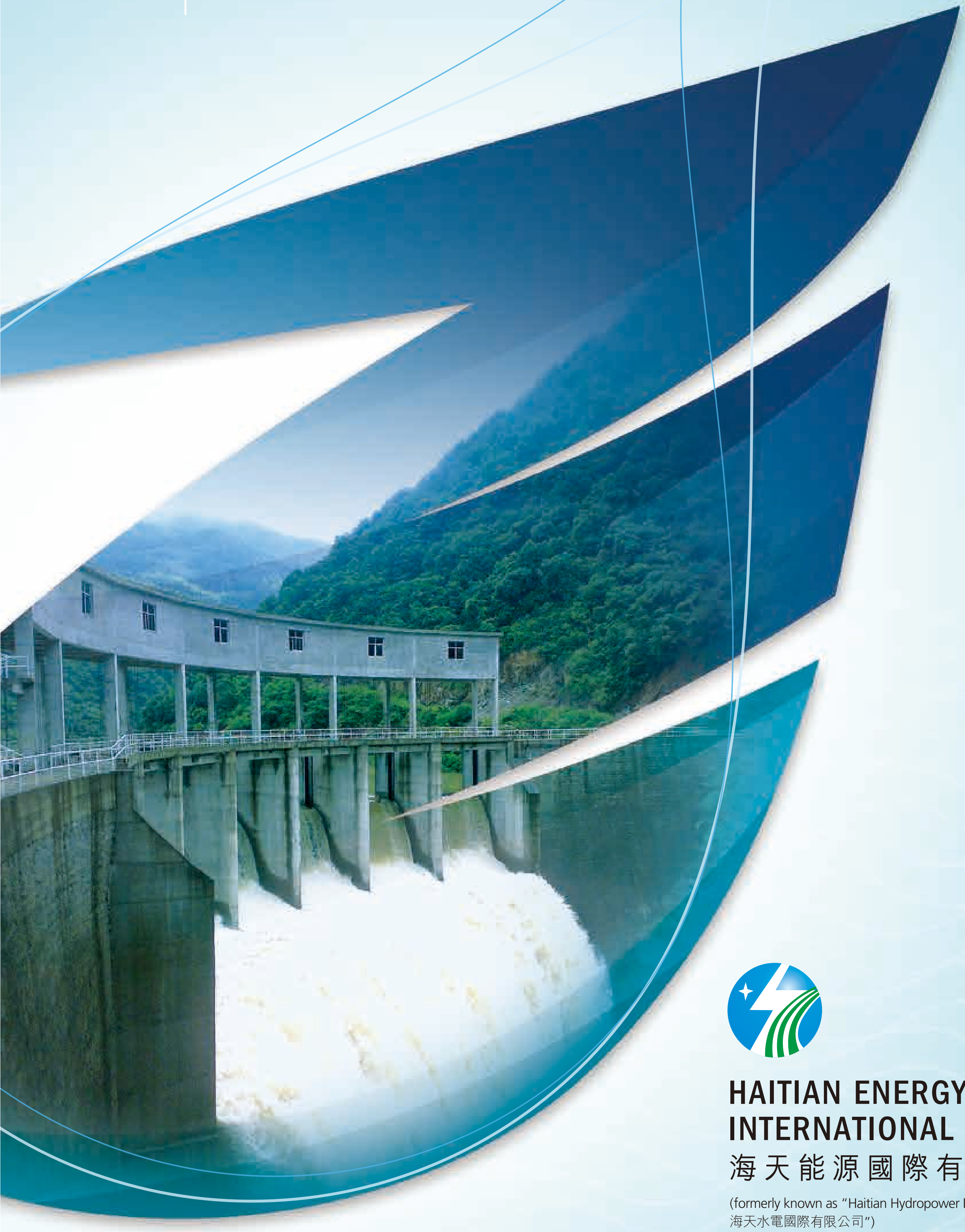
2016 ANNUAL REPORT



HAITIAN ENERGY INTERNATIONAL LIMITED

海天能源國際有限公司

(formerly known as "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

Haitian Energy
International Limited
is a clean energy company specializing in small hydropower development in China.

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the "Directors") of Haitian Energy International Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

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. Cheng Chuhan
Mr. Chan Kam Fuk
Mr. Xie Zuomin

Audit Committee

Mr. Cheng Chuhan *(Chairman)*
Mr. Chan Kam Fuk
Mr. Xie Zuomin

Remuneration Committee

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

Nomination Committee

Mr. Cheng Chuhan *(Chairman)*
Mr. Chan Kam Fuk
Mr. Xie Zuomin

Compliance Committee

Mr. Zheng Xuesong *(Chairman)*
Mr. Lin Yang
Mr. Cheng Chuhan
Mr. Chan Kam Fuk
Mr. Chen Congwen
Mr. Lin Tian Hai
Mr. Xie Zuomin

Compliance Officer

Mr. Lin Yang

Company Secretary

Ms. Mok Ming Wai

Authorised Representatives

Mr. Lin Tian Hai
Ms. Mok Ming Wai

Auditor

SHINEWING (HK) CPA Limited
Certified Public Accountants

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Cayman Islands

Principal Place of Business in Hong Kong

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Fuzhou City, Fujian Province
PRC

Share Registrar and Transfer Office

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Hong Kong

Principal Bankers

Industrial Bank Co., Ltd, Fuan Branch
Industrial Bank Co., Ltd, Xian Branch
Bank of Communications, Fuzhou Taijiang Branch

Company Website

www.haitian-energy.com

Stock Code

08261

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present the full year results of the Company, together with its subsidiaries (referred to as the "Group") for the year ended 31 December 2016.

During the year 2016, the Group has achieved a steady development as compared to 2015 which is mainly based on its original businesses, but also managed to identify targets for future acquisition and development since its successful listing on the GEM.

Business Review

The Group is mainly engaged in the hydropower generation by self-owned and leased plants and 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 15 December 2014, the Group successfully acquired 90% registered capital of Fujian Haitian Huajin Huifu Energy Development Co., Ltd.（福建省海天華金匯富能源發展有限公司）("Huajin Huifu"). To date, the Group possesses eleven (seven wholly-owned and four non wholly-owned) hydropower plants, namely, Ma Tou Shan Hydropower Plant, Qianping Hydropower Plant, Jiulong Hydropower Plant, Ningde Jinxi-I Hydropower Plant, Fu'an Jiulong-I Hydropower Station, Fu'an Jiulong-II Hydropower Station, Xiadongxi Hydropower Plant, Liuchai Hydropower Plant, Kengdou Hydropower Plant, Cheling-II Hydropower Plant, and Huangqiling-II Hydropower Plant and two 110 kV electricity transmission lines with total length of 190 km in Fujian Province in the PRC. The total installed capacity of the Group attributable to the Group's equity interests in the various hydropower plants mentioned above amounted to approximately 88.67 MW.

In September 2012, the Group proactively initiated the Jiulong Hydropower Plant enhancement of technologies and extension project. The Directors of the Company believe the overall construction will be last for a period of 20 months and the project will start to contribute revenue to the Group in upon competition.

Financial Review

For the year ended 31 December 2016, the total revenue is RMB236.8 million, including the revenue from hydropower generation by self-owned plants amounting to RMB187.5 million and hydropower generation by leased plants amounting to RMB49.3 million. Electricity sold of the Group amounted to 613,057 MWh, representing an increase of 14.8% as compared to that of last year. Profit attributable to the owners of the Group amounted to RMB40.7 million, representing a decrease of 13.4%, which was mainly due to 1) the increase in precipitation in the operation locations of the Group's hydropower plants and 2) increase of finance costs of the Group during the year ended 31 December 2016.

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 "Thirteen Five" plan has encouraged the development of hydropower and under the policy guidance of the government work report which is significantly encouraging the development of clean energies and promoting the energy-saving emission reduction, 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.

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 returns for our shareholders.

Lin Yang
Chairman
3 March 2017

Business Review

The Group is principally engaged in the hydropower generation by self-owned and leased plants and operation and management of hydropower plants in the PRC which were either developed by itself or acquired from other parties. As at 31 December 2016, the Group possessed two 110 kV electricity transmission lines with total length of 190 km and eleven (seven wholly-owned and four non wholly-owned) hydropower plants, namely, Ma Tou Shan Hydropower Plant, Qianping Hydropower Plant, Jiulong Hydropower Plant, Ningde Jinxi-I Hydropower Plant, Fu'an Jiulong-I Hydropower Station, Fu'an Jiulong-II Hydropower Station, Xiadongxi Hydropower Plant, Liuchai Hydropower Plant, Kengdou Hydropower Plant, Cheling-II Hydropower Plant, and Huangqiling-II Hydropower Plant in Fujian Province in the PRC. The total installed capacity of the Group attributable to the Group's equity interests in the various hydropower plants mentioned above amounted to approximately 88.67 MW. The operational details of the self-owned 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	**2016**	2015
Installed capacity (MW)	**11.25**	11.25
Gross generation (MWh) attributed to the Group	**37,369**	47,275
Applicable on-grid tariff (RMB/KWh), including Value Added Tax ("VAT")	**0.38**	0.35-0.38

Qianping Hydropower Plant（周寧縣前坪水電站）

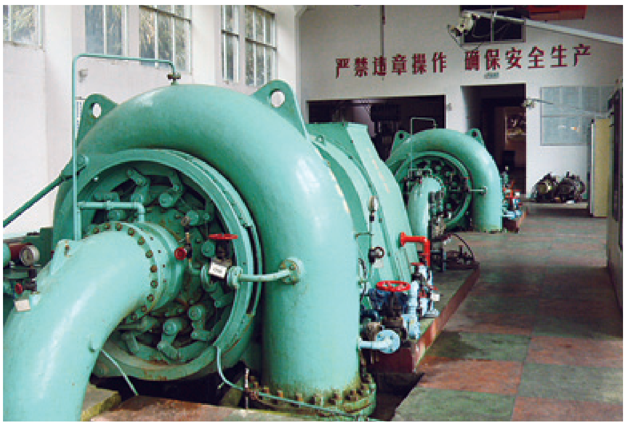
Qianping Hydropower Plant is located on the Longting Stream（龍亭溪）of the Muyang Basin（穆陽溪流域）, Zhouning County（周寧縣）of Ningde City（寧德市）in Fujian Province. With a total installed capacity of 10 MW, Qianping Hydropower Plant commenced power generation for sale in June 2008. Qianping Hydropower Plant is an 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	**2016**	2015
Installed capacity (MW)	**10**	10
Gross generation (MWh) attributed to the Group	**52,337**	49,763
Applicable on-grid tariff (RMB/KWh), including VAT	**0.37**	0.331-0.37

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 2.5 MW horizontal water turbine generators（臥式水輪發電機組）. 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	**2016**	2015
Installed capacity (MW)	**5**	5
Gross generation (MWh) attributed to the Group	**25,105**	26,567
Applicable on-grid tariff (RMB/KWh), including VAT	**0.321**	0.301-0.321

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 an additional hydropower plant in Bapu Stream for an operating period of 50 years. Such additional hydropower plant is regarded as an extension of the existing Jiulong Hydropower Plant as it will make use of the water resources of the same river, Bapu Stream, as Jiulong Hydropower Plant.

In September 2012, the Group proactively initiated the Jiulong Hydropower Plant enhancement of technologies and extension project. The Directors believe the overall construction work will be last for a period of 20 months and the project will start to contribute revenue to the Group upon competition.

Ningde Jinxi-I Hydropower Plant（寧德市金溪一級水電站）

Ningde Jinxi-I Hydropower Plant is located in Guyang village（菇洋村）, a Baizhang natural village（百丈自然村）, Jinhan town（金涵鄉）, Ningde city in Fujian Province. With a total installed capacity of 3.2 MW, the powerhouse contains two 1.6 MW horizontal water turbine generators（臥式水輪機組）. Jinxi-I Hydropower Plant commenced power generation for sale in May 2008. Jinxi-1 Hydropower Plant was acquired by the Group in April 2013. Jinxi-I Hydropower Plant is a comprehensive hydropower plant. The reservoir has total capacity of 1,066,000 m^3 and adjusted capacity of 389,000 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	**2016**	2015
Installed capacity (MW)	**3.2**	3.2
Gross generation (MWh) attributed to the Group	**14,782**	13,969
Applicable on-grid tariff (RMB/KWh), including VAT	**0.321**	0.301-0.321

Fu'an Jiulong-I Hydropower Station and Fu'an Jiulong-II Hydropower Station（福安市九龍一級及二級水電站）

Fu'an Jiulong-I Hydropower Station and Fu'an Jiulong-II Hydropower Station are located in Muyun Xiang（穆雲鄉）, Fu'an City in Fujian Province and were acquired by the Group in April 2014. Fu'an Jiulong-I Hydropower Station and Fu'an Jiulong-II Hydropower Station are diversion type hydropower stations（引水式水電站）, which are 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 total installed capacity of Fu'an Jiulong-I Hydropower Station is 2.4 MW. The reservoir has total capacity of 410,000 m^3 and capacity adjustment coefficient is 2.07%. The total installed capacity of Fu'an Jiulong-II Hydropower Station is 2.1 MW. The reservoir has total capacity of 156,000 m^3 and capacity adjustment coefficient is 0.56%.

Indicators	**2016**	2015
Installed capacity (MW)	**4.5**	4.5
Gross generation (MWh) attributed to the Group	**25,795**	28,596
Applicable on-grid tariff (RMB/KWh), including VAT	**0.37**	0.35-0.37

Liuchai Hydropower Plant & Xiadongxi Hydropower Plant（劉柴電站及下東溪電站）

Liuchai Hydropower Plant is located at Yintan Village（印潭村）, Xietan Town（斜灘鎮）, Shouning County（壽寧縣）in Fujian Province and was acquired by the Group in December 2014. The total installed capacity of Liuchai Hydropower Plant is 20 MW. The dam controls a catchment area of approximately 270 km^2. The reservoir possesses the function of "daily adjustment（日調節）".

Indicators	**2016**	2015
Installed capacity (MW)	**20**	20
Gross generation (MWh) attributed to the Group	**88,783**	73,149

Applicable on-grid tariff (RMB/KWh), including VAT	Electricity of peak period: RMB0.562 (2015: RMB0.562) Electricity of low period: RMB0.208 (2015: RMB0.208)

Xiadongxi Hydropower Plant is located at Dongxi Village（東溪村）, Xietan Town（斜灘鎮）, Shouning County（壽寧縣）in Fujian Province and was acquired by the Group in December 2014. The total installed capacity of Xiadongxi Hydropower Plant is 30 MW. The dam controls a catchment area of approximately 179 km^2. The reservoir possesses the function of "monthly adjustment（月調節）".


Indicators	**2016**	2015
Installed capacity (MW)	**30**	30
Gross generation (MWh) attributed to the Group	**108,572**	83,671

Applicable on-grid tariff (RMB/KWh), including VAT	Electricity of peak period: RMB0.562 (2015: RMB0.562) Electricity of low period: RMB0.208 (2015: RMB0.208)

Huangqiling-II Hydropower Plant（黃旗嶺二級電站）

Huangqiling-II Hydropower Plant is located at Youwan Village（油灣村）, Limen Town（禮門鄉）, Zhouning County（周寧縣）in Fujian Province and was acquired by the Group in December 2014. The total installed capacity of Huangqiling-II Hydropower Plant is 9 MW. The dam controls a catchment area of approximately 71.22 km^2. The reservoir possesses the function of "daily adjustment（日調節）".

Indicators	**2016**	2015
Installed capacity (MW)	**9.0**	9.0
Gross generation (MWh) attributed to the Group	**31,998**	39,095
Applicable on-grid tariff (RMB/KWh), including VAT	**0.351**	0.321-0.351

Cheling-II Hydropower Plant（車嶺二級電站）

Cheling-II Hydropower Plant is located at Shantian Village（山田村）, Xietan Town（斜灘鎮）, Shouning County（壽寧縣）in Fujian Province and was acquired by the Group in December 2014. The total installed capacity of Cheling-II Hydropower Plant is 15 MW. The dam controls a catchment area of approximately 99.1 km^2. The reservoir possesses the function of "semi-hourly adjustment（半小時調節）".

Indicators	2016	2015
Installed capacity (MW)	**15.0**	15.0
Gross generation (MWh) attributed to the Group	**80,116**	59,055

Applicable on-grid tariff (RMB/KWh), including VAT	To State Grid Fujian Shouning Electricity Limited Company (國網福建壽寧縣供電有限公司): RMB0.287/KWh (2015: RMB0.287/KWh);
Electricity Charges, including VAT	To Shouning Ronghua Metal Products Company ("Ronghua Metal") (壽寧榮華金屬制品有限公司): RMB0.57/KWh (2015: RMB0.57/KWh) of peak period, RMB0.32/KWh (2015: RMB0.32/KWh) of low period.

Kengdou Hydropower Plant (坑兜電站)

Kengdou Hydropower Plant is located at Zhuguanlong Town (竹管壟鄉), Shouning County (壽寧縣) in Fujian Province and was acquired by the Group in December 2014. The total installed capacity of Kengdou Hydropower Plant is 3.2 MW. The dam controls a catchment area of approximately 104.6 km^2. The reservoir possesses the function of "weekly adjustment (週調節)".

Indicators	2016	2015
Installed capacity (MW)	**3.2**	3.2
Gross generation (MWh) attributed to the Group	**16,768**	12,928

Applicable on-grid tariff (RMB/KWh), including VAT	Electricity of peak period: RMB0.384/KWh (2015: RMB0.384/KWh) Electricity of low period: RMB0.32/KWh (2015: RMB0.32/KWh)

Save as the eleven self-owned hydropower plants mentioned above, the Group has leased four hydropower plants, namely, Baizhang Hydropower Plant, Wangshe-II Hydropower Plant, Jingshan Hydropower Plant, and Dongxi Hydropower Plant. The operational details of the leased hydropower plants are listed as below:

Baizhang Hydropower Plant（百丈水電站）

Baizhang Hydropower Plant located on Shantian Village（山田村）, Xietan Town（斜灘鎮）, Shouning County（壽寧縣）. With a total installed capacity of 1MW, Baizhang Hydropower Plant commenced power generation for sale in October 2005.

