMB'000
Within 30 days	3,758	1,292
31 – 60 days	490	—
	4,248	1,292

The Group's neither past due nor impaired trade receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default.

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately RMB965,000 (2011: Nil) which were past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts were still considered recoverable. All the outstanding trade receivable balances which were less than 60 days overdue were collectible as the only two customers of the Group are the PRC stated-owned enterprises and there was no history of default. The Group did not hold any collateral over these balances.

The ageing of trade receivables which were past due but not impaired is as follows:

	2012 RMB'000	2011 RMB'000
Within 30 days	475	—
31 – 60 days	490	—
	965	—

21. Bank Balances and Cash

Bank balances carry interest at market rates of 0.35% per annum as at 31 December 2012 (2011: 0.50% per annum).

22. 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:

	2012 RMB'000	2011 RMB'000
Within 180 days	101	324
181 to 365 days	—	97
Over 1 year	—	55
Trade payables	101	476
Construction payables	250	776
Other payables and accrued expenses	1,916	1,110
Other tax payables	307	249
	2,574	2,611

The average credit period granted is 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

23. Amount Due to a Related Company

The amount due to 華陽(福建)實業有限公司 of approximately RMB1,500,000 was unsecured, interest-free and was fully settled during the year ended 31 December 2011.

24. Amount Due to a Controlling Shareholder

The amount due to a controlling shareholder, Mr. Lin Yang, was unsecured and interest-free.

During the year ended 31 December 2012, the amount has been capitalised as part of the Reorganisation prior to the listing of the shares of the Company on the Stock Exchange as disclosed in Note 26(b).

25. Secured Bank Borrowings

The borrowings were repayable as follows:

	2012 RMB'000	2011 RMB'000
On demand or within one year	10,800	8,500
More than one year, but not exceeding two years	10,800	9,000
More than two years but not more than five years	36,000	29,000
More than five years	55,600	56,000
	113,200	102,500
Less: Amount due within one year, included as current liabilities	(10,800)	(8,500)
	102,400	94,000

The Group's borrowings were all denominated in RMB and carried interest at variable rate, with effective interest rates ranging from 7.21% to 8.11 % (2011: 5.94% to 8.84%) per annum.

During the year ended 31 December 2012, the Group obtained new borrowings of RMB21,000,000 (2011: RMB110,000,000). The proceeds were used to repay the existing bank borrowings of the Group for the sake of lower interest rate.

26. Share Capital

Prior to the completion of the Reorganisation, the share capital of the Group as at 1 January 2011 and 31 December 2011 represented the share capital of Haitian Hydropower Group Limited ("Haitian BVI"), a wholly-owned subsidiary of the Company and the Company.

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).

26. Share Capital (Continued)

The Company was incorporated on 27 August 2010 and its movements of the authorised and issued share capital are set out below:

	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 and 31 December 2011	(a)	38,000,000	380	
Increase during the year	(c)	1,962,000,000	19,620	
At 31 December 2012		2,000,000,000	20,000	
Issued and fully paid:				
At 1 January 2011 and 31 December 2011	(a)	10,000	—	—
Issue of shares upon Reorganisation	(b)	90,000	1	1
Issue of shares upon capitalisation issue	(e)	749,900,000	7,499	6,116
Issue of shares upon placing	(f)	250,000,000	2,500	2,039
At 31 December 2012		1,000,000,000	10,000	8,156

Notes:

(a) The authorised share capital of the Company of HK$380,000 (equivalent to approximately RMB329,000) was 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, 31 December 2011 and 1 January 2012.

(b) 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 approximately HK$23,763,000 (equivalent to approximately RMB18,623,000).

(c) 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.

(d) Pursuant to the reorganisation agreement dated 19 June 2012, the Company acquired the remaining 1,000 shares (equivalent to approximately RMB7,000) 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 the Company of HK$0.01 each held by Victor River Limited were credited as fully paid.

(e) As a result of the issue of the placing shares pursuant to the placing (the "Placing"), 749,900,000 shares of HK$0.01 each in the Company were allotted and issued, credited to the share premium account as fully paid at par (equivalent to approximately RMB6,116,000) to Victor River Limited, being the sole shareholder appearing on the register of members of the Company at the close of the business on 19 June 2012.