Indicators	2016	2015
Installed capacity (MW)	**1.00**	1.00
Gross generation (MWh) attributed to the Group	**3,219**	2,440
Applicable on-grid tariff (RMB/KWh), including VAT	Electricity of peak period: 0.562 (2015: RMB0.562) Electricity of low period: 0.208 (2015: RMB0.208)	

Wangshe-II Hydropower Plant（王社二級水電站）

Wangshe-II Hydropower Plantlocated at Xiaqingshuikeng Village（下清水坑村）, Hejia Village（何家村）, Yingshan Township（英山鄉）, Zherong County（柘榮縣）. With a total installed capacity of 18MW, Wangshe-II Hydropower Plant commenced power generation for sale in March 2005.

Indicators	2016	2015
Installed capacity (MW)	**18.00**	18.00
Gross generation (MWh) contributed to the Group	**96,585**	76,565
Applicable on-grid tariff (RMB/KWh), including VAT	Electricity of peak period: 0.562 (2015: RMB0.562) Electricity of low period: 0.208 (2015: RMB0.208)	

Dongxi Hydropower Plant（東溪水電站）

Dongxi Hydropower Plant located at Dongxi Village（東溪村）, Pingxi Xiang（平溪鄉）, Shouning County（壽寧縣）in Fijian Province. With a total installed capacity of 3.2MW, Dongxi Hydropower Plant commenced power generation for sale in January 2006.

Indicators	**2016**	2015
Installed capacity (MW)	**3.20**	3.20
Gross generation (MWh) contributed to the Group	**14,257**	9,564

Applicable on-grid tariff (RMB/KWh), including VAT	Electricity of peak period: 0.562 (2015: RMB0.562) Electricity of low period: 0.208 (2015: RMB0.208)

Jingshan Hydropower Plant（景山水電站）

Jingshan Hydropower Plant located at Xiadongxi Village（下東溪村）, Xietan Town（斜灘鎮）, Shouning County（壽寧縣）in Fijian Province. With a total installed capacity of 4MW, Jingshan Hydropower Plant commenced power generation for sale in November 2005.

Indicators	**2016**	2015
Installed capacity (MW)	**4.00**	4.00
Gross generation (MWh) contributed to the Group	**17,821**	11,956

Applicable on-grid tariff (RMB/KWh), including VAT	Electricity of peak period: 0.562 (2015:RMB0.562) Electricity of low period: 0.208 (2015:RMB0.208)

Acquisition of Hydropower Plants and Hydropower Operation Management Company

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.

Major Customers and Suppliers

For the year of 2016, most of the revenues from power generation of the Group are derived from the following four customers, namely State Grid Fujian Zhouning Electricity Limited Company（國網福建周寧縣供電有限公 司）, State Grid Fujian Fu'an Electricity Limited Company（國網福建福安市供電有限公司）, Shouning Ronghua Metal Products Company ("Ronghua Metal")（壽寧榮華金屬制品有限公司）and State Grid Zhejiang Wenzhou Electricity Company（國網浙江省電力公司溫州供電公司）, each of which contributes approximately 16%, 10%, 6%, and 65% to the total revenues from hydropower generation, respectively.

Due to the nature of the business, Shouning County Water Resources Board（壽寧縣水利局）, Fuan Municipal Water Resources Board（福安市水利局）, Shouning County Mazhuping Reservoir（壽寧縣麻竹坪水庫）, Zharong County Donglion Hydropower Investments Co., Ltd.（拓榮縣東聯水電投資有限公司）and Shouning County Dongxi Hydropower Co., Ltd.（壽寧縣東溪水電有限公司）, which are regarded as the suppliers of the Group for its operation.

None of the directors, their respective close associates and any substantial shareholders of the Group are interested in any of the major customers and suppliers of the Group.

Key Risk Factors

The following section lists out the key risks and uncertainties that the Group is facing. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, this Annual Report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company

Seasonality in the Group's business

The Group's business generates revenue primarily from the sale of electricity generated by the hydropower plants. The amount of electricity generated by, and the profitability of, the hydropower plants depends on climatic conditions, particularly rainfall, which can vary dramatically across the seasons and are also subject to general climatic changes. Generally speaking, the electricity generated by the Group during the second and third quarters in each year accounted for the majority of the Group's revenue of the full year. The seasonal variations in rainfall in the areas at which the hydropower plants are located, may result in unexpected fluctuations in the electricity output of the hydropower plants and consequently, the Group's results of operations. Similarly, weather conditions could reduce our operational efficiency and electricity production, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Fluctuations in the Group's revenue due to the unfavourable hydrological conditions

One of the key factors leading to the fluctuations in the Group's revenue was the climatic changes in Fujian Province, which in turn affected the hydrological conditions of the areas which the hydropower plants are located. The ability of the Group's existing and future power plants to generate electricity is dependent upon climate and hydrological conditions from time to time in the geographic regions in which the Group's existing and future hydropower plants are located.

Uncertainties in securing additional hydropower plants

The key strategy for the growth of the Group is to increase the number of its hydropower plants through further acquisitions and developments. Such developments and acquisitions of power plants can be time-consuming and highly complex. The success of further acquisitions or developments depends on a number of factors such as the ability to identify suitable acquisition or development targets and agreement with vendors or land owners on the consideration and terms thereof which are competitive and at the same time acceptable to the Group. As the power market becomes more open and competitive, the Group will face more competition from domestic and international players competing to acquire or develop small hydropower plants in the PRC. If the Group is unable to acquire or develop further suitable hydropower plants in the PRC, the Group's development plan may be delayed and its revenue growth may be affected due to limited power sales from a limited number of existing hydropower plants owned by the Group. Further, the Group will not be able to diversify the operations to spread risks particularly those associated with drought or other natural disasters in a particular geographical area.

Risk of non-compliance with PRC regulatory requirements

The Group is subject to the regulatory requirements and guidelines set forth by PRC regulatory authorities. In order to prevent any non-compliance with the regulatory requirements and guidelines set forth by PRC regulatory authorities, the Group adopted certain measures. However, there is no assurance that the Group will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Group for failing to comply with applicable requirements, guidelines or regulations, its business, reputation, financial condition and results of operations may be materially and adversely affected.

Compliance with regulations

There was no material breach of or non-compliance with the applicable laws and regulations such as the PRC laws and regulations, Hong Kong Companies Ordinance (Cap. 622), GEM Listing Rules, and other applicable local laws and regulations in various jurisdictions.

Relationships with employees, customers and suppliers

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages of the employees are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including state-managed retirement benefit, mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group.

Relationship is the fundamentals of business. The Group fully understands this principal and thus maintains close relationship with the customers to fulfil their immediate and long-term need.

Due to the nature of the business, Shouning County Water Resources Board（壽寧縣水利局）, Fuan Municipal Water Resources Board（福安市水利局）, Shouning County Mazhuping Reservoir（壽寧縣麻竹坪水庫）, Zharong County Donglion Hydropower Investments Co., Ltd.（拓榮縣東聯水電投資有限公司）and Shouning County Dongxi Hydropower Co., Ltd.（壽寧縣東溪水電有限公司）, which are regarded as the suppliers of the Group for its operation. The Group strives to maintain fair and co-operating relationship with the suppliers.

Financial Review

Revenue

The Group recorded a revenue of RMB236.8 million for the year ended 31 December 2016, representing a 14.6% increase as compared to RMB206.7 million for the year ended 31 December 2015.

The Group's revenues to date have been derived from the sale of electricity generated by the self-owned hydropower plants and leased hydropower plants to local power grids in Fujian Province and Zhejiang Province, and the provision of repair and maintenance service and the provision of operating service to local hydropower plants in Fujian Province. The contribution of the Group's total revenue derived from power generation by each of the hydropower plants is listed as follows:

Hydropower Plant	Contribution of total revenue derived from power generation
Self-owned plant	
Ma Tou Shan Hydropower Plant	6%
Qianping Hydropower Plant	8%
Jiulong Hydropower Plant	3%
Ningde Jinxi-I Hydropower Plant	2%
Fu'an Jiulong-I Hydropower Station & Fu'an Jiulong-II Hydropower Station	4%
Liuchai Hydropower Plant	15%
Xiadongxi Hydropower Plant	21%
Huangqiling-II Hydropower Plant	5%
Cheling-II Hydropower Plant	13%
Kengdou Hydropower Plant	2%
Leased plant	
Baizhang Hydropower Plant	1%
Wangshe-II Hydropower Plant	15%
Dongxi Hydropower Plant	2%
Jingshan Hydropower Plant	3%

The sale of electricity increased from 534,593 MWh for the year ended 31 December 2015 to 613,507 MWh for the year ended 31 December 2016, representing approximately 14.8% growth. Such increase was mainly due to the increase in precipitation in Shouning County and Zhouning County in Fujian Province in 2016. In 2016, the leased plants generated 131,882 MWh electricity which increased by 31.2% compared with 2015.

Gross Profit and Gross Margin

The Group achieved a gross profit of approximately RMB153.0 million for the year ended 31 December 2016 (2015: RMB133.6 million), representing an increase of 14.5% as compared to that in 2015. Cost of sales increased from approximately RMB73.1 million for the year ended 31 December 2015 to approximately RMB83.8 million for the year ended 31 December 2016. Gross profit margin, calculated as gross profit divided by revenue, for the year ended 31 December 2016 amounted to 64.6% (2015: 64.6%). The gross profit margin does not have a great fluctuation due to the almost portional increase of the revenue and cost of sales.

Administrative Expenses

The administrative expenses of the Group primarily comprised legal and professional fees and staff costs. For the year ended 31 December 2016, the Group's administrative expenses slightly decreased to approximately RMB17.6 million compared to approximately RMB19.6 million for the corresponding period in 2015.

Other Operating Expenses

For the year ended 31 December 2016, other operating expenses recorded by the Group was approximately RMB3.9 million (2015: RMB0.5 million). The increase of other expenses mainly represented by the loss on disposal of subsidiaries of RMB2.6 million.

Finance Costs

The finance costs of the Group mainly represented interest expenses on bank borrowings, debentures, and finance charges on obligations under finance leases. For the year ended 31 December 2016, finance costs recorded by the Group was approximately RMB50.9 million (2015: RMB37.2 million). The increase in finance costs was mainly due to the increased bank borrowings during the year.

Income Tax Expense

Owing to increased profit in certain subsidiaries, the income tax expense of the Group increased by 24.2% from approximately RMB22.3 million for the year ended 31 December 2015 to approximately RMB27.7 million for the year ended 31 December 2016.

Profit for the year and Total Comprehensive Income

For the year ended 31 December 2016, profit and total comprehensive income attributable to owners of the Company decreased by 13.4% from RMB47.0 million in the prior year to RMB40.7 million.

Basic and Diluted Earnings per Share

Basic and diluted earnings per share for the year ended 31 December 2016 amounted to RMB0.45 cents (2015: basic and diluted earnings per share amounted to RMB0.57 cents and RMB0.54 cents respectively).

Liquidity and Financial Resources

The Group generally finances its operations from internally generated cash flows and borrowings. The Group maintained strong cash and bank balances of approximately RMB528.1 million as at 31 December 2016 (2015: RMB271.6 million). As at 31 December 2016, the Group had net current asset of RMB361.4 million (2015: RMB111.7 million).

The current ratio, as at 31 December 2016, represented by a ratio between current assets over current liabilities, was 2.94 (2015: 1.63) and the gearing ratio as at 31 December 2016, represented by a ratio between total debt over total assets, was 62.1% (2015: 67.5%). The decrease of the gearing ratio was mainly due to 100,000,000 new ordinary shares of the Company issued during the year.

Bank Borrowings and Obligations Under Finance Leases

As at 31 December 2016, the Group's bank borrowings amounted to approximately RMB568.6 million, bearing interest rates ranging from 4.41% to 6.37% per annum, and the Group's finance leases amounted to approximately RMB80.1 million, bearing interest rates ranging from 6.67% to 9.38% per annum.

Debenture

On 3 September 2014, the Group issued HK$30,000,000 (equivalent to approximately RMB23,666,000) debenture carries fixed coupon rate of 8% per annum which is payable in arrears every year and will be matured in September 2017. The purpose of the issuance is for daily management and operation of the Group and future acquisition of appropriate hydropower projects when opportunity arises.

Pledge of Assets

The bank borrowings of approximately RMB568.6 million (2015: RMB442.2 million) and the finance leases of approximately RMB80.1 million (2015: RMB145.4 million) as at 31 December 2016 were secured by certain prepaid lease payments, property, plant and equipment and electricity tariff collection rights.

As at 31 December 2016, the entire equity interests of Zhouning Qianyuan Hydropower Development Co., Ltd.（周寧縣乾元水電開發有限公司）("Qianyuan Hydropower") and Fu'an Jiulong, indirect subsidiaries of the Company, have been pledged to the lessor for securing obligations under finance leases.

As at 31 December 2015, the entire equity interests of Qianyuan Hydropower, Fu'an Jiulong and Ningde Xingyuan Hydropower Co., Ltd.（寧德市興源水電有限公司）, indirect subsidiaries of the Company, have been pledged to the lessor for securing obligations under finance leases.

As at 31 December 2016 and 2015, two of the subsidiaries of the Company, Fujian Dachuan and Fuan Liyuan Hydropower Co., Ltd.（福安市力源水電開發有限公司）have provided corporate guarantees in relation to obligations under finance leases for a maximum amount of each RMB259,200,000.

As at 31 December 2016 and 2015, the entire equity interest of Sifang Hydropower and 71% equity interest of Fuyuan Hydropower have been pledged to a bank for securing a new bank borrowing of RMB300,000,000.

Foreign Exchange Exposure

The Group's income and expenditure during the years ended 31 December 2016 and 2015 were principally denominated in RMB, and most of the assets and liabilities as at 31 December 2016 and 2015 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 current year.

Capital Structure

The total number of the issued shares of the Company was 9,136,000,000 shares (2015: 2,184,000,000 shares) as at 31 December 2016.

Contingent Liabilities

As at 31 December 2016, 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 2016 (2015: nil).

Employees and Remuneration Policies

As at 31 December 2016, the Group employed approximately 223 employees, including Directors and the chief executive (2015: 222 employees). Total staff costs for the year under review, including Directors' and the chief executive's emoluments, amounted to approximately RMB14.8 million (2015: RMB14.1 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.

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 2016.

Business objectives as stated in the Prospectus	Actual business progress up to 31 December 2016
Enhancement of technologies and facilities of existing hydropower plants	The Group has commenced the extension development of Jiulong Hydropower Plant with approval of the Municipal National Development and Reform Commission in Fujian Province which obtained in August 2016. To facilitate smooth implementation for the main construction of the project, the road construction has been completed. Presently, the Company has commenced the administrative approval over the use of land and the installation of the electricity supply of the project which expected to be completed within three months. The Group's management believes that the overall construction work will last for a period of 20-months which based on the feasibility report of the project. The main construction unit of the project will cooperate with other units involved in the construction project to ensure the main construction would be completed within the 20-month period. It would bring the completion of the main construction earlier in order to generate revenue to the Group from the newly constructed plant.

The net proceeds from the placing of the shares of the Company ("Placing") from the date of listing (i.e. 6 July 2012) (the "Listing Date"), to 31 December 2016 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 2016 HK$'000	Actual use of proceeds from the Listing Date to 31 December 2016 HK$'000
Possible acquisition of hydropower plants (Note 2)	44,700	44,770
Enhancement of technologies and facilities of existing hydropower plants (Note 1)	14,740	10,197
Enhancement of technologies and facilities of newly acquired hydropower plants	210	210
Enhancement of safety management	130	130
Total	59,780	55,307

Note 1: The extension development of Jiulong Hydropower Plants was commenced in September 2012 and is still in process.

Note 2: The actual net proceeds from the Placing were approximately HK$59.8 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 was adjusted to HK$44.7 million.

Reference is made to the updates on the use of proceeds in the Group's 2015 annual report. As at 31 December 2015, the Group has utilised HK$54.1 million of the net proceeds from the Placing.

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 54, is the founder of the Group. He has been appointed as an executive Director since 27 August 2010 and is the chairman of the Board. Mr. Lin Yang is also a director of Fujian Dachan Hydropower Development Co., Ltd since 3 August 2008 and a director of Fuan Liyuan Hydropower 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 possesses many years of experience in corporate planning, business development and project investment. Mr. Lin Yang was appointed as deputy 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. Lin Yang is the father, brother-in-law and cousin-in-law of the executive Directors, Mr. Lin Tian Hai, Mr. Chen Congwen and Mr. Zheng Xuesong respectively.

Mr. Zheng Xuesong, aged 44, has been appointed as an executive Director since 14 October 2010 and is the chief executive officer of the Group. He has over 17 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 Hydropower 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 49, has been an executive Director 14 October 2010 and is the chief financial officer of the Group. He has over 22 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 30, was appointed as an executive Director on 30 January 2013 and is the deputy chief executive officer of the Group. 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.

Independent Non-Executive Directors

Mr. Cheng Chuhan, aged 44, has been an independent non-executive Director 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 17 years of experience in accounting and auditing industry.

Mr. Chan Kam Fuk, aged 51, has been appointed as an independent non-executive Director 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. From 16 June 2014 to 15 September 2016, Mr. Chan was an independent non-executive director of Luks Group (Vietnam Holdings) Company Limited whose shares and listed on the Stock Exchange (Stock Code: 366). 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.

Mr. Xie Zuomin, aged 72, has been appointed as an independent non-executive Director on 21 April 2015. Mr. Xie graduated from Harbin Institute of Technology with a Bachelor's Degree in Electrical Engineering and he holds the title of senior economist. Mr. Xie was a member of Fujian Province Committee of Chinese People's Political Consultative Conference*（福建省政協委員）as well as the vice chairman of the Sub-Committee of Education and Publicity*（學習宣傳委）, the general manager as well as the Secretary of the Communist Party of China* in Fujian Ship Building Industry Group Company Limited*（福建省船舶工業公司總經理及黨委書記）, a member of Ningde Prefectural Committee of the CPC*（寧德市地委）, the Secretary of Ningde City Committee of the CPC*（寧德市委書記）and the Director of Ningde Municipal People's Congress*（寧德市人大主任）. Mr. Xie has also been the chairman of Fujian Ship Building Industry Association since 2006.

Senior Management

Mr. Wang Xiaoyun, aged 52, is currently the vice president of Haitian Energy International Limited. He was the vice president of Fuan Liyuan Hydropower Co., Ltd and Fujian Dachuan Hydropower Development Co., Ltd, both are the subsidiaries of the Group. Mr. Wang had been responsible for the development, construction and management of hydropower plants for many years, he has extensive professional experiences in the development, construction and operation management of hydropower plants.