(f) On 19 June 2012, 250,000,000 shares of HK$0.01 each were issued at the placing price of HK$0.3 each under the Placing. Aggregate par value of these shares of approximately RMB2,039,000 was credited to the share capital account of the Company. The excess of the issue price over the par value of the shares of approximately RMB59,131,000, net of transactions costs attributable to the Placing of approximately RMB4,233,000, was credited to the share premium account of the Company.

All shares issued during the year rank pari passu in all respects with all shares then in issue.

27. Deferred Tax Liabilities

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	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	204	31	544	779
Credited to consolidated statement of comprehensive income (Note 11)	(4)	(1)	(12)	(17)
At 31 December 2011	200	30	532	762
Credited to consolidated statement of comprehensive income (Note 11)	(4)	(1)	(12)	(17)
At 31 December 2012	196	29	520	745

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. As at 31 December 2012, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB15,656,000 (2011: RMB9,854,000) 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.

28. Non-Cash Transactions

As disclosed in Note 26(b), the amount due to a controlling shareholder of approximately HK$23,763,000 (equivalent to approximately RMB18,623,000) has been capitalised as part of the Reorganisation prior to the listing of the shares of the Company during the year ended 31 December 2012.

During the year ended 31 December 2012, a total of 749,900,000 ordinary shares were credited as full paid at par on 19 June 2012 by way of capitalisation of the sum of HK$7,499,000 (equivalent to approximately RMB6,116,000) standing to the credit of the share premium account of the Company as detailed in Note 26(e).

During the year ended 31 December 2012, there is an addition of approximately RMB908,000 in land use rights, of which the Group had fully prepaid in 2010.

29. 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 for the year ended 31 December 2011. Therefore, the Group has not made any provision on such contingencies for the year ended 31 December 2011.

30. 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 to five years. 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:

	2012 RMB'000	2011 RMB'000
Within one year	81	19
In the second to fifth year inclusive	114	—
	195	19

30. 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:

	2012 RMB'000	2011 RMB'000
Within one year	120	120
In the second to fifth year inclusive	120	240
	240	360

31. Capital Commitments

	2012 RMB'000	2011 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	1,522	59

32. Pledge of Assets

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

	2012 RMB'000	2011 RMB'000
Prepaid lease payments	12,384	9,639
Property, plant and equipment	111,479	100,095
Trade receivables	4,248	815
	128,111	110,549

33. Share-Based Payment Transactions

Equity-settled share option schemes of the Company

The Company's share option scheme (the "Scheme"), was adopted pursuant to a written resolution of the Company passed on 19 June 2012 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 18 June 2022. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue during any 12-month period, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

33. Share-Based Payment Transactions (Continued)

Equity-settled share option schemes of the Company (Continued)

Options granted must be taken up within twenty business days from the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from not more than ten years from the date of grant of the share option. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No share option has been granted since the Scheme has been adopted. As at 31 December 2012, there are no outstanding share options issued under the Scheme.

34. Retirement Benefits Scheme

Hong Kong

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, each of the Group companies (the "employer") in Hong Kong and its employees are required to make contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. The contributions from each of the employer and employees are subject of a cap of HK$1,000 per month before 1 June 2012 and HK$1,250 per month from 1 June 2012 onwards. During the year ended 31 December 2012, the total amount contributed by the Group to this scheme and charged to the consolidated statement of comprehensive income was approximately RMB4,000 (2011: Nil).

The PRC, other than Hong Kong

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-sponsored retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2012, the total amount contributed by the Group to this scheme and charged to the consolidated statement of comprehensive income was approximately RMB287,000 (2011: RMB218,000).

35. Related Parties Transactions

(i) Other than the balances disclosed in Notes 23 and 24, as at 31 December 2012, the Group had balances with a related party included in trade and other payables as follows:

	2012 RMB'000	2011 RMB'000
Amount due to a related company		
福建省海興能源集團有限公司 (Note)	9	—

Note:

Mr. Wang Xiaoyun, the brother-in-law of Mr. Lin Yang has a beneficial interest in this company. The amount is unsecured, interest-free and repayable on demand. In 2012, the Group entered into a lease agreement with this related company, with a lease term of 3 years and a monthly rental of approximately RMB5,000. During the year ended 31 December 2012, the Group paid rental expenses of approximately RMB18,000 (2011: Nil) to this related company for leasing of the office premises.