Mr. Wu Zengsheng, aged 45, holds a Bachelor's Degree in economic management. He is currently the vice president of Haitian Energy International Limited, responsible for the operation management of hydropower plants and the construction of regional power grids. Mr. Wu has been responsible for regional power grids and operation management of hydropower plants for a long time, and has accumulated extensive practical experience.

Mr. Shen Weiwang, aged 60, holds a Bachelor's Degree. He is an electrical engineer of Haitian Energy International Limited, responsible for the operation management of electrical engineer system of hydropower plants. Mr. Shen has extensive practical experiences in the management of electrical engineer system of hydropower plants.

* *The English names are for identification purpose only.*

Ms. Lin Yuwen, aged 49, is currently the general manager of the Human Resources Department of the Group, possesses many years of professional experiences in human resources management and administrative management.

Mr. Zhou Mingliao, aged 75, graduated from Zhejiang University with a Bachelor's Degree in Water conservancy and Hydropower Engineering, a senior engineer, and has been granted the Expert Special Subsidy by the State Council since 1996. Mr. Zhou acted as the senior adviser of the Group. He was the director of Ningde Municipal Water conservancy and Hydropower Engineering Bureau（寧德市水電工程局局長）and senior engineer and was awarded as the "Labour Model"（勞動模範稱號）of Fujian Province in 1998.

Mr. Ye Bisen, aged 74, a senior technician, and is currently the senior adviser of Haitian Energy International Limited. Mr. Ye has over 31 years of experiences in hydropower generation industry. He worked in Xiamen electric motor factory（廈門電機廠）and Nanping hydropower equipment manufacturing factory（南平水電設備製造廠）. He acted as a hydropower expert to participate in the construction of hydropower plant in Thailand and Vietnam.

Mr. Chen Xinbin, aged 44, 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 was 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 42, 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.

Mr. Cheong Iok, aged 34, is deputy chief financial officer of the Company, who holds a bachelor's degree of business administration in business management from City University of Hong Kong. Mr. Cheong is a member of the Hong Kong Institute of Certified Public Accountants. He has over 10 years of experience in financial management, auditing and accounting in an international accounting firm and listed companies in Hong Kong.

Mr. Gao Ming, aged 44, is assistant of chief financial officer of the Company, who holds a diploma in Accounting from Xiamen University（廈門大學）. Mr. Gao is a member of the Chinese Institute of Certified Public Accountants（中國註冊會計師）and a member of the China Certified Tax Agents Association（中國註冊稅務師協會）. He has worked in a Chinese accounting firm around 3 years. He joint Fujian Sifang Hydropower Investment Co., Ltd（福建省四方水電投資有限公司）in 2005. He is familiar with accounting, tax law, economy law and possess many experience in hydropower industry.

Ms. Wu Xiaoqing, aged 34, 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 the directors' report together with the audited financial statements of the Group for the year ended 31 December 2016.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 40 to the consolidated financial statements. The Group is principally engaged in hydropower generation and provision of operating and repair and maintenance services in the PRC.

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement on pages 4 to 5 of this Annual Report. Description of possible risks and uncertainties that the Group may be facing can be found in this Directors' Report on pages 26 to 34. Also, the financial risk management objectives and policies of the Group can be found in Note 6(b) to the consolidated financial statements. No significant events affecting the Group that have occurred subsequent to the year ended 31 December 2016. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Review on pages 18 to 21 of this Annual Report. Environmental, social and governance report is provided on pages 35 to 43. In addition, discussions on the Group's relationships with its employees, customer and suppliers and compliance with regulations which have a significant impact on the Group are contained in the Management Discussion and Analysis on pages 6 to 22.

Segmental Information

The Group's segment information and revenue for the year ended 31 December 2016 are set out in Note 8 to the consolidated financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2016 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 60 to 65.

The Directors do not recommend the payment of final dividends for the year ended 31 December 2016.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 40 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

Distributable Reserves

At 31 December 2016, 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 RMB234.3 million. The amount of RMB234.3 million 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 140 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 29 to the consolidated financial statements.

Pre-emptive Rights

There are no provisions 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

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

Executive Directors

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

Independent Non-executive Directors

Mr. Cheng Chuhan
Mr. Chan Kam Fuk
Mr. Xie Zuomin

Directors' and Senior Management's Biographies

Biographies details of the Directors and the senior management of the Group are set out on pages 23 to 25 of this Annual Report.

Directors' Service Contracts

For the year ended 31 December 2016, 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 are 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 2016, 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 (the "Remuneration Committee"), 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 on 19 June 2012, 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 2016. Details of the scheme is set out in Note 36 to the consolidated financial statements.

Equity-linked Agreements

Save for the Scheme as disclosed in the section headed "Share Option Scheme", above the Company has not entered into any equity-linked agreement for the year ended 31 December 2016.

Directors' Interests in Transaction, Arrangement and Contract

No transaction, arrangement and 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.

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 Yang 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 Yang and Victor River;

(b) Mr. Lin Yang 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 Yang 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 for the year ended 31 December 2016 was received from each of Mr. Lin Yang and Victor River. The independent non-executive Directors had reviewed and confirmed that Mr. Lin Yang and Victor River have complied with the Deed and the Deed has been enforced by the Company in accordance with its terms.

Directors' Indemnities

Pursuant to article 164 of the Company's articles of association, the Directors are entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur in the execution and discharge of their duty as Directors or otherwise in relation thereto.

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 2016, the interests or short positions of the Directors and chief executive in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Law of Hong Kong ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 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 (Note)	Interest of controlled corporation	6,000,000,000 Shares	65.67

Note: *6,000,000,000 shares are held by Victor River, which is wholly and beneficially owned by Mr. Lin Yang. Accordingly, Mr. Lin Yang is deemed to be interested in the shares held by Victor River under the SFO.*

Save for disclosed above, as at 31 December 2016, 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 recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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 2016 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 2016, other than Directors 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 persons had interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in register required to be kept by the Company under section 336 of the SFO.

Long position in the Shares

Name of Shareholder	Nature of interest	Number of Shares held		Approximate shareholding percentage (%)
Victor River (Note 1)	Beneficial owner	6,000,000,000 Shares	(L)	65.67
Ms. Chen Congling (Note 1)	Interest of spouse	6,000,000,000 Shares	(L)	65.67
Bright Century Resources Ltd. (Notes 2 and 3)	Beneficial owner, person having a security interest in Shares	880,040,000 Shares	(L)	9.63
	Other	400,000,000 Shares	(S)	4.38
China Orient Asset Management Corporation (Note 2)	Interest of controlled corporation	880,040,000 Shares	(L)	9.63
		400,000,000 Shares	(S)	4.38
Dong Yin Development (Holdings) Limited (Note 2)	Interest of controlled corporation	880,040,000 Shares	(L)	9.63
		400,000,000 Shares	(S)	4.38
Haitong International Securities Company Limited	Beneficial owner	600,000,000 Shares	(L)	6.57
Haitong International Securities Group Limited	Interest of controlled corporation	600,000,000 Shares	(L)	6.57
Haitong International Holdings Limited	Interest of controlled corporation	600,000,000 Shares	(L)	6.57
Haitong Securities Co., Ltd	Interest of controlled corporation	600,000,000 Shares	(L)	6.57

Notes:

1. *Victor River is wholly and beneficially owned by Mr. Lin Yang. Accordingly, Mr. Lin Yang is deemed to be interested in the 6,000,000,000 Shares held by Victor River under the SFO. Ms. Chen Congling is the spouse of Mr. Lin. Under the SFO, Ms. Chen Congling is deemed to be interested in the 6,000,000,000 Shares owned by Mr. Lin Yang through Victor River.*

2. *Bright Century Resources Ltd. is wholly owned by Dong Yin Development (Holdings) Limited and Dong Yin Development (Holdings) Limited is wholly owned by China Orient Asset Management Corporation.*

3. *The Shares held by Bright Century Resources Ltd. are held in the capacities of beneficial owner (relating to 400,000,000 Shares), person having a security interest in Shares (relating to 480,040,000 Shares) and other (relating to 400,000,000 Shares).*

4. *(L) – Long position, (S) – short position*

Save for disclosed above, as at 31 December 2016, 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 and Debentures of the Company and its Associated Corporations" above) who had, or deemed to have, interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 securities of the Company during the year ended 31 December 2016.

Connected Transactions

The Directors are not aware of any connected transaction 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 on pages 44 to 54.

Events after the Reporting Period

The Group has no significant events after the reporting period.

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

A resolution for the re-appointment of SHINEWING (HK) CPA Limited as auditor of the Company will be proposed at the 2017 annual general meeting.

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

Fuzhou, the PRC, 3 March 2017

1. About This Report

1.1 Overview

The Environmental, Social and Governance Report (the "ESG Report") of Haitian Energy International Limited (the "Company") describes the principle upheld and the work carried out by our company and its affiliated companies (collectively the "Group" or "we") (Stock Exchange Stock Code: 8261) for performance of responsibility as a corporate citizen in our business operations. The ESG report gives details of the Group's contribution to the environment, society and governance in 2016. For the content of corporate governance, please refer to the Corporate Governance Report provided on pages 44 to 54.

1.2 Scope

The ESG report covers the overall environmental, social and governance policy of the Group from January 1 2016 to December 31 2016. The content disclosed in the ESG report is focused on the Group's power transmission lines and hydropower stations located in Fujian Province, China.

1.3 Guidelines

ESG Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guild" under Appendix 20 of GEM Listing Rules issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

1.4 Stakeholder Involvement

We appreciate the support and trust of stakeholders to the Group's business development. The preparation of the ESG report has received high attention of colleagues from all departments, laying a solid foundation for the sustainable development of the Group. We have collected information about the environmental and social work carried out by the Group in 2016, with an aim to help establish our business strategies.

1.5 Information and Feedback

For details about the Group's environmental and corporate governance, please refer to the official website (www.haitian-energy.com) and annual report of our Company. The Group values your opinion on this report, so if you have any queries or suggestions, please do not hesitate to call at: (852) 3188 8333.

2. Corporate Philosophy

The Group mainly engages in hydropower generation as well as provision of operation and repair and maintenance services for hydropower plants developed independently or acquired from other parties in the People's Republic of China ("PRC"). We are committed to the development of renewable clean energy industry, in contributing to low-carbon activities. Under the management and leadership of Mr. Lin Yang, Chairman of the Board and Executive Director, the Group has been listed on the GEM of the Stock Exchange as of 2012.

Hydropower is a renewable clean energy that will not emit air pollutants. The Group owns two power transmission lines (110 kv) with a total length of 190 km and eleven hydropower stations, including Ma Tou Shan Hydropower Plant, Qianping Hydropower Plant, Jiulong Hydropower Plant, Ningde Jinxi-I Hydropower Plant, Fu'an Jiulong-I Hydropower Station and Fu'an Jiulong-II Hydropower Station, Xiadongxi Hydropower Plant, Liuchai Hydropower Plant, Kengdou Hydropower Plant, Cheling-II Hydropower Plant and Huangqiling-II Hydropower Plant. We are devoted to providing sustainable energy to reduce the harm on earth. At the same time, we have established an effective staff management system, and kept on making contribution to the society, so as to achieve a high level of corporate social governance. The Group attaches great importance to providing high-quality products for clients by constantly planning for, implementing and checking all processes in hydropower generation to ensure that all products conform to national standards.

3. Green Operation

Since fossil fuel is the primary contribution to the increase of global greenhouse gas, the use of renewable energy not only can improve the environment, but also can help realize sustainable development. We are active in providing cost-effective energy for clients. To raise the environmental management level of all power plants, we have formulated a strict environmental protection system and the corresponding measures. All of hydropower plants under our management comply with the requirements set forth in the Notice of General Office of Fujian Provincial People's Government on Strengthening the Management of Hydropower Resource Development and Utilization Projects and Opinion of Fujian Provincial People's Government on Further Standardizing the Management of Hydropower Resource Development and the law and regulation regarding to emission.

3.1 Energy Conservation

The power supply of the Group mostly comes from hydropower plants under our operation, with a small amount generated by thermal power grids, and only in case of emergency would a diesel generator be used for power supply. In order to advocate the concept of environmental protection and build the awareness of resource conservation, we have set up an energy conservation system to encourage employees to reduce resource consumption. We aim to have each employee take the responsibility of energy conservation. We conduct regular spot check on employees and implement a punishment system, i.e. if any employee is found to commit a serious waste of resources, we will punish this employee or his/her department, so as to make sure each employee contributes to energy conservation.

We encourage employees to use solar lighting wherever possible, reduce the use of electric lamps, reduce the number of electric lamps in office areas higher than brightness demand, and require each department to reduce the excessive use of energy by turning off lights while leaving. In order for employees to use electric lamps on demand, the Group has divided the office space into a number of different lighting areas, and has set up independent switches in these areas. Beyond that, employees must turn off electronic equipment during non-office hours, and make settings for electronic equipment to enter a power saving mode while idle. To reduce energy consumption and extend the service life of air conditioning, we have not only set the temperature of air conditioning not lower than 26 degrees Celsius, but also put sealing strips onto doors and windows to avoid leakage of tempered air. We also allow employees to work in casual wear on Friday or under the hot weather, so as to reduce the use of air conditioning. Meanwhile, we have chosen a server of higher capacity to reduce energy consumption.

In addition to reducing the use of energy, we also try to improve the efficiency of energy use. At the time of purchasing, we choose electronic equipment of high energy efficiency. When installing air conditioning, we avoid installation at any location of long-term exposure to direct sunlight. In terms of repair and maintenance, we keep lighting devices and electric lamps clean, and, on a regular basis, clear the filters of air conditioners. In order to keep improving our energy consumption, we conduct monthly electricity statistics to monitor energy consumption, and take appropriate measures for improvement.

3.2 Water Resource Management

In order to provide clean energy, we have been collecting rainwater for hydropower generation. A dam can help precipitate and clean the water to be used for power generation, ensuring water quality reaches the Grade 2 standard specified in the Environmental Quality Standard for Surface Water (GN 3838-2002). The operation process will not produce any industrial wastewater. We have a septic tank and a sewage filter tank in each hydropower plant to ensure our domestic sewage discharge conforms to national standards, and will not pollute any river. In face of water resource crisis, the Group realizes that sewage treatment is not our only feasible measure, as water conservation can never be ignored. To this end, the Group uses faucets and urinals with water conservation labels, and uses dual-flushing toilets, with water pressure dropping to a minimum degree to the extent feasible, so as to reduce unnecessary water consumption. Besides, we actively promote water conservation towards employees, and remind them to reduce water consumption. Beyond that, we will also, on a regular basis, conduct hidden water pipe leakage testing and check water meter reading to ensure no water leakage.

3.3 Greenhouse Gas Reduction

In addition to saving energy and water, we have also taken different measures to reduce greenhouse gases produced during the operation of the Group. In terms of transportation, we encourage employees to take public transportation or share transportation wherever possible. We also encourage employees to replace any unnecessary overseas business travel with video conference. If a business travel is inevitable, we encourage employees to use direct flights to reduce carbon emissions caused by each flight. We also pay attention to the management of our fleet's carbon emissions by providing regular maintenance for our vehicles, conducting regular check and inflating each tire to ensure correct air, so as to improve the energy efficiency of vehicles. In addition to vehicle management, we also provide low-carbon driving training for drivers. In terms of daily operation, we regularly check and replace the connectors of air compressors, pressure hoses and pressure gauges to minimize refrigerant leakage. Besides, we also grow green plants in office areas to reduce carbon emissions. We hold internal activities at locations of convenient transportation, and also use low-carbon food materials to actively reduce carbon emissions caused indirectly by holding activities.

3.4 Waste Disposal

Domestic waste is the main non-hazardous waste produced by we; no matter in office or any hydropower plant, we make classified collection of recyclable and non-recyclable waste, and hand the same over to the property management company for disposal or regularly transport the same to a garbage station for disposal. We have been dedicated to the reduction of waste output by replacing disposable goods with reusable goods. Besides, we also reuse envelopes, spring binders, file cards and other stationery supplies, and use refills for purpose of reusing penholders. In addition to domestic waste, we also produce kitchen waste. In order to reduce the amount of kitchen waste, we remind employees of the concept of cherishing food, and convert kitchen waste into feeds for livestock breeding.

With regard to hazardous waste, we produce a small amount of electronic waste, such as scrapped electronic equipment, etc. In order to reduce the environmental pollution caused by hazardous waste, we properly collect them and hand the same over to a distributor for treatment in a professional manner. Beyond that, we also use rechargeable batteries and recyclable toner cartridges and make recovery. Besides, expired lubricating oil for electronic equipment shall also, on a regular basis, be handed over to a qualified organization for recycling, instead of being discarded to rivers, so as to avoid causing ecological pollution.

3.5 Paperless Office

We are active in promoting paperless office, and reduce file printing by using emails or QQ for file transmission, so as to minimize paper and resource consumption. Our files also use finer fonts and spacing to improve the efficiency of paper use. All of our files shall be drafted, copied, reviewed and modified directly on a computer wherever possible, with the final version to be printed out in a one-time manner. If a piece of scratch paper is needed, it shall be limited to reusable paper, so as to reduce the use of white paper. Our computers conduct double-sided printing by default, and have posters that will remind employees to use reusable paper for printing. Beyond that, we also regularly count the amount of paper used to monitor paper consumption and take appropriate measures for improvement.

4. People Oriented

The Group has a well-established human resources system and a development pattern for cultivating talents, and expect employees to carry out business activities under five beliefs of the Group: enthusiasm, diligence, honesty, obedience and cleanness. Employees are the most valuable assets of the Group, so we will give sincere care to each employee, hoping them grow up together with the Group. We strictly abide by the labor law, the Employment Ordinance of Hong Kong, the Labor Law of the PRC and so on.

4.1 Recruitment

The Group will recruit talents as per the request of different departments. Our recruitment consists of two types: the first is internal recruitment or promotion; the second is external recruitment. Any employee of the Group, if having outstanding performance, can get promoted through self-recommendation or recommendation by his/her supervisor, so as to satisfy the employee's development needs. On the other hand, we will also recruit talents from outside sources. To ensure candidates meet our requirements and to maintain the fairness of recruitment procedures, candidates are required to take part in two rounds of interview, have their information verified before joining the Group. Our recruitment follows the principle of fairness, impartiality and openness, irrespective of any race, religion, gender, age, disability, etc.

4.2 Child Labor and Forced Labor

The Group undertakes to strictly implement the Provisions on the Prohibition of Using Child Labor (Order of the State Council of the PRC No. 364), and Provisions on Special Labor Protection of Underage Labor promulgated by China's Ministry of Labor, and accordingly, has established the Group's recruitment policy and procedures to prohibit the appearance of child labor or forced labor.

We will verify the health certificates, working papers and academic certificates of all new employees. Before execution of a labor contract, we will require the employee concerned to provide lawful employment proof to prevent the appearance of any child labor in the Group. If having recruited child labor by mistake, the Group will terminate the contract immediately, and send the child labor back home. Beyond that, we also have adequate measures to safeguard the freedom and rights and interests of employees, and the management is not allowed to force any employee to work or work overtime. If any employee has a problem with the management, he/she is encouraged to make complaint in writing. In 2016, the Group received no complaint about child labor or forced labor.

4.3 Employee Benefits

Our employees work for an average of 35 hours per week. Based on the Group's business nature, Saturday and Sunday are normal working days. Our rest days of each week will be determined by department supervisors. If working overtime is needed, we will arrange employees to work overtime in accordance with the relevant provisions of Labor Law of the PRC. Our employees enjoy statutory holidays, marriage leave, funeral leave, annual leave, compensatory leave, sick leave, maternity leave and personal leave. If any employee is required to work during statutory holidays, we will pay remuneration in accordance with the relevant provisions of applicable laws, employee handbook and labor contract. In addition to basic salary, the Group might also give bonus for incentive purpose, depending on our business results of the year. We will cover all kinds of social insurance for employees as per the state and local requirements on social insurance. For the resigning staff, the Group pays outstanding wages on time pursuant to the requirement of the law.

4.4 Training

We hope to, through training, increase knowledge and skills of employees, and enhance the Group's competitiveness. We provide orientation training for new employees, mainly involving the department's function and work objective, department structure, responsibilities, notes for attention, operating skills and working procedures, rules and regulations of the Group and its departments, etc. In addition to orientation training, we also provide in-service training. Every year, we will make training plans in line with employee needs and the Group's business development. According to the content of training, we will also engage external qualified institutions to provide training for employees. The Group will provide technical training for employees at special posts, and these employees are required to obtain professional qualifications. In addition to technical training, we also provide training on management techniques, new knowledge and new skills to improve the management ability of employees, and update industry information. Through different trainings, we expect to enhance the overall quality of employees and develop their potential.

4.5 Appraisal System

To ensure the quality of employees, we will carry out employee appraisal every year. Our appraisal covers attendance and performance. To keep discipline, we have established an attendance checking system. On the other hand, performance appraisal of an employee will be conducted by his/her department supervisor and manager in an objective manner according to his work performance, professional skills, work attitude, year-round record of merits and flaws, etc. An employee's appraisal record will serve as a basis for becoming a full member, promotion, salary adjustment, year-end bonus or punishment.

5. Health and Safety

We seriously implement the Rules of safe operation in power industry, Regulations on the Supervision of Power Safety, Law of the PRC on the Prevention and Control of Occupational Diseases, and all laws and regulations concerning work safety. We are committed to creating a safe work environment to protect the health and safety of employees.

5.1 Labor Safety and Hygiene System

To implement the policy of "safety first, quality first", based on the Regulations on the Work Safety of Power Production and standards issued by the state or industry, we have formulated plans for safety technology and labor protection, and developed regulations on anti-accident measures and regulations on routine work safety, with an expectation to protect the health and hygiene of employees.

We have clear safety requirements on office areas. All of instruments and work supplies must be cleaned and sorted on a regular basis to keep the site safe. Any flammable, explosive, toxic or hazardous goods within the workplace will be put in a designated place to avoid being mixed with ordinary materials, and will have a prominent mark indicating their difference from ordinary materials for convenience of identification by employees. On each production line, we have configured occupational disease prevention equipment and emergency rescue facilities, including effective ventilation, detoxification, noise reduction, anti-vibration, cooling, heating, etc., and provide employees with such personal occupational disease prevention supplies as anti-dusk/anti-poison respirator, anti-poison mask, protective suit (shoes, caps, gloves, glasses, etc., so as to prevent, control and eliminate occupational hazards.

In addition to setting requirements on the workplace, we will also supervise all levels of employees in respect of the safety and hygiene system to ensure each employee implements various production safety rules, anti-accident technology measures and production safety indicators. We also make emergency rescue plans to ensure employees can be rescued timely after occurrence of any accident. If an accident occurs, our supervision staff will assist the leading group to investigate the accident, and ensure the full implementation of the principle "never let off four aspects" (i.e. never let off if the cause of an accident is not found out, never let off if the responsible person for an accident is not seriously punished, never let off if employees are not educated, and never let off if preventive measures are not implemented) within hydropower stations. Beyond that, we will carry out a safety overhaul every spring and autumn to check if employees have seriously complied with all relevant rules and regulations, and follow the principle of "rectify while checking". If any problem is found, we will determine appropriate solutions and emergency response measures as soon as possible. Besides, every month we will also hold a production safety analysis meeting to analyze and summarize the monthly production safety situation of each department, make comprehensive analysis on production safety trends, timely resolve major issues in production safety, and prevent occurrence of any safety accident.

At the time of any reconstruction or expansion project, our supervision staff will also conduct inspection and acceptance on its safety and compliance with the Environmental Protection Law of the PRC to ensure it meets various production requirements. If any problem is found in the course of inspection and acceptance, we will issue a Safety Supervision Notice to the department concerned, and will notify the relevant department leaders to make improvement until meeting the requirements.

5.2 System Assessment

Every year, the Group will supervise different departments to assess the completion of "two measures" (i.e. safety technology and labor protection measures, and anti-accident measures). If the completion rate reaches the expected target, we will implement a work safety reward and punishment program, which is designed to give effect to all levels of production safety accountability system, and offer praises and rewards to departments that achieve safety goals and to employees making outstanding contribution to work safety. Every year, we will grant the award for one-hundred-day safety, award for outstanding contribution to production safety, and safety award fund according to different reward and punishment programs.

5.3 Education and Publicity

To ensure production safety, the Group provides safety education and training to enhance the safety technology quality of employees. Through safety education, we aim to strengthen the accountability system and consciousness of employees regarding work safety to grasp the knowledge of production safety, raise the level of management and operating technique, and improve their self-protection ability. We implement a three-level safety education system, where all employees are required to take part in training and pass the examination. In addition to all kinds of education training, we hold safety day and safety month activities on a regular basis to effectively improve the safety awareness of employees. For example, on the safety day, we will share previous experiences and lessons in respect of production safety, discuss articles about production safety, review conduction safety, and analyze the pre-control of danger points.

6. Emphasis on Our Service Quality

The Group adheres to the client-first philosophy and lays emphasis on service quality. We have a well-established system to supervise the entire supply chain. From contractor selection to verification process supervision, we have established excellent service performance. In addition to services, we have also developed measures regarding client privacy and anti-corruption to gain more trust of clients.

6.1 Common Development with Suppliers

According to the Group's business characteristics, most of our raw materials purchased are used for inspection, repair or technical improvement of power stations or lines. Our purchase is based on each department's operation and repair plans, as well as the warehouse's inventory situation. We strictly control the inventory quantity of various materials, and, on a regular basis, classify these materials and scrap inapplicable ones. We compare different suppliers and choose those of good product quality. For materials purchased, we examine their quantity, specification and qualification certificate; if incomplete, materials cannot be warehoused. All materials warehoused shall be stored in strict accordance with the warehouse management system and the fixed location management method, so as to strengthen our management of materials. Our management of materials is not only limited to storage but also covers tracking management. In addition to specified quota and taken by designated staff, we also require indicating the usage of materials and the place of such usage; all of these information must be recorded in detail. Besides, we will also supervise the management of materials to ensure they are in good use.

6.2 Ensure Power Stability

The Group is committed to maintaining the stability and reliability of power supply. For this purpose, we have formulated policies for the work of employees, operation of equipment and power stations, as well as the inspection of hydraulic structures, designed to protect the operation safety of hydropower stations and ensure product quality. We supervise staff on duty, including the establishment of power station operation on-duty system and shift system (i.e. staff management system), to guarantee the work quality of employees. We have established the corresponding systems for equipment and power station operation, including equipment inspection system, power station operation supervision system, power station back-brake system, and regulations on periodic equipment switching testing, to ensure operation management of the whole hydropower station. We have established an inspection system for hydraulic structures. In addition to daily inspection, we also conduct an annual detailed examination to ensure safety and stability of hydraulic structures.

We conduct rating on the equipment condition of hydropower stations for effective performance of maintenance work. We carry out periodic maintenance for equipment of power stations according to the needs of different equipment, and carry out individual maintenance for hydropower stations based on the information obtained from inspection. In addition to maintenance, we also conduct technical renovation and make preventive testing to ensure safety of hydropower stations. Our maintenance not only covers production facilities, construction machinery, power supply and communications equipment, but also mechanical and electrical equipment of dams, and power transmission equipment of hydropower stations. We also conduct major technical measure renovation, general technical measure renovation, regular or irregular examination and preventive trial. We lay emphasis on safety management and quality management in the course of maintenance, and implement the safety management policy of "safety first, prevention focused" and the quality management policy of "quality first, repair guaranteed" into the work of maintenance. In addition to requiring employees to carry out self-inspection on the content of maintenance, we also conduct acceptance, and require the acceptance staff to put on his/her signature for confirmation, so as to ensure traceability of equipment quality, and follow-up of unqualified items.

6.3 Privacy Protection

We respect the privacy of all clients, including client list, cooperation purpose, price, turnover, marketing, employee remuneration, etc. For this, we have set up privacy rules that employees must follow; in case of any violation, we will give disciplinary punishment according to the specific situation.

6.4 Anti-Corruption

We firmly believe that honesty, integrity and fairness are valuable assets of the Group. To ensure employees are aware of the importance of anti-corruption, we have set up basic discipline behavior standards for reference and obedience of all employees. We prohibit employees from soliciting or accepting any interests from any persons who have business dealings with the company, such as clients, suppliers, contractors, etc., so as to remain objective in business operation. If there is any conflict between personal interests and the Group's interests, the employee concerned shall make it clear to the Group to prevent any appearance of inequality, abuse of rights or even corruption. We have established a complaint mechanism, which is open to everyone, including shareholders, customers, suppliers, employees, etc. Any person who suspects an employee of any violation may report to the management. After receipt of such report, we will take a fair and effective attitude to deal with it. If a violation of discipline is confirmed, the employee will receive disciplinary punishment. To protect safety of the reporter, all complaint information will be treated absolutely confidential. In 2016, the Group received no report about violation or corruption.

7. Charity and Public Welfare

As a responsible social enterprise, the Group is devoted to making contribution to communities, establishing long-term contacts with communities, and building a high-quality living environment for citizens. The Group spares no effort to care for communities by taking part in different charity services, donations, fundraising and sponsorship activities. In 2016, the Group donated a gross amount of approximately RMB359,000. Our donation and sponsorship targets included: Xiangdi Village Shengong Construction, Bapu Village Charity Sponsorship, Zhouning Immigration Bureau Road Sponsorship, Xietan Government Sijiaoting-to-Che'er Power Station Access Road Widening Sponsorship, Wangxi Village Road Sponsorship, Changxi Village and Yintan Village "June 1" Sponsorship, Xietan Town Basketball Game Sponsorship, Typhoon No. 14 "Meranti" Sponsorship, Irrigation and Water Conservancy Sponsorship, etc. In addition to assistance upon occurrence of natural disasters, we also pay attention to the daily needs of communities.

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 2016.

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 and adopted the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. During the year ended 31 December 2016, 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 requirements 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 (Chief Financial Officer ("CFO")) and Mr. Lin Tian Hai (Deputy CEO) and three are independent non-executive Directors namely Mr. Cheng Chuhan, Mr. Chan Kam Fuk and Mr. Xie Zuomin. 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 2016. 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.

Corporate Governance Functions

For the year ended 31 December 2016, the Board and the compliance committee of the Company (the "Compliance Committee") have performed the corporate governance duties which include the following:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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 and 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. In addition, the chairman is scheduled to have a meeting with the independent non-executive Directors and without the executive Directors present at least once annually.

For the year ended 31 December 2016, four regular Board meetings for review and approval of financial statements were held and the attendance records of individual Directors at the Board meetings are set out below:

Name of Directors	Meeting attended/ Eligible to attend Board
Executive Directors	
Mr. Lin Yang *(Chairman)*	7/7
Mr. Zheng Xuesong	7/7
Mr. Chen Congwen	7/7
Mr. Lin Tian Hai	7/7
Independent non-executive Directors	
Mr. Cheng Chuhan	7/7
Mr. Chan Kam Fuk	7/7
Mr. Xie Zuomin	7/7

Chairman and CEO

The roles of the Chairman and CEO are segregated and 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 CEO takes the lead in the Group's operations and business development. There is a clear division of responsibilities between the Chairman and CEO 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 articles of association of the Company. 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 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 year ended 31 December 2016.

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 2016, the Company has received training record 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 CG Code.

During the year ended 31 December 2016, 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. Lin Tian Hai	1&2
Independent non-executive Directors	
Mr. Cheng Chuhan	2
Mr. Chan Kam Fuk	1&2
Mr. Xie Zuomin	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 (the "Company Secretary") assists the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. Ms. Mok Ming Wai, a director of KCS Hong Kong Limited (a fellow subsidiary of TMF Hong Kong Limited), external service provider, has been appointed as the Company Secretary since 13 November 2015. Her primary contact at the Company is Mr. Lin Tian Hai, executive director and chief administrative officer of the Company. Ms. Mok Ming Wai has taken no less than 15 hours of relevant professional trainings to update their skills and knowledge during the year ended 31 December 2016.

Audit Committee

The audit committee of the Company (the "Audit Committee") consists of three independent non-executive Directors namely Mr. Cheng Chuhan, Mr. Chan Kam Fuk and Mr. Xie Zuomin. Mr. Cheng Chuhan is the chairman of the Audit Committee. 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. The full terms of reference setting out details of duties of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, the Audit Committee held four meetings and performed the above mentioned duties. 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	4/4
Mr. Chan Kam Fuk	4/4
Mr. Xie Zuomin	4/4

Compliance Committee

The Compliance Committee comprises all the Directors, inter alias, Mr. Lin Yang, Mr. Zheng Xuesong, Mr. Chen Congwen, Mr. Lin Tian Hai, Mr. Cheng Chuhan, Mr. Chan Kam Fuk and Mr. Xie Zuomin. 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. The full terms of reference setting out details of duties of the Compliance Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, two meetings 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 Directors	
Mr. Lin Yang	2/2
Mr. Zheng Xuesong	2/2
Mr. Chen Congwen	2/2
Mr. Lin Tian Hai	2/2
Independent non-executive Directors	
Mr. Cheng Chuhan	2/2
Mr. Chan Kam Fuk	2/2
Mr. Xie Zuomin	2/2

Remuneration Committee

The Remuneration Committee consists of an executive Director, namely Mr. Lin Yang and two independent non-executive Directors namely Mr. Cheng Chuhan and Mr. Chan Kam Fuk. Mr. Lin Yang is the chairman of the Remuneration Committee. 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. The full terms of reference setting out details of duties of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The Remuneration Committee has adopted the model whereby the Remuneration Committee determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management. Details of the remuneration of Directors and chief executive are set out in Note 13 to the consolidated financial statements.

During the year ended 31 December 2016, one meeting was held by the Remuneration Committee. The following table shows the attendance of individual members held during the year:

Name of Directors	Meeting attended/ Eligible to attend
Executive Director	
Mr. Lin Yang	1/1
Independent non-executive Directors	
Mr. Cheng Chuhan	1/1
Mr. Chan Kam Fuk	1/1

The emoluments of the senior management whose profiles are set out in the section headed "Directors and Senior Management" of the annual report fell within the following bands:

	2016	2015
Nil to HK$1,822,730 (equivalent to approximately RMB1,559,851) (2015: RMB803,000)	**11**	9

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") comprises three independent non-executive Directors namely Mr. Cheng Chuhan, Mr. Chan Kam Fuk and Mr. Xie Zuomin. 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 full terms of reference setting out details of duties of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Board adopted the board diversity policy in accordance with the requirement as set out in the CG Code. The Board recognizes the benefits of having a diverse Board and considers a number of factors which include but not limited to age, gender, professional experience, cultural and education background when comprising the Board. The Nomination Committee regularly monitors and reviews the implementation of the board diversity policy.

During the year ended 31 December 2016, one meeting was held by the Nomination Committee. The following table shows the attendance of individual members held during the year:

Name of Directors	Meeting attended/ Eligible to attend
Independent non-executive Directors	
Mr. Cheng Chuhan	1/1
Mr. Chan Kam Fuk	1/1
Mr. Xie Zuomin	1/1

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code") 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 Code throughout the year and up to the date of the 2016 annual report.

Shareholders' Rights

Convene an extraordinary general meeting

According to the articles of association of the Company, any one or more Shareholder(s) 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@haitian-energy.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.

Directors' attendance at general meeting

For the year ended 31 December 2016, the Company held an annual general meeting. All the Directors have attended the annual general meeting.

Auditor's Remuneration

During the year ended 31 December 2016, 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:

	2016	2015
	RMB'000	RMB'000
Audit Service	**727**	643
Non-Audit services		
Review of financial information of the Group	**171**	145
Others	**17**	24
Total	**915**	812

Risk Management and Internal Controls

During the year, the Group has complied with Principle C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2016, no significant risk was identified.

Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follows:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- *Control Activities:* Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- *Monitoring:* Ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality agreements are in place when the Group enters into significant negotiations.
- The Executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted in 2016, no significant control deficiency was identified.

Internal Auditors

The Group has an Internal Audit ("IA") function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Board via Audit Committee afterwards.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's reviews, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its reviews and the reviews made by IA function and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

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.

信永中和 ShineWing

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

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

Opinion

We have audited the consolidated financial statements of Haitian Energy International Limited ("the Company") and its subsidiaries (the "Group") set out on pages 60 to 139, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment on goodwill

Refer to note 3 and note 18 to the consolidated financial statements.

The key audit matter

The Group has goodwill of approximately RMB24,039,000 relating to the acquisition of its subsidiaries in prior years.

It is one of key audit matters was due to the significance to the consolidated financial statement and involving a significant degree of judgment of the directors of the Company by considering the impairment for the goodwill.