(ii) As set out in Note 4, should the PRC authorities have different interpretations on the 2011 CDM Measures from the Group, the Group may not be qualified to the 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.

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.

(iii) 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 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.

(iv) 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.

(v) Compensation to key management personnel

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

	2012 RMB'000	2011 RMB'000
Short-term benefits	486	189
Post-employment benefits	16	16
	502	205

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

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36. Statement of Financial Position of The Company

	Notes	2012 RMB'000	2011 RMB'000
Non-current asset			
Investments in subsidiaries	(a)	19,128	—
Current assets			
Other receivables		162	—
Amounts due from subsidiaries	(b)	61,586	—
		61,748	—
Current liabilities			
Other payables		671	—
Amount due to subsidiaries	(b)	10,050	69
Amount due to a controlling shareholder	(b)	—	7
		10,721	76
Net current assets (liabilities)		51,027	(76)
Total assets less current liabilities		70,155	(76)
Capital and reserves			
Share capital		8,156	—
Reserves	(c)	61,999	(76)
Total equity		70,155	(76)

Notes:

(a) Investments in subsidiaries are carried at cost less accumulated impairment losses, if any.

(b) Amounts due from (to) subsidiaries / a controlling shareholder

The amounts are unsecured, non-interest bearing and repayable on demand.

36. Statement of Financial Position of The Company (Continued)

Notes: (Continued)

(c) Reserves

	Share capital	Share premium	Special reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	—	—	—	—	—
Loss for the year and total comprehensive expense for the year	—	—	—	(76)	(76)
At 31 December 2011	—	—	—	(76)	(76)
Issue of shares upon Reorganisation	1	—	18,622	—	18,623
Capitalisation issue	6,116	(6,116)	—	—	—
Issue of shares upon placing of shares	2,039	59,131	—	—	61,170
Transaction costs attributable to placing of shares	—	(4,233)	—	—	(4,233)
Loss for the year and total comprehensive expense for the year	—	—	—	(5,329)	(5,329)
At 31 December 2012	8,156	48,782	18,622	(5,405)	70,155

37. Particulars of Subsidiaries of The Company

Details of the Company's subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Issued and fully paid capital/registered capital	Proportion ownership interest held by the Company 2012 and 2011 Directly	Indirectly	Principal activities
Haitian BVI	BVI	Ordinary	United States Dollar ("USD") 40,000 (Note 2)	100%	—	Investment holding
Haitian (HK)	Hong Kong	Ordinary	HK$100	—	100%	Investment holding
福建省大川水電開發有限公司 (Fujian Dachuan Hydropower Development Co., Ltd.)* (Note 1)	The PRC	Registered capital	RMB45,000,000	—	100%	Hydropower generation
福安市力源水電開發有限公司 (Fujian Liyuan Hydraulic Power Co., Ltd.)* (Note 1)	The PRC	Registered capital	RMB18,000,000	—	100%	Hydropower generation
Qianyuan Hydropower (Note 1)	The PRC	Registered capital	RMB19,000,000	—	100%	Hydropower generation

* The English name is for identification purpose only.

Notes:

(1) The above companies are limited liabilities companies and operated in the PRC.

(2) The issued and fully paid capital was increased from USD1,000 to USD40,000 during the year ended 31 December 2012.

None of the subsidiaries had issued any debt securities at the end of both years or at any time during both years.

Financial Summary

RESULTS	Year ended 31 December 2012 RMB'000	2011 RMB'000	2010 RMB'000
Turnover	27,806	21,960	30,596
Profit before tax	3,919	6,106	12,352
Income tax expense	(2,279)	(1,650)	(3,838)
Profit for the year and total comprehensive income for the year	1,640	4,456	8,514

ASSETS AND LIABILITIES	As at 31 December 2012 RMB'000	2011 RMB'000	2010 RMB'000
Current assets	94,949	21,490	24,849
Non-current assets	138,676	142,888	145,190
Total assets	233,625	164,378	170,039
Current liabilities	14,163	30,499	36,099
Non-current liabilities	103,145	94,762	99,279
Total liabilities	117,308	125,261	135,378
Net assets	116,317	39,117	34,661
Total equity	116,317	39,117	34,661

The results and summary of assets and liabilities for the years ended 31 December 2010 and 2011 which were extracted from the Prospectus of the Company have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on the GEM of the Stock Exchange, had been in existence throughout those years.