How the matter was addressed in our audit

We assessed the reasonableness of the assumptions and estimates adopted in cashflow forecasts which were prepared by the directors of the Company. By performing industrial analysis and referencing to the Group's historical figures and board minutes approving the future operating plans, we challenged if there is any inconsistency of the market trend and historical information of the Group for the assumptions and estimates adopted in the forecasts.

We also challenged the assumptions used by directors of the Company by comparing past assumptions made by management in prior years with actual events as well as the current year's assumptions and future operating plans.

Valuation of intangible assets

Refer to note 3 and note 19 to the consolidated financial statements.

The key audit matter

The Group has development right granted by the relevant authority in the People's Republic of China (the "PRC") in prior year in relation to the development on additional hydropower plant in Bapu Stream, Zhouning County, Fujian Province, the PRC amounted to approximately RMB7,891,000 which was included in the intangible assets. The approval on the developing the additional hydropower was granted by the local government during the year. However, the main construction of the hydropower plant was not yet commenced, the income of the hydropower plant was not yet generated.

It is one of key audit matters was due to the significance to the consolidated financial statement and involving a significant degree of judgment of the directors of the Company by considering the impairment for the intangible assets.

How the matter was addressed in our audit

We have discussed with the directors of the Company with the written representation including board minutes as to the latest plan of the construction and the commencement date of generating income.

We assessed the reasonableness of assumptions and estimates using in the valuation report published by the third party specialists, our knowledge of the hydropower industry and the Group's historical experience and future operating plans. We challenged the reasonableness of the assumptions and estimates with referencing to the historical figures of the Group and reviewed the underlying documentation including quotation from the subcontracting parties for development of hydropower plant, etc. The assessment also included testing the integrity and arithmetic accuracy of the cashflow forecast through recalculation.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Directors of the Company and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tang Kwan Lai.

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

Hong Kong
3 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	7	**236,761**	206,653
Cost of sales		**(83,797)**	(73,067)
Gross profit		**152,964**	133,586
Other income	9	**2,767**	1,455
Administrative expenses		**(17,620)**	(19,550)
Other operating expenses		**(3,876)**	(463)
Finance costs	10	**(50,929)**	(37,160)
Profit before tax		**83,306**	77,868
Income tax expense	11	**(27,740)**	(22,300)
Profit for the year and total comprehensive income for the year	12	**55,566**	55,568
Profit for the year and total comprehensive income for the year attributable to:			
Owners of the Company		**40,706**	46,979
Non-controlling interests		**14,860**	8,589
		55,566	55,568
Earnings per share (RMB cents)	15		
Basic		**0.45**	0.57
Diluted		**0.45**	0.54

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	16	**669,485**	709,088
Prepaid lease payments	17	**16,584**	20,289
Goodwill	18	**24,039**	25,178
Intangible assets	19	**9,125**	9,483
Deposits paid for acquisition of land use right		**2,500**	2,500
Other deposit and prepayment	20	**12,732**	16,030
Deferred tax assets	30	**103**	101
		734,568	782,669
Current assets			
Trade and other receivables	21	**19,192**	16,602
Prepaid lease payments	17	**408**	487
Bank balances and cash	22	**528,060**	271,557
		547,660	288,646
Current liabilities			
Trade and other payables	23	**48,946**	36,221
Amount due to a related company	24	**168**	859
Amount due to a director	24	**514**	548
Income tax payables		**16,720**	19,945
Secured bank borrowings	25	**60,986**	79,075
Debentures	27	**26,835**	–
Obligations under finance leases	28	**32,072**	40,268
		186,241	176,916
Net current assets		**361,419**	111,730
Total assets less current liabilities		**1,095,987**	894,399

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital	29	**9,303**	8,883
Reserves		**416,724**	292,489
Equity attributable to owners of the Company		**426,027**	301,372
Non-controlling interests		**60,497**	47,087
Total equity		**486,524**	348,459
Non-current liabilities			
Secured bank borrowings	25	**507,630**	363,090
Obligations under finance leases	28	**48,052**	105,107
Debentures	27	**–**	25,133
Deferred tax liabilities	30	**53,781**	52,610
		609,463	545,940
		1,095,987	894,399

The consolidated financial statements on page 60 to 139 were approved and authorised for issue by the board of directors on 3 March 2017 and are signed on its behalf by:

Mr. Lin Yang	**Mr. Chen Congwen**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note i)	Special reserve RMB'000 (Note ii)	Equity transaction reserve RMB'000	Convertible notes reserve RMB'000 (Note 26)	Statutory reserve RMB'000 (Note iii)	Capital reserve RMB'000 (Note iv)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	8,156	48,782	362	48,622	–	3,477	6,270	24	52,034	167,727	39,371	207,098
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	–	–	46,979	46,979	8,589	55,568
Appropriation to statutory reserve	–	–	–	–	–	–	10,581	–	(10,581)	–	–	–
Acquisition of additional interest in a non-wholly owned subsidiary (Note 34 (ii))	–	–	–	–	(1,127)	–	–	–	–	(1,127)	(873)	(2,000)
Issue of shares upon conversion of convertible notes (Note 29 (ii))	727	90,625	–	–	–	(3,477)	–	–	–	87,875	–	87,875
Transaction costs attributable to issue of shares upon conversion of convertible notes	–	(82)	–	–	–	–	–	–	–	(82)	–	(82)
At 31 December 2015	**8,883**	**139,325**	**362**	**48,622**	**(1,127)**	**–**	**16,851**	**24**	**88,432**	**301,372**	**47,087**	**348,459**
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	–	–	**40,706**	**40,706**	**14,860**	**55,566**
Appropriation to statutory reserve	–	–	–	–	–	–	**8,654**	–	**(8,654)**	**–**	–	**–**
Derecognition through disposal of a subsidiary	–	–	–	–	–	–	**(10)**	–	**10**	**–**	–	**–**
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(1,450)**	**(1,450)**
Issue of shares upon placing of shares (Note 29 (iii))	**420**	**83,586**	–	–	–	–	–	–	–	**84,006**	–	**84,006**
Transaction costs attributable to issue of shares upon placing of shares	–	**(57)**	–	–	–	–	–	–	–	**(57)**	–	**(57)**
At 31 December 2016	**9,303**	**222,854**	**362**	**48,622**	**(1,127)**	**–**	**25,495**	**24**	**120,494**	**426,027**	**60,497**	**486,524**

Notes:

(i) Other reserve

It represents the deemed contribution from the controlling shareholder for offering a low interest rate loan to Haitian Energy 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.

(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 2016

	Notes	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**83,306**	77,868
Adjustments for:			
Finance costs		**50,929**	37,160
Depreciation for property, plant and equipment		**24,339**	24,627
Loss on disposal of subsidiaries	33	**2,558**	–
Exchange difference		**1,702**	1,467
Amortisation of prepaid lease payments		**488**	488
Amortisation of intangible assets		**358**	773
Government grants		**(356)**	(373)
Interest income		**(1,845)**	(599)
Impairment losses on trade and other receivables		**–**	1,037
Reversal of impairment losses on trade receivables		**–**	(30)
Net loss on disposal/written off of property, plant and equipment		**–**	157
Net gain on early repayment of amount due to a former beneficial owner of a subsidiary		**–**	(65)
Waive of convertible notes interest		**–**	(272)
Operating cash flows before movements in working capital		**161,479**	142,238
(Decrease) increase in trade and other receivables		**(4,379)**	14,823
Decrease in trade and other payables		**12,279**	7,574
(Increase) decrease in amount due to a related company		**(691)**	241
(Increase) decrease in amount due to a director		**(34)**	548
Cash generated from operations		**168,654**	165,424
Income tax paid		**(28,611)**	(14,211)
NET CASH FROM OPERATING ACTIVITIES		**140,043**	151,213
INVESTING ACTIVITIES			
Net cash inflow on disposal of subsidiaries	33(a)&(b)	**4,090**	–
Interest income received		**1,743**	599
Purchase of property, plant and equipment		**(2,429)**	(737)
Advances to a loan receivable		**(4,530)**	–
Repayment from a loan receivable		**–**	6,546
Release of pledged bank deposit		**–**	10,000
Repayment from a former holding company of a subsidiary		**–**	9,966
Proceeds on disposal of property, plant and equipment		**–**	268
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(1,126)**	26,642

	Notes	2016 RMB'000	2015 RMB'000
FINANCING ACTIVITIES			
New secured bank borrowings raised		**319,916**	149,915
Repayment to secured bank borrowings		**(193,465)**	(63,562)
Interest paid		**(50,232)**	(34,366)
Repayment of obligations under finance leases		**(41,488)**	(31,569)
Repayment to former beneficial owner of a subsidiary		**–**	(26,337)
Repayment to unsecured other borrowing		**–**	(13,410)
Acquisition of additional interest in a non-wholly owned subsidiary	34(ii)	**–**	(1,433)
Repayment to a former holding company of a subsidiary		**–**	(1,000)
Transaction costs attributable to issue of shares upon conversion of convertible notes		**–**	(82)
Advance from a related company		**–**	618
Government grants received		**356**	373
Placing of new shares		**84,006**	–
Transaction costs attributable to issue of shares upon placing of new shares		**(57)**	–
Dividend paid to non-controlling interest		**(1,450)**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**117,586**	(20,853)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**256,503**	157,002
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**271,557**	114,555
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**528,060**	271,557

1. General

Haitian Energy International Limited (formerly known as 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 immediate holding company of the Company is Victor River Limited, a company incorporated in the British Virgin Islands (the "BVI"), and the ultimate controlling party of the Company is Mr. Lin Yang. The addresses of the registered office and the principal place of business of the Company are detailed in the section headed "Corporate Information" of the annual report.

The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is engaged in investment holding while the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in hydropower generation by self-owned and leased hydropower plants and provision of operating and repair and maintenance services for hydropower plants in the People's Republic of China (the "PRC").

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Group. 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).

Pursuant to a special resolution passed at the adjourned extraordinary general meeting held on 16 May 2016, the name of the Company was changed from Haitian Hydropower International Limited 海天水電國際有限公司 to Haitian Energy International Limited 海天能源國際有限公司. "The Certificate of Incorporation On Change of Name" has been issued by the Registrar of Companies in the Cayman Islands and the change of name took effect on 25 May 2016.

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

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRS(s)") (continued)

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions 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:

HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 *Effective for annual periods beginning on or after 1 January 2017.*
2 *Effective for annual periods beginning on or after 1 January 2018.*
3 *Effective for annual periods beginning on or after 1 January 2019.*

The directors of the Company anticipate that, except as describe below, the application of new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRS(s)") (continued)

HKFRS 9 (2014) Financial Instruments (continued)

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be 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 reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. 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 (2014), 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 (2014) 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.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014), it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRS(s)") (continued)

HKFRS 9 (2014) Financial Instruments (continued)

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to the performance obligations; and

(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRS(s)") (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRS(s)") (continued)

HKFRS 16 Leases (continued)

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

Amendment to HKAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

Amendments to HKAS 7 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted.

The directors of the Company anticipate that the application of Amendments to HKAS 7 will result in additional disclosures on the Group's financing activities, especially reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

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 (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances (please specify), appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and cease when the Group loses control of the subsidiary.

3. Significant Accounting Policies (continued)

Basis of consolidation (continued)

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the noncontrolling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Significant Accounting Policies (continued)

Business combinations

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration that is within the scope of HKAS 39 is measured at fair value at each reporting date, and changes in fair value are recognised in profit or loss in accordance with HKAS 39. Other contingent consideration that is not within the scope of HKAS 39 is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. During the measurement period (see above), the provisional amounts recognised at the acquisition date are adjusted retrospectively or additional assets or liabilities are recognised as of that date, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any.

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

3. Significant Accounting Policies (continued)

Goodwill (continued)

A CGU 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 its 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.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss, if any.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of services (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.

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.

Depreciation is recognised so as to allocate 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

3. Significant Accounting Policies (continued)

Intangible assets

Intangible assets acquired in a business combination

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 acquired in a business combination 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 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). A CGU is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

3. Significant Accounting Policies (continued)

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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 periods 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 other deposit, trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

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.

For all other 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
- 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all other 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.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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 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.

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.

Convertible notes

The component parts of convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a related company, amount due to a director, secured bank borrowings, obligations under finance leases and debentures are subsequently measured at amortised cost, using the effective interest method.

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.

Equity instruments

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

Derecognition

A financial asset is derecognised 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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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 have 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 and service rendered. 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 or private company, net of other sales taxes.

Repair and maintenance service income is provided in the form of fixed-price contracts. Revenue is recognised in the period when the services are provided.

Operating service income is recognised in the period when the services are provided, using a straight-line basis over the term of the contract for the contracted period or using a fixed rate charged on the electricity supplied by its customers.

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 income can be measured reliably. Interest income 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 assets' net carrying amount on initial recognition.

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

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)

Leasing (continued)

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

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.

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

Retirement benefits costs and termination 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.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

3. Significant Accounting Policies (continued)

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 profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 bases 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

3. Significant Accounting Policies (continued)

Taxation (continued)

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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities when there is an intention to settle the balances on a net basis.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the 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 on monetary items are recognised in profit or loss in the period in which they arise.

Fair value measurement

When measuring fair value except for the Group's leasing transactions, for the purpose of impairment assessment the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. Significant Accounting Policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

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 amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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 and disclosures made in the consolidated financial statements.

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

Critical judgements in applying accounting policies (continued)

De facto control over Juyuan Hydropower

Shouning County Juyuan Hydropower Co., Ltd.* 壽寧縣聚源水電有限公司 ("Juyuan Hydropower") is a subsidiary of the Group although the Group has only 38% ownership interest in Juyuan Hydropower. The Group has 38% ownership interest since December 2014 from the acquisition of Fujian Haitian Huajin Huifu Energy Development Co., Ltd.* 福建省海天華金匯富能源發展有限公司 ("Huajin Huifu") and the remaining 62% of shareholdings are owned by two shareholders that are unrelated to the Group. Details of particulars of Juyuan Hydropower are set out in note 40.

The directors of the Company assessed whether or not the Group has control over Juyuan Hydropower based on whether the Group has the practical ability to direct the relevant activities of Juyuan Hydropower unilaterally. In making their judgement, the directors of the Company considered the Group has dominated the board of directors of Juyuan Hydropower by three out of five and all the general manager, legal representative and operation team in Juyuan Hydropower are assigned by the Group. After assessment, the directors of the Company concluded that the Group has ability to direct the relevant activities of Juyuan Hydropower and therefore the Group has control over Juyuan Hydropower.

Recall of allotted state-owned lands

Certain of property, plant and equipment were situated on the allotted state-owned lands as detailed in note 16, the relevant PRC government authorities have the authority to recall the allotted state-owned lands at any time by their discretion. The directors of the Company, with reference to the option of its PRC legal advisor considered the allotted state-owned lands would not be recalled in the foreseeable futures based on their past experience and no change on the usage of those lands from the grant date from the relevant PRC government authorities to date of the consolidated financial statements, hence the property, plant and equipment situated on the allotted state-owned lands does not impair their values to the Group.

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.

* *The English names are for identification purpose only.*

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

Key sources of estimation uncertainty (continued)

Estimated impairment loss on trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade and other receivables was approximately RMB19,192,000 (2015: RMB16,602,000), net of allowance for impairment of RMB1,803,000 (2015: RMB1,803,000). No impairment loss on trade and other receivables has been recognised in profit or loss during the year ended 31 December 2016 (2015: RMB1,037,000).

Impairment losses of property, plant and equipment, prepaid lease payments and intangible assets

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, prepaid lease payments and intangible assets, recoverable amount of the assets needs to be determined if there is indication that those assets may be impaired. The recoverable amount is the greater of the fair value less costs of disposal and the value-in-use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value-in-use, expected cash flow generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volumes, selling prices, amount of operating costs and discount rates. The Group uses all readily available information in determining the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volumes, selling prices, operating costs and discount rates. As at 31 December 2016, the carrying values of property, plant and equipment, prepaid lease payments and intangible assets were approximately RMB669,485,000 (2015: RMB709,088,000), RMB16,992,000 (2015: RMB20,776,000) and RMB9,125,000 (2015: RMB9,483,000) respectively. No impairment was recognised during the years ended 31 December 2016 and 2015.

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.

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

Key sources of estimation uncertainty (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use or the fair value less cost of disposal of the CGU 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 CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Estimation of the fair value less costs of disposal requires the Group to make a selection of comparable market transactions with necessary adjustments. As at 31 December 2016, the carrying value of goodwill was approximately RMB24,039,000 (2015: RMB25,178,000). Details of the recoverable amount calculations are disclosed in note 18.

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, obligations under finance leases and debentures, 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 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

	2016 **RMB'000**	2015 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)	**556,907**	300,920
Financial liabilities		
Amortised cost	**721,203**	645,638

(b) Financial risk management objectives and policies

The Group's major financial instruments include other deposit, trade and other receivables, bank balances and cash, trade and other payables, amounts due to a related company and a director, secured bank borrowings, obligations under finance leases and debentures. 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, other payables and debentures 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:

	2016 **RMB'000**	2015 RMB'000
HK$		
Assets	**7,475**	531
Liabilities	**(28,605)**	(26,259)
	(21,130)	(25,728)

Sensitivity analysis

The Group's currency risk is mainly exposed to HK$.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in RMB against HK$ for the year ended 31 December 2016. A 5% (2015: 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% (2015: 5%) change in foreign currency rates.

A negative number below indicates a decrease in profit after tax for the year where RMB strengthen 5% (2015: 5%) against the relevant currency. For a 5% (2015: 5%), weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit after tax for the year.

	2016 **RMB'000**	2015 RMB'000
Post-tax profit or loss	**1,073**	1,291

6. Financial Instruments (continued)

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

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate secured bank borrowings (note 25) and debentures (note 27) for the years ended 31 December 2016 and 2015. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 22), variable-rate secured bank borrowings (note 25) and obligations under finance leases (note 28). 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 assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the deposit/lending rate stipulated by the People's Bank of China arising from the Group's RMB denominated bank balances, secured bank borrowings and obligations under finance leases.

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 the 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 and obligations under finance leases 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 2016 would increase/decrease by approximately RMB4,703,000 (2015: RMB2,037,000).

For variable-rate borrowings and obligations under finance leases, 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 2016 would decrease/increase by approximately RMB10,917,000 (2015: RMB8,514,000).

6. Financial Instruments (continued)

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

Credit risk

As at 31 December 2016, 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.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

With respect to credit risk arising from loan receivable, the Group's exposure to credit risk arising from default of this counterparty is limited as the Group reviews the recoverable amount of such individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group does not expect to incur a significant loss for uncollected amount due from this party.

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 2016 and 2015.

The Group has concentration of credit risk as all the trade receivables as at 31 December 2016 was due from the Group's only six (2015: nine) 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 Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of fundings from major financial institutions to meet its liquidity requirements in the short and long term.

6. Financial Instruments (continued)

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

Liquidity risk (continued)

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 the reporting period.

Liquidity 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 2016						
Non-derivative financial liabilities						
Trade and other payables	44,946	–	–	–	44,946	44,946
Amount due to a related company	168	–	–	–	168	168
Amount due to a director	514	–	–	–	514	514
Secured bank borrowings	91,360	72,270	376,313	150,679	690,622	568,616
Obligations under finance leases	37,516	33,010	18,380	–	88,906	80,124
Debentures	28,988	–	–	–	28,988	26,835
	203,492	105,280	394,693	150,679	854,144	721,203

6. Financial Instruments (continued)

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

Liquidity risk (continued)

Liquidity tables (continued)

	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 2015						
Non-derivative financial liabilities						
Trade and other payables	31,558	–	–	–	31,558	31,558
Amount due to a related company	859	–	–	–	859	859
Amount due to a director	548	–	–	–	548	548
Secured bank borrowings	101,892	72,762	227,691	163,602	565,947	442,165
Obligations under finance leases	51,436	50,704	66,425	–	168,565	145,375
Debentures	2,016	27,144	–	–	29,160	25,133
	188,309	150,610	294,116	163,602	796,637	645,638

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

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 carrying amounts of the non-current financial assets and non-current financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. Revenue

Revenue represents the net amounts received and receivable for electricity sold, repair and maintenance, and operating services rendered by the Group to outside customers, net of sales related taxes.

An analysis of the Group's revenue for the year is as follows:

	2016	2015
	RMB'000	RMB'000
Sales of electricity	**236,761**	202,269
Provision of repair and maintenance services	**–**	4,301
Provision of operating services	**–**	83
	236,761	206,653

8. Segment Information

Information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The directors of the Company have chosen to organise the Group around differences in services. No operating segment identified by the chief operating decision maker has been aggregated in arriving at the reportable segment of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are the same and maintain reported as follows:

Hydropower generation by self-owned plants – Operation of hydropower plants in the PRC and sales of electricity.

Hydropower generation by leased plants – Operation of leased hydropower plants in the PRC and sales of electricity.

Hydropower operation services – Provision of operating and repair and maintenance services for hydropower plants in the PRC.

During the year ended 31 December 2016, the directors of the Company, after considering the nature of revenue, decided that it is more appropriate to rename segment of the hydropower trading to hydropower generation by leased plants for both years.

8. Segment Information (continued)

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December

	Hydropower generation by self-owned plants		Hydropower generation by leased plants		Hydropower operation services		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000 (Restated)	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue								
External sales	**187,483**	162,390	**49,278**	39,879	**–**	4,384	**236,761**	206,653
Inter-segment sales	**–**	–	**–**	–	**8,046**	6,809	**8,046**	6,809
Segment revenue	**187,483**	162,390	**49,278**	39,879	**8,046**	11,193	**244,807**	213,462
Eliminations							**(8,046)**	(6,809)
Group revenue							**236,761**	206,653
Segment profit	**131,330**	107,026	**9,339**	7,874	**783**	3,719	**141,452**	118,619
Loss on disposal of subsidiaries							**(2,558)**	–
Unallocated corporate income							**2,767**	1,455
Unallocated corporate expenses							**(7,426)**	(5,046)
Finance costs							**(50,929)**	(37,160)
Profit before tax							**83,306**	77,868

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of loss on disposal of subsidiaries, other income, central administration costs, directors' emoluments and finance costs. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged with reference to market prices.

8. Segment Information (continued)

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment.

At 31 December

	Jointly shared by hydropower generation by self-owned and leased plants		Hydropower operation services		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**748,865**	798,835	**156**	696	**749,021**	799,531
Unallocated corporate assets						
– Other receivables					**5,044**	126
– Bank balances and cash					**528,060**	271,557
– Deferred tax assets					**103**	101
Total assets					**1,282,228**	1,071,315
Segment liabilities	**46,211**	36,255	**1,105**	1,373	**47,316**	37,628
Unallocated corporate liabilities						
– Other payables					**2,312**	–
– Income tax payables					**16,720**	19,945
– Secured bank borrowings					**568,616**	442,165
– Obligations under finance leases					**80,124**	145,375
– Debentures					**26,835**	25,133
– Deferred tax liabilities					**53,781**	52,610
Total liabilities					**795,704**	722,856

8. Segment Information (continued)

(b) Segment assets and liabilities (continued)

At 31 December (continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain other receivables, bank balances and cash and deferred tax assets; and

- all liabilities are allocated to operating segments other than certain other payables, income tax payables, secured bank borrowings, obligations under finance leases, debentures and deferred tax liabilities.

The Group's chief operating decision maker is of the view that the Group's principal assets and liabilities are jointly used and shared by hydropower generation by self-owned and by leased plants.

(c) Other segment information

For the year ended 31 December

	Jointly shared by hydropower generation by self-owned and by leased plants		Hydropower operation services		Total	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Amounts included in the measure of segment assets:						
Addition to non-current assets (Note)	**2,631**	1,791	**14**	232	**2,645**	2,023

	Hydropower generation by self-owned plants		Hydropower generation by leased plants		Hydropower operation services		Total	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Amounts included in the measure of segment profit or loss:								
Amortisation of prepaid lease payments	**434**	434	**54**	54	**–**	–	**488**	488
Amortisation of intangible assets	**358**	773	**–**	–	**–**	–	**358**	773
Depreciation of property, plant and equipment	**21,308**	21,556	**2,935**	2,839	**96**	232	**24,339**	24,627
Net loss on disposal/written off of property, plant and equipment	**–**	123	**–**	34	**–**	–	**–**	157

Note: Non-current assets excluded financial instruments and deferred tax assets.

8. Segment Information (continued)

(c) Other segment information (continued)

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:

For the year ended 31 December

	Hydropower generation by self-owned plants		Hydropower generation by leased plants		Hydropower operation services		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Bank interest income	**1,721**	374	**22**	223	**–**	2	**1,743**	599
Finance costs	**49,281**	34,726	**1,648**	2,434	**–**	–	**50,929**	37,160

(d) Geographical information

As all the Group's revenue 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.

(e) Information about major customers

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

	2016	2015
	RMB'000	RMB'000
Customer A[1 and 2]	**153,106**	119,434
Customer B[1]	**37,551**	36,936
Customer C[1]	**N/A***	26,195

[1] *Revenue from hydropower generation by self-owned plants.*

[2] *Revenue from hydropower generation by leased plants.*

* *The corresponding revenue did not contribute over 10% of the total revenue of the Group.*

9. Other Income

	2016 RMB'000	2015 RMB'000
Bank interest income	**1,743**	599
Other interest income (Note (i))	**102**	–
Net gain on early repayment of amount due to a former beneficial owner of a subsidiary	**–**	65
Government grant (Note (ii))	**356**	373
Rental income	**51**	7
Waive of convertible notes interest (Note 26)	**–**	272
Reversal of impairment for trade and other receivable	**–**	30
Others	**515**	109
	2,767	1,455

Notes:

(i) Other interest income was arising from a loan receivable. Details are set out in note 21 to the consolidated financial statement.

(ii) Government grant was received from local government authority of which the Group fulfilled all conditions or contingencies relating to such subsidy.

10. Finance Costs

	2016 RMB'000	2015 RMB'000
Interest on secured bank borrowings	**39,455**	21,185
Interest expense on convertible notes (Note 26)	**–**	690
Interest on debentures	**2,054**	1,928
Interest on finance leases	**9,439**	12,183
Interest on former beneficial owner of a subsidiary	**–**	850
Interest on former holding company of a subsidiary	**–**	45
Interest on unsecured other borrowing	**–**	312
Total borrowing costs on financial liabilities that are not at fair value through profit or loss	**50,948**	37,193
Less: amounts capitalised in the cost of qualifying assets (Note)	**(19)**	(33)
	50,929	37,160

Note: The capitalisation ratio of borrowings for the year ended 31 December 2016 is 6.25% (2015: 7.30%) per annum.

11. Income Tax Expense

	2016 RMB'000	2015 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")	**25,564**	20,120
Under-provision in prior year	**–**	8
	25,564	20,128
Deferred taxation (Note 30)		
Current year	**2,176**	2,172
	27,740	22,300

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) No provision for Hong Kong Profits Tax has been made for the subsidiaries established in Hong Kong as the subsidiaries did not have any assessable profits subject to Hong Kong Profits Tax for both years.

(iii) Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of all subsidiaries established in the PRC is 25% for both years.

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

	2016 RMB'000	2015 RMB'000
Profit before tax	**83,306**	77,868
Tax calculated at tax rate of 25% (2015: 25%)	**20,827**	19,467
Tax effect of expenses not deductible for tax purpose	**7,164**	3,345
Tax effect of income not taxable for tax purpose	**(238)**	(520)
Under-provision in prior year	**–**	8
Utilisation of tax loss previously not recognised	**(13)**	–
Income tax expense	**27,740**	22,300

Details of deferred taxation are set out in note 30.

12. Profit for the Year

	2016 **RMB'000**	2015 RMB'000
Profit for the year has been arrived at after charging:		
Directors' and the chief executive's emoluments (Note 13)	**1,510**	1,325
Salaries, wages and other benefits (excluding directors and the chief executive)	**11,634**	11,691
Severance payment	**327**	–
Retirement benefits scheme contribution (excluding directors and the chief executive)	**1,329**	1,107
	14,800	14,123
Auditor's remuneration	**727**	643
Depreciation for property, plant and equipment	**24,339**	24,627
Amortisation of prepaid lease payments (included in cost of sales)	**488**	488
Amortisation of intangible assets (included in cost of sales and administrative expenses)	**358**	773
Net exchange loss	**503**	2,456
Net loss on disposal/written off of property, plant and equipment	**–**	157
Impairment losses on trade and other receivables	**–**	1,037
Loss on disposal of subsidiaries (Note 33) (included in other operating expenses)	**2,558**	–
Operating lease charge in respect of leased hydropower plants (included in cost of sales)	**37,505**	29,600
Operating lease charges in respect of properties (included in administrative expenses)	**1,067**	835

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 (2015: eight) directors and the chief executive were as follows:

Year ended 31 December 2016

	Directors			Chief executive	Independent non-executive directors			
	Mr. Lin Yang	Mr. Chen Chongwen	Mr. Lin Tian Hai (note (iii))	Mr. Zheng Xuesong	Mr. Chan Kam Fuk	Mr. Cheng Chuhan	Mr. Xie Zuomin (note (i))	
	Hong Kong RMB'000	The PRC RMB'000	Canada RMB'000	The PRC RMB'000	The PRC RMB'000	The PRC RMB'000	The PRC RMB'000	Total RMB'000
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking								
Fees	257	103	103	172	68	68	68	839
Other emoluments:								
Salaries, other benefits and discretionary bonus (note (iv))	21	21	586	21	–	–	–	649
Contributions to retirement benefits	–	11	–	11	–	–	–	22
Total emoluments	278	135	689	204	68	68	68	1,510

Year ended 31 December 2015

	Directors			Chief executive	Independent non-executive directors				
	Mr. Lin Yang	Mr. Chen Chongwen	Mr. Lin Tian Hai (note (iii))	Mr. Zheng Xuesong	Mr. Chan Kam Fuk	Mr. Cheng Chuhan	Mr. Zheng Shijiu (note (ii))	Mr. Xie Zuomin (note (i))	
	Hong Kong RMB'000	The PRC RMB'000	Canada RMB'000	The PRC RMB'000	The PRC RMB'000	The PRC RMB'000	The PRC RMB'000	The PRC RMB'000	Total RMB'000
Emoluments paid or receivable in respect of a person's services as a director, whether ofthe Company or its subsidiary undertaking									
Fees	241	97	96	161	64	64	11	45	779
Other emoluments									
Salaries, other benefits and discretionary bonus (note (iv))	–	–	526	–	–	–	–	–	526
Contributions to retirement benefits	–	10	–	10	–	–	–	–	20
Total emoluments	241	107	622	171	64	64	11	45	1,325

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

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

Note:

(i) Mr. Xie Zuomin was appointed as an independent non-executive director of the Company on 21 April 2015.

(ii) Mr. Zhang Shijiu was resigned as the independent non-executive director of the Company on 1 April 2015.

(iii) During the year ended 31 December 2016, rental expenses of Mr. Lin Tian Hai's director's quarter of approximately RMB565,000 (2015: RMB526,000) was borne by the Group.

(iv) The discretionary bonus is based on the relevant performance and the Company's performance and profitability and the prevailing market conditions.

There was no arrangement under which a director or the chief executive waived or agreed to waive any emoluments during both years.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors and the chief executive of the Company whose emoluments are included in the disclosures presented above. The emoluments of the remaining three (2015: three) individuals were as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries, allowances, and other benefits	**810**	598
Retirement benefits scheme contribution	**66**	62
	876	660

Their emoluments were individually below approximately RMB855,000 (2015: RMB803,000) (equivalent to HK$1,000,000) for the years ended 31 December 2016 and 2015.

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 2016.

14. Dividend

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: 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:

	2016 **RMB'000**	2015 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**40,706**	46,979
Interest expense on convertible notes	**–**	690
Waive of convertible notes interest	**–**	(272)
Earnings for the purpose of diluted earnings per share	**40,706**	47,397

	2016 **'000**	2015 '000 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**9,099,934**	8,309,742
Convertible notes (Note 26)	**–**	426,258
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**9,099,934**	8,736,000

The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2016 and 2015 has been adjusted for the share subdivision on 17 May 2016.

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 2015	136,037	275,785	342,095	1,426	2,514	8,284	766,141
Additions	474	–	234	59	57	1,199	2,023
Disposals/written off	–	–	–	(21)	(340)	(299)	(660)
At 31 December 2015	136,511	275,785	342,329	1,464	2,231	9,184	767,504
Additions	–	–	–	64	715	1,866	2,645
Transfer	140	–	–	–	–	(140)	–
Derecognised on disposal of a subsidiary (note 33(b))	(4,258)	(11,880)	(4,762)	(4)	–	–	(20,904)
At 31 December 2016	132,393	263,905	337,567	1,524	2,946	10,910	749,245
DEPRECIATION							
At 1 January 2015	4,825	10,713	17,984	255	247	–	34,024
Charge for the year	4,034	6,366	13,560	247	420	–	24,627
Elimination on disposals/written off	–	–	–	(7)	(228)	–	(235)
At 31 December 2015	8,859	17,079	31,544	495	439	–	58,416
Charge for the year	4,076	6,324	13,405	189	345	–	24,339
Eliminated on disposal of a subsidiary (note 33(b))	(366)	(1,028)	(1,598)	(3)	–	–	(2,995)
At 31 December 2016	12,569	22,375	43,351	681	784	–	79,760
CARRYING VALUES							
At 31 December 2016	119,824	241,530	294,216	843	2,162	10,910	669,485
At 31 December 2015	127,652	258,706	310,785	969	1,792	9,184	709,088

16. Property, Plant and Equipment (continued)

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

Buildings	37 – 45 years
Dams	37 – 45 years
Plant and machinery	3 – 45 years
Office equipment	3 – 10 years
Motor vehicles	4 – 8 years

As at 31 December 2015, the Group was applying for certificates of ownership for buildings with carrying values of approximately RMB97,601,000 from the relevant PRC government authorities. In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as the Group has paid in full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote. As at 31 December 2016, the Group has obtained all certificates of ownership for buildings.

As at 31 December 2016, certain of property, plant and equipment with carrying values of approximately RMB257,828,000 (2015: RMB264,553,000) was situated on allotted state-owned lands which were granted from the relevant PRC government authorities who has authority to recall the allotted state-owned lands at any time by their discretion. Allotted state-owned lands represent the land located in the PRC granted by the PRC government with no consideration for the purpose of national welfare. The directors of Company, with reference to the opinion of its PRC legal advisor, considered that the allotted state-owned lands would not be recalled in the foreseeable future based on their past experience and no change on the usage of those lands since the grant date from relevant PRC government authorities to the end of the reporting period, hence the property, plant and equipment situated on the allotted state-owned lands does not impair their values to the Group.

As at 31 December 2016 and 2015, certain property, plant and equipment were pledged for secured bank borrowings and obligations under finance leases as disclosed in note 35.

As at 31 December 2016 and 2015, certain property, plant and equipment of approximately RMB139,796,000 and RMB161,402,000 were held under finance leases respectively.

17. Prepaid Lease Payments

Analysed for reporting purposes as:

	2016 **RMB'000**	2015 RMB'000
Current assets	**408**	487
Non-current assets	**16,584**	20,289
	16,992	20,776

The prepayments for land use rights are under medium-term lease which are located in the PRC and is amortised over the useful lives ranging from 39 years to 50 years on a straight-line basis.

Included in the prepaid lease payments are land use rights with carrying values of approximately RMB7,037,000 in which the Group is in the process of obtaining the land use right certificates as at 31 December 2015. As at 31 December 2016, the Group has obtained all certificates of ownership for land use rights.

18. Goodwill

	2016 **RMB'000**	2015 RMB'000
COST AND CARRYING VALUES		
At 1 January	**25,178**	25,178
Derecognised through disposal of a subsidiary (Note 33(b))	**(1,139)**	–
At 31 December	**24,039**	25,178

18. Goodwill (continued)

	2016 RMB'000	2015 RMB'000
IMPAIRMENT TESTING ON GOODWILL		
Hydropower generation:		
周寧縣乾元水電開發有限公司 Zhouning Qianyuan Hydropower Development Co., Ltd.* ("Qianyuan Hydropower") (Note (i))	**3,759**	3,759
寧德市興源水電有限公司 Ningde Xingyuan Hydropower Co., Ltd.* ("Xingyuan Hydropower") (Note (ii))	**–**	1,139
福安市九隆水電開發有限公司 Fu'an Jiulong Hydropower Development Co., Ltd.* ("Fu'an Jiulong") (Note (i))	**9,501**	9,501
Huajin Huifu (Note (i))	**10,556**	10,556
	23,816	24,955
Hydropower operation service:		
壽寧縣廣源水電營運有限公司 Shouning Guangyuan Hydropower Operation Management Co., Ltd.* ("Guangyuan Hydropower") (Note (iii))	**223**	223
	24,039	25,178

Notes:

(i) Qianyuan Hydropower, Fu'an Jiulong and Huajin Huifu

The recoverable amounts of Qianyuan Hydropower, Fu'an Jiulong and Huajin Huifu have 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 5-year period, and a discount rate of 14.84% (2015: 13.41%), 14.82% (2015: 13.27%) and 14.43% (2015: 13.35%) respectively. Cash flows beyond 5-year period are projected using zero growth rate for both years. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue from electricity sales and unit price, such estimations are 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 CGUs to exceed the aggregate recoverable amount of CGUs. In the opinion of the directors of the Company, no impairment was provided for the years ended 31 December 2016 and 2015.

* *The English names are for identification purpose only.*

18. Goodwill (continued)

Notes: (continued)

(ii) Xingyuan Hydropower

At 31 December 2016, the Group disposed of its 100% equity interests in Xingyuan Hydropower as detailed in Note 33(b). The corresponding goodwill was derecognised at the same day.

At 31 December 2015, the recoverable amount of Xingyuan Hydropower had been determined based on the fair value less cost of disposal. The fair value was determined by market approach with reference to the market financial ratio of similar nature and similar locations with necessary discounting adjustments on control premium and discount on lack of marketability. The fair value less cost of disposal had been arrived at on the basis of a valuation carried out on that date by an independent professional valuer not connected with the Group. The fair value was categorised as Level 2 under the fair value hierarchy. In the opinion of the directors of the Company, no impairment loss was provided for the year ended 31 December 2015.

In the opinion of the directors of the Company, for the year ended 31 December 2015, a decrease in control premium from 28.5% to 25.5% would cause the carrying amount of the CGU to exceed its recoverable amount by approximately RMB460,000 and discount on lack of marketability from 15% to 20% would cause the carrying amount of the CGU to exceed its recoverable amount by approximately RMB282,000, and any reasonably possible change in the other key assumptions on which the recoverable amount was based would not cause the CGU's carrying amount to exceed its recoverable amount.

(iii) Guangyuan Hydropower

The recoverable amounts of Guangyuan Hydropower 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 5-year period, and a discount rate of 19.65% (2015: 17.58%). Cash flows beyond 5-year period are projected using zero growth rate for the year. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue mainly from operating service income, such estimations are 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 the years ended 31 December 2016 and 2015.

19. Intangible Assets

	Customer contract RMB'000	Development rights RMB'000	Total RMB'000
COST			
At 1 January 2015, 31 December 2015 and 31 December 2016	680	10,535	11,215
AMORTISATION			
At 1 January 2015	–	959	959
Charge for the year	548	225	773
At 31 December 2015	548	1,184	1,732
Charge for the year	132	226	358
At 31 December 2016	680	1,410	2,090
CARRYING VALUES			
At 31 December 2016	–	9,125	9,125
At 31 December 2015	132	9,351	9,483

Customer contract represented the signed agreement with a private customer for sale of electricity. The directors of the Company were in the view that the customer contract has an useful life of approximately 15 months with reference to the signed agreement.

The development rights represent two development rights granted by the relevant PRC government authorities for the Group to (i) develop additional hydropower plants in Bapu Stream, Zhouning County, Fujian Province, the PRC for an operating period of 50 years and (ii) to construct and operate Fu'an Jiulong-I Hydropower Station and Fu'an Jiulong-II Hydropower Station in Fuan City Fujian Province for remaining useful life of 57 years from the date of acquisition of Fu'an Jiulong. The rights are amortised over the remaining operating period.

20. Other Deposit and Prepayment

Included in the other deposit and prepayment of approximately RMB12,669,000 (2015: RMB15,924,000) represents the amortised cost of refundable secured deposit for the obligations under finance leases as detailed in note 28. The nominal value of refundable secured deposit is RMB13,200,000 (2015: RMB17,770,000) and it will be refunded by lessor upon expiry of lease term of 5 years. Discounting impact has been accounted for based on the 5-year time deposit rate of The People's Bank of China of 4.75% (2015: 4.75%). The remaining balances are the prepayment of inspection fee of dams which is required by the relevant authorities in the PRC on every five years.

21. Trade and Other Receivables

	2016 **RMB'000**	2015 RMB'000
Trade receivables	**10,612**	12,573
Less: allowance for trade receivables	**(67)**	(67)
	10,545	12,506
Deposits and other receivables	**2,839**	2,669
Less: allowance for deposits and other receivables	**(1,736)**	(1,736)
	1,103	933
Loan receivable (Note)	**4,530**	–
Prepayments	**3,014**	3,163
Total trade and other receivables	**19,192**	16,602

Note: *The amount represented a loan advanced to an independent third party with the principal amount of approximately RMB4,530,000. The amount was unsecured, interest bearing at 8% per annum and repayable by September 2017. Subsequent to the end of reporting period, the aggregate amounts have been fully settled.*

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.

	2016 **RMB'000**	2015 RMB'000
Within 30 days	**10,545**	12,152
31 to 60 days	**–**	354
	10,545	12,506

21. Trade and Other Receivables (continued)

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.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

	2016	2015
	RMB'000	RMB'000
Within 30 days	**–**	354

The movement in the allowance for impairment of trade and other receivables are set out below:

	2016	2015
	RMB'000	RMB'000
1 January	**1,803**	796
Impairment losses on trade and other receivables	**–**	1,037
Reversal of impairment losses on trade receivables	**–**	(30)
31 December	**1,803**	1,803

At 31 December 2016, included in the impairment loss are individually impaired trade and other receivables with an aggregate balance of approximately RMB1,803,000 (2015: RMB1,803,000) which are due to long outstanding.

As at 31 December 2016 and 2015, certain trade receivables were pledged for secured bank borrowings and obligations under finance leases as disclosed in note 35.

22. Bank Balances and Cash

Bank balances carry interest at market rates of 0.01% to 0.35% per annum during the year ended 31 December 2016 (2015: 0.30% to 0.35% per annum).

23. Trade and Other Payables

	2016 **RMB'000**	2015 RMB'000
Trade payables	**27,866**	13,607
Construction payables	**5,321**	5,975
Other payables and accrued expenses	**8,039**	8,256
Receipts in advance	**854**	903
Other tax payables	**3,146**	3,760
Amount due to a non-controlling shareholder of a subsidiary (Note)	**3,720**	3,720
	48,946	36,221

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:

	2016 **RMB'000**	2015 RMB'000
Within 30 days	**5,609**	6,949
31 to 60 days	**3,915**	2,895
61 to 90 days	**3,607**	2,031
91 to 180 days	**11,936**	754
Over 180 days	**2,799**	978
	27,866	13,607

The average credit period granted is ranging from 15 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Note: The amount due to a non-controlling shareholder of a subsidiary represented amount due to 壽寧縣國有資產投資經營有限公司 Shouning State Owned Assets Investment Management Co., Ltd. which is unsecured, non-interest bearing and repayable on demand.*

* *The English name is for identification purpose only.*

24. Amounts Due to a Related Company/a Director

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

25. Secured Bank Borrowings

	2016 **RMB'000**	2015 RMB'000
The carrying amounts of the borrowings were repayable:		
Within one year	**60,986**	79,075
Within a period of more than one year but not exceeding two years	**44,790**	66,670
Within a period of more than two years but not exceeding five years	**328,370**	160,160
Within a period of more than five years	**134,470**	136,260
	568,616	442,165
Less: amounts due within one year shown under current liabilities	**(60,986)**	(79,075)
Amounts shown under non-current liabilities	**507,630**	363,090

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings throughout the year are as follows:

	2016	2015
Effective interest rates:		
Fixed-rate borrowings	**4.83% to 5.09%**	4.83% to 5.09%
Variable-rate borrowings	**4.41% to 6.37%**	4.85% to 7.92%

The Group's bank borrowings were denominated in RMB.

During the year ended 31 December 2016, the Group obtained new borrowings of approximately RMB319,916,000 (2015: RMB149,915,000). The proceeds were used to repay the existing bank borrowings and finance the Group's operation. Details of the pledged assets are disclosed in note 35.

26. Convertible Notes

On 17 December 2014, the Company issued 5% convertible notes denominated in HK$ with the aggregate principal amount of HK$115,000,000. Each note entitles the holder to convert to ordinary shares at a conversion price of HK$1.25. On the same date, the Company signed a supplementary agreement with the note holders to specify that when a specific currency is converted into RMB or other lawful currency of the PRC, or vice versa, the spot rate of exchange would be the rates specified by the State Administration of Foreign Exchange of the PRC on 9 December 2014.

Conversion may occur at any time on or after 180 days after the issue day until 10 days prior to the maturity date, of which will be on 9 December 2016. If the notes have not been converted, they will be redeemed on second anniversary of the issue date. Interest will be paid semi-annually in arrears until the notes are converted or redeemed.

The convertible notes contain two components: liability and equity elements. The equity element is presented in equity heading "convertible notes reserve". The effective interest rate of the liability component on initial recognition is 7.1% per annum.

As a result of the share subdivision, the conversion price of the convertible notes was adjusted from HK$1.25 per share to HK$0.625 per share on 26 May 2015.

During the year ended 31 December 2015, all three convertible notes holders had exercised the conversion rights and 184,000,000 new shares were issued and allotted to the convertible notes holders at HK$0.625 per share. The new shares rank pari passu with the existing shares in all respects.

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
At 1 January 2015	87,457	3,477	90,934
Interest charged (Note 10)	690	–	690
Interest non-payment (Note 9)	(272)	–	(272)
Conversion of convertible notes	(87,875)	(3,477)	(91,352)
At 31 December 2015 and 2016	–	–	–

Note:

During the year ended 31 December 2015, the Company and all notes holders had entered into a supplemental deed in relation to the subscription agreement dated 1 December 2014 pursuant to which they agreed that any accrued and unpaid interest amount payable by the Company to the notes holders shall irrevocably and unconditionally be waived, and the Company's liability as debtor to pay the notes holders as creditors any accrued and unpaid interest amount pursuant to the convertible notes shall be discharged in full. Accordingly, the amount recognised during the year ended 31 December 2014 has been reversed and recorded in other income during the year ended 31 December 2015. Details of which are set out in the Company's announcement dated 1 September 2015.

27. Debentures

	2016 RMB'000	2015 RMB'000
HK$30,000,000 debentures carry fixed coupon rate of 8% per annum, payable in arrears every year with maturity until September 2017		
– Current	**26,835**	–
– Non-current	**–**	25,133
	26,835	25,133

On 3 September 2014, the Company had issued HK$30,000,000 debentures at par value that carry a fixed coupon rate of 8% per annum. The purpose of the debentures is for the daily management and operation of the Group and future acquisition of appropriate hydropower projects when opportunity arises.

The Company shall redeem the whole of the outstanding debentures at the redemption amount equivalent to 100% of their principal amount together with any accrued but unpaid interest and other amounts owing thereon on the maturity date. The debenture holders are not entitled to request the Company to, redeem the debentures in whole or in part at its option prior to the maturity date except upon the occurrence of any of the events of default.

28. Obligations Under Finance Leases

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**32,072**	40,268
Non-current liabilities	**48,052**	105,107
	80,124	145,375

28. Obligations Under Finance Leases (continued)

In prior years, the Group entered into sales and leaseback arrangements. Pursuant to which certain of their property, plant and equipment for hydropower generation with an aggregate carrying values of approximately RMB45,013,000 have been sold at a consideration of RMB177,770,000 and have been leaseback with a lease term of 5 years. 10% of the lease proceed is regarded as secured deposit and will be refunded to the Group on the expiry of lease term. As at 31 December 2016, the security deposit has been discounted to its present value at approximately RMB12,669,000 (2015: RMB15,924,000) and included in other deposit and prepayment in note 20. Interest rates underlying the obligations under finance leases are fixed at contract date at variable rate with reference to The People's Bank of China Prescribed Interest Rate with 1.50% to 1.92% (2015: 1.50% to 1.92%) mark-up per annum. The effective interest rate for the obligations under finance leases for the year ended 31 December 2016 is 6.67% to 9.38% (2015: 7.00% to 10.12%) per annum. Lease-related costs amounting to approximately RMB4,980,000 has been capitalised on initial recognition of obligations under finance leases in prior years.

	Minimum lease payments		**Present value of minimum lease payments**	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Obligations under finance leases payable:				
Within one year	**37,516**	51,436	**32,072**	40,268
Within a period of more than one year but not more than two years	**33,010**	50,704	**30,174**	43,002
Within a period of more than two years but not more than five years	**18,380**	66,425	**17,878**	62,105
	88,906	168,565	**80,124**	145,375
Less: future finance charges	**(8,782)**	(23,190)	**N/A**	N/A
Present value of lease obligations	**80,124**	145,375	**80,124**	145,375
Less: amount due for settlement within 12 months shown under current liabilities			**(32,072)**	(40,268)
Amount due for settlement after 12 months shown under non-current liabilities			**48,052**	105,107

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and pledged by certain trade receivables and the equity interest of certain subsidiaries as disclosed in note 35.

29. Share Capital

	Number of shares	Nominal value of ordinary shares	
		HK$'000	RMB'000
Authorised:			
At 1 January 2015, ordinary shares of HK$0.01 each	2,000,000,000	20,000	
Share subdivision (Note (i))	2,000,000,000	–	
At 31 December 2015 and 1 January 2016, ordinary shares of HK$0.005 each	4,000,000,000	20,000	
Share subdivision (Note (iv))	12,000,000,000	–	
At 31 December 2016, ordinary shares of HK$0.00125 each	16,000,000,000	20,000	
Issued and fully paid:			
At 1 January 2015, ordinary shares of HK$0.01 each	1,000,000,000	10,000	8,156
Share subdivision (Note (i))	1,000,000,000	–	–
Issue of shares upon conversion of convertible notes (Note (ii))	184,000,000	920	727
At 31 December 2015 and 1 January 2016, ordinary shares of HK$0.005 each	2,184,000,000	10,920	8,883
Issue of shares upon placing of shares (Note (iii))	100,000,000	500	420
Share subdivision (Note (iv))	6,852,000,000	–	–
	9,136,000,000	11,420	9,303

29. Share Capital (continued)

Notes:

(i) *At the extraordinary general meeting held on 22 May 2015, an ordinary resolution was duly passed under which each issued and unissued ordinary shares of the Company of HK$0.01 each in the share capital of the Company was subdivided into two ordinary shares of the Company of HK$0.005 each (the "2015 Share Subdivision") with effect from 26 May 2015. Upon the effect of 2015 Share Subdivision, the authorised share capital of the Company of HK$20,000,000 was divided into 4,000,000,000 shares of HK$0.005 each and its share capital at nominal value remained unchanged.*

(ii) *During the year ended 31 December 2015, all convertible notes holders exercised their conversion rights and 184,000,000 new shares of HK$0.005 each were issued and allotted.*

(iii) *On 3 February 2016, the Company issued 100,000,000 new ordinary shares to an independent third party, Bright Century Resources Limited, at a price of HK$1.00 per share. The net proceeds raised from the subscription are approximately HK$99,932,000 (equivalent to approximately RMB83,949,000).*

(iv) *At the extraordinary general meeting held on 16 May 2016, an ordinary resolution was duly passed under which each issued and unissued ordinary shares of the Company of HK$0.005 each was subdivided into four ordinary shares of the Company of HK$0.00125 each (the "2016 Share Subdivision") with effect from 17 May 2016. Upon the effect of 2016 Share Subdivision, the authorised share capital of the Company of HK$20,000,000 was divided into 16,000,000,000 shares of HK$0.00125 each and its share capital at nominal value remained unchanged.*

All the shares issued during the year ended 31 December 2016 rank pari passu in all respects with the existing shares in all respects.

30. Deferred Taxation

The following is the analysis of the deferred tax assets (liabilities), after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	2016 **RMB'000**	2015 RMB'000
Deferred tax assets	**103**	101
Deferred tax liabilities	**(53,781)**	(52,610)
	(53,678)	(52,509)

30. Deferred Taxation (continued)

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

	Timing difference on impairment of other receivables RMB'000	Accelerated tax deprecation RMB'000	Fair value adjustment on property, plant and equipment RMB'000	Fair value adjustment on prepaid lease payments RMB'000	Fair value adjustment on intangible assets RMB'000	Total RMB'000
At 1 January 2015	(199)	6,144	42,536	1,190	666	50,337
Charged (credited) to consolidated statement of profit or loss (Note 11)	–	3,523	(1,176)	(25)	(150)	2,172
At 31 December 2015	(199)	9,667	41,360	1,165	516	52,509
Charged (credited) to consolidated statement of profit or loss (Note 11)	–	3,572	(1,325)	(26)	(45)	2,176
Derecognised on disposal of a subsidiary	–	–	(904)	(103)	–	(1,007)
At 31 December 2016	(199)	13,239	39,131	1,036	471	53,678

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 2016, 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 RMB230,401,000 (2015: RMB174,692,000) 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.

As at 31 December 2015, no deferred tax asset has been recognised on the tax losses of RMB52,000 (2016: Nil) due to the unpredictability of future profit streams.

31. Operating Leases

(a) Lease commitments as lessee

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

	2016 **RMB'000**	2015 RMB'000
Within one year	**931**	201
In the second to fifth year inclusive	**517**	161
	1,448	362

(b) Other commitments

At the end of the reporting period, the Group has commitments for future variable lease payments under non-cancellable operating leases for hydropower plants.

The leases run for an initial period of one to three years during the year ended 31 December 2016 and 2015. Lease payments may be changed to reflect market rate of the leases. Provision for contingent rent and terms of renewal was established in the leases.

32. Capital Commitments

	2016 **RMB'000**	2015 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**27,431**	28,120

33. Disposal of Subsidiaries

(a) Disposal of Prolific Sky Limited and its subsidiaries

In 2016, an aggregate of 100% shareholding of Prolific Sky Limited, a direct wholly-owned subsidiary, and its subsidiaries (collectively referred as "Prolific Sky Group"), was sold at USD100 (equivalent to RMB661) to Cai Yun Investment Limited, an independent third party. The Prolific Sky Group is inactive since acquisition. The loss on disposal of subsidiaries recognised in profit or loss is less than RMB1,000 during the year ended 31 December 2016.

The disposed subsidiaries had no significant impact on the results and cash flows of the Group during the year ended 31 December 2016.

33. Disposal of Subsidiaries (continued)

(b) Disposal of 100% equity interest in Xingyuan Hydropower

In December 2016, the Group entered into a sales and purchases agreement with an independent third party, Mr. Zheng Rui, for disposal of Xingyuan Hydropower, a wholly-owned subsidiary of the Group, for a cash consideration of RMB5,000,000. The transaction was completed in December 2016.

	RMB'000
Consideration received:	
Cash received	5,000

Analysis of assets and liabilities over which control was lost:	**31 December 2016 RMB'000**
Property, plant and equipment	**17,909**
Prepaid lease payments	**3,296**
Goodwill	**1,139**
Other deposit	**4,469**
Trade and other receivables	**6,463**
Bank balance and cash	**911**
Trade and other payables	**(467)**
Tax payable	**(178)**
Deferred tax liabilities	**(1,007)**
Obligations under finance leases	**(24,977)**
Net assets disposed of	**7,558**
Loss on disposal of a subsidiary:	
Consideration received	**5,000**
Less: Net assets disposed of	**(7,558)**
Loss on disposal (included in other operating expenses)	**(2,558)**
Net cash inflow arising on disposal:	
Cash consideration	**5,000**
Less: bank balance and cash disposed of	**(911)**
	4,089

Included in the profit and revenue for the year ended 31 December 2016 was approximately RMB585,000 and RMB4,600,000 generated from Xingyuan Hydropower respectively.

34. Changes in Ownership Interests in Subsidiaries

During the year, the Group has the following changes in its ownership interest in subsidiaries that do not result in change of control.

(i) Disposal of equity interest in a subsidiary

During the year ended 31 December 2016, 49% equity interest of a wholly owned subsidiary, Blooming Business Global Limited ("Blooming Business Global"), was disposal of at USD49 to an independent third party, Kang Jin Global Limited. After the completion of the disposal, Blooming Business Global, together with its directly wholly owned inactive subsidiaries, Haitian Yuan Hui Investments (HK) Limited and 天海源匯投資諮詢（深圳）有限公司, were still recognised as the Company's subsidiaries due to the control over the board of Blooming Business Global was retained by the director of the Group. Such disposal does not result in a loss of control.

The difference between the fair value of consideration received by the Group and the carrying amount of the interest disposal of approximately RMB300 is recognised by the Group as equity transaction reserve.

(ii) Acquisition of additional interest in a subsidiary

During the year ended 31 December 2015, a subsidiary of the Company had acquired an additional 1% equity interest in Shouning County Fuyuan Hydropower Co., Ltd.* 壽寧縣富源水電有限公司 ("Fuyuan Hydropower"), a non-wholly owned subsidiary of the Company, from two independent individuals with a consideration of RMB2,000,000. The difference between the fair value of consideration paid by the Group and the decrease in non-controlling interest after this transaction amounting to approximately RMB1,127,000 is recognised by the Group as equity transaction reserve.

* *The English name is for identification purpose only.*

35. Pledge of Assets

At the end of the reporting period, the Group pledged the following assets to banks and certain lessors for borrowings and obligations under finance leases granted to the Group.

	2016	2015
	RMB'000	RMB'000
Prepaid lease payments	**9,358**	13,561
Property, plant and equipment	**280,952**	424,308
	290,310	437,869

The carrying amount of trade receivables of the Group in which with such electricity tariff collection right pledged is as follows:

	2016	2015
	RMB'000	RMB'000
Carrying amount of trade receivables pledged for finance leases	**20**	1,166
Carrying amount of trade receivables (intra-group balances before elimination) pledged for bank borrowings	**43,480**	36,789
	43,500	37,955

As at 31 December 2016, the entire equity interests of Qianyuan Hydropower and Fu'an Jiulong, indirect subsidiaries of the Company, had been pledged to the lessor for securing obligations under finance leases.

As at 31 December 2015, the entire equity interests of Qianyuan Hydropower, Fu'an Jiulong and Xingyuan Hydropower, indirect subsidiaries of the Company, have been pledged to the lessor for securing obligations under finance leases.

As at 31 December 2016, two of the subsidiaries of the Company, Dachuan Hydropower and Fuan Liyuan Hydropower Co., Ltd.* 福安市力源水電開發有限公司 ("Liyuan Hydropower") have provided corporate guarantees in relation to obligations under finance leases for a maximum amount of each RMB259,200,000 (2015: RMB259,200,000).

As at 31 December 2016 and 2015, the entire equity interest of Sifang Hydropower and 71% equity interest of Fuyuan Hydropower have been pledged to a bank for securing a bank borrowing of RMB300,000,000 of which the loan agreement is effective and the bank borrowing is drawn down on 14 January 2016.

36. 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.

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 2016 and 2015, there are no outstanding share options issued under the Scheme.

37. Retirement Benefits Plans

Hong Kong

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK$1,500 per month, to the MPF Scheme, in which the contribution is matched by employees.

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.

The total costs charged to profit or loss of approximately RMB1,351,000 (2015: RMB1,127,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

38. Related Parties Transactions

(i) The Group had balances with a related party included in trade and other receivables as follows:

	2016 **RMB'000**	2015 RMB'000
Amount due from a related company		
福建省海興能源集團有限公司 (Note)	**10**	10

Note:

Mr. Chen Congwen, a director of the Company has beneficial interest in this company. The amount is unsecured, non-interest bearing and repayable on demand. In 2015, the Group entered into a new lease agreement with this related company, with a lease term of 3 years and a monthly rental of approximately RMB6,000 upon the expiry of the existing agreement as entered into in 2012. During the year ended 31 December 2016, the Group paid rental expenses of approximately RMB74,000 (2015: RMB71,000) to this related company for leasing of the office premises.

(ii) The amount due to a related company as disclosed in note 24 represented amount due to Haitian Mining Resources (HK) Limited in which Mr. Lin Yang, a director of the Company (2015: Mr. Lin Tian Hai, a director of the Company), has beneficial interest. During the year ended 31 December 2016, the Group paid management fee of approximately RMB257,000 (equivalent to HK$300,000) (2015: RMB241,000) to this related company for administrative and accounting services. The monthly management fee charged is mutually agreed between both parties.

(iii) The amount due to a director as disclosed in note 24 represented amount due to Mr. Lin Tian Hai. In 2016, the Group entered into a new lease agreement with Mr. Lin Tian Hai, with a lease term of 3 years and a monthly rental of approximately RMB23,000 upon the expiry of the existing agreement. During the year ended 31 December 2016, the Group paid rental expenses of approximately RMB273,000 and rental deposit of RMB20,000 to this related company for leasing of the office premises. On the other hand, in 2016, Mr. Lin Tian Hai paid the Group's expense on its behalf of approximately RMB221,000.

(iv) The Group sold carbon credits known as Certified Emission Reductions, generated from the electricity generation which had been registered as Clean Development Mechanism ("CDM") projects in February 2009. On 3 August 2011, NDRC of the PRC and related PRC authorities promulgated the 2011 CDM Measures, which specified that any entity, which became a foreign-owned enterprise upon the change in shareholding subsequent to the approval by NDRC, will be disqualified automatically in the CDM project.

Pursuant to a deed of indemnity dated 19 June 2012, the controlling shareholder and the ultimate holding company, Victor River Limited has jointly and severally undertaken to provide indemnities on any request to refund the cash received by the Group on or before the listing of the shares of the Company on the Stock Exchange to the respective PRC authorities.

38. Related Parties Transactions (continued)

(v) Under a deed of indemnity dated 19 June 2012, the controlling shareholder and ultimate holding company, Victor River Limited, had 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.

(vi) Pursuant to a deed of indemnity dated 16 December 2014, the substantial shareholder of the Company, Mr. Lin Yang, has undertaken to provide indemnity of a maximum of approximately RMB8,649,000 which would be incurred or suffered by the Group as a result of any recourse action taken by the trade and other creditors.

(viii) Compensation of key management personnel

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

	2016 **RMB'000**	2015 RMB'000
Short-term benefits	**3,064**	2,129
Post-employment benefits	**150**	204
	3,214	2,333

The remuneration of directors and key management is determined by the remuneration committee having regards to the performance of individuals.

39. Statement of Financial Position of the Company

	2016 RMB'000	2015 RMB'000
Non-current asset		
Investments in subsidiaries	**74,102**	19,131
Current assets		
Other receivables	**183**	129
Amounts due from subsidiaries	**252,460**	164,159
Bank balances and cash	**5,484**	29
	258,127	164,317
Current liabilities		
Other payables	**1,768**	1,211
Debentures	**26,835**	–
Amounts due to subsidiaries	**60,072**	1,740
	88,675	2,951
Net current assets	**169,452**	161,366
Total assets less current liabilities	**243,554**	180,497
Capital and reserves		
Share capital	**9,303**	8,883
Reserves (Note)	**234,251**	146,481
	243,554	155,364
Non-current liability		
Debentures	**–**	25,133
	–	25,133
	243,554	180,497

39. Statement of Financial Position of the Company (continued)

Note:

Movement in reserves of the Company

	Share premium RMB'000	Special reserve RMB'000	Convertible notes reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	48,782	18,622	3,477	(13,890)	56,991
Profit for the year and total comprehensive income for the year	–	–	–	2,424	2,424
Issue of shares upon conversion of convertible notes (Note 29 (ii))	90,625	–	(3,477)	–	87,148
Transaction costs attributable to issue of shares upon conversion of convertible notes	(82)	–	–	–	(82)
At 31 December 2015	139,325	18,622	–	(11,466)	146,481
Profit for the year and total comprehensive income for the year	–	–	–	4,241	4,241
Issue of shares upon placing of shares (Note 29 (iii))	83,586	–	–	–	83,586
Transaction costs attributable to issue of shares upon placing of shares	(57)	–	–	–	(57)
At 31 December 2016	222,854	18,622	–	(7,225)	234,251

40. Particulars of Principal Subsidiaries of the Company

(a) General information of subsidiaries

Details of the Company's principal subsidiaries as at the end of the reporting period are set out below.

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion ownership interest held by the Company				Principal activities
				2016		2015		
				Directly	**Indirectly**	Directly	Indirectly	
Haitian Hydropower (HK) Limited	Hong Kong	Ordinary	HK$100	–	**100%**	–	100%	Investment holding
Fujian Dachuan (Note i)	The PRC	Registered capital	RMB45,000,000	–	**100%**	–	100%	Hydropower generation
Liyuan Hydropower (Note i)	The PRC	Registered capital	RMB18,000,000	–	**100%**	–	100%	Hydropower generation
Qianyuan Hydropower (Note i)	The PRC	Registered capital	RMB19,000,000	–	**100%**	–	100%	Hydropower generation
Xingyuan Hydropower (Note i and ii)	The PRC	Registered capital	RMB3,950,000	–	–	–	100%	Hydropower generation
Fu'an Jiulong (Notes i)	The PRC	Registered capital	RMB6,120,000	–	**100%**	–	100%	Hydropower generation
Huajin Huifu (Notes i)	The PRC	Registered capital	RMB60,000,000	–	**100%**	–	100%	Investment holding

40. Particulars of Principal Subsidiaries of the Company (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion ownership interest held by the Company				Principal activities
				2016		2015		
				Directly	Indirectly	Directly	Indirectly	
Guangyuan Hydropower (Notes i)	The PRC	Registered capital	RMB500,000	–	100%	–	100%	Provision of operating service for hydropower plants
Fujian Sifang Hydropower Investment Co., Ltd.* 福建省四方水電投資有限公司 (Notes i)	The PRC	Registered capital	RMB80,000,000	–	100%	–	100%	Hydropower generation
Fuyuan Hydropower (Notes i)	The PRC	Registered capital	RMB64,200,000	–	71%	–	71%	Hydropower generation
Shouning County Xinyuan Hydropower Co., Ltd.* ("Xinyuan Hydropower") 壽寧縣新源水電有限公司 (Notes i)	The PRC	Registered capital	RMB22,000,000	–	60%	–	60%	Hydropower generation
Juyuan Hydropower (Notes i)	The PRC	Registered capital	RMB6,000,000	–	38%	–	38%	Hydropower generation
Shouning County Shengyuan Hydropower Co., Ltd.* 壽寧縣盛源水電投資有限公司 (Notes i)	The PRC	Registered capital	RMB26,800,000	–	100%	–	100%	Hydropower generation

* *The English name is for identification purpose only.*

40. Particulars of Principal Subsidiaries of the Company (continued)

(a) General information of subsidiaries (continued)

Notes:

i. *The above companies are limited liabilities companies and operated in the PRC.*

ii. *The Company has been disposed of during the year ended 31 December 2016. Details of which are set in note 33.*

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

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

At the end of the reporting period, the Company has other subsidiaries that are not individually material to the Group. The principal activities and principal place of business of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	*Notes*	Number of subsidiaries 2016	2015
Investment holding	BVI	*(a,b)*	**6**	7
Investment holding	Hong Kong	*(a,b)*	**3**	4
Investment holding	PRC	*(a,c)*	**1**	–
Inactive	Hong Kong	*(a,b)*	**2**	2
Inactive	PRC	*(a,b,c)*	**4**	4
			16	17

Notes:

(a) *During the year ended 31 December 2015 and 2016, certain entities were incorporated in BVI, Hong Kong or PRC.*

(b) *During the year ended 31 December 2016, certain entities were disposed in BVI, Hong Kong or PRC.*

(c) *The entities established in the PRC in 2016 are wholly foreign-owned enterprises.*

40. Particulars of Principal Subsidiaries of the Company (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016**	2015	**2016**	2015
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Fuyuan Hydropower	The PRC	**29%**	29%	**8,668**	5,129	**38,465**	31,247
Xinyuan Hydropower	The PRC	**40%**	40%	**4,944**	3,083	**21,764**	16,820
Juyuan Hydropower	The PRC	**62%**	62%	**1,248**	377	**268**	(980)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2016	2015
	RMB'000	RMB'000
Fuyuan Hydropower		
Current assets	**52,241**	45,950
Non-current assets	**220,960**	220,921
Current liabilities	**(31,549)**	(41,879)
Non-current liabilities	**(111,773)**	(120,000)

40. Particulars of Principal Subsidiaries of the Company (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	2016 RMB'000	2015 RMB'000
Equity attributable to owners of Fuyuan Hydropower	**91,414**	73,745
Non-controlling interests	**38,465**	31,247
Revenue	**62,433**	49,308
Expenses	**(32,546)**	(31,622)
Profit for the year	**29,887**	17,686
Profit for the year and total comprehensive income for the year attributable to owners of Fuyuan Hydropower	**21,219**	12,557
Profit for the year and total comprehensive income for the year attributable to the non-controlling interests	**8,668**	5,129
Profit for the year and total comprehensive income for the year	**29,887**	17,686
Dividends paid to non-controlling interests	**1,450**	–
Net cash inflow from operating activities	**44,353**	40,252
Net cash inflow (outflow) from investing activities	**2**	(467)
Net cash outflow from financing activities	**(44,758)**	(39,422)
Net cash (outflow) inflow	**(403)**	363

40. Particulars of Principal Subsidiaries of the Company (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	2016 RMB'000	2015 RMB'000
Xinyuan Hydropower		
Current assets	**36,366**	29,349
Non-current assets	**34,579**	34,452
Current liabilities	**(14,974)**	(17,471)
Non-current liabilities	**(1,560)**	(4,280)
Equity attributable to owners of Xinyuan Hydropower	**32,647**	25,230
Non-controlling interests	**21,764**	16,820
Revenue	**29,818**	23,756
Expenses	**(17,457)**	(16,048)
Profit for the year	**12,361**	7,708

40. Particulars of Principal Subsidiaries of the Company (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	2016 RMB'000	2015 RMB'000
Profit for the year and total comprehensive income for the year attributable to owners of Xinyuan Hydropower	**7,417**	4,625
Profit for the year and total comprehensive income for the year attributable to the non-controlling interests	**4,944**	3,083
Profit for the year and total comprehensive income for the year	**12,361**	7,708
Net cash inflow from operating activities	**13,204**	13,709
Net cash inflow from investing activities	**3**	3
Net cash outflow from financing activities	**(15,014)**	(11,324)
Net cash (outflow) inflow	**(1,807)**	2,388

40. Particulars of Principal Subsidiaries of the Company (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	2016 RMB'000	2015 RMB'000
Juyuan Hydropower		
Current assets	**2,501**	1,669
Non-current assets	**13,893**	14,313
Current liabilities	**(15,962)**	(17,563)
Equity attributable to owners of Juyuan Hydropower	**164**	(601)
Non-controlling interests	**268**	(980)
Revenue	**5,569**	4,289
Expenses	**(3,556)**	(3,681)
Profit (loss) for the year	**2,013**	608

40. Particulars of Principal Subsidiaries of the Company (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	2016 RMB'000	2015 RMB'000
Profit for the year and total comprehensive income for the year attributable to owners of Juyuan Hydropower	**765**	231
Profit for the year and total comprehensive income for the year attributable to the non-controlling interests	**1,248**	377
Profit for the year and total comprehensive income for the year	**2,013**	608
Net cash inflow from operating activities	**11,694**	1,879
Net cash inflow (outflow) inflow from investing activities	**2**	(4)
Net cash outflow from financing activities	**(11,211)**	(1,657)
Net cash inflow	**485**	218

41. Comparative Figures

Certain comparative figures shown in segment revenue and results note has been reclassified from hydropower generation by self-owned plants segment to hydropower generation by leased plants segment to conform current year presentation as the directors of the Company considered the reclassification is more meaningful in view of resource allocation and assessment of segment performance.

FINANCIAL SUMMARY

RESULTS	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**236,761**	206,653	64,539	30,164	27,806
Profit before tax	**83,306**	77,868	50,515	9,068	3,919
Income tax expense	**(27,740)**	(22,300)	(8,495)	(2,979)	(2,279)
Profit for the year and total comprehensive income for the year	**55,566**	55,568	42,020	6,089	1,640

ASSETS AND LIABILITIES	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	**547,660**	288,646	174,509	64,771	94,949
Non-current assets	**734,568**	782,669	806,647	166,728	138,676
Total assets	**1,282,228**	1,071,315	981,156	231,499	233,625
Current liabilities	**186,241**	176,916	177,430	15,593	14,163
Non-current liabilities	**609,463**	545,940	596,628	93,500	103,145
Total liabilities	**795,704**	722,856	774,058	109,093	117,308
Net assets	**486,524**	348,459	207,098	122,406	116,317
Total equity	**486,524**	348,459	207,098	122,406	116,317