

2017

FIRST QUARTERLY
REPORT



**HAITIAN ENERGY
INTERNATIONAL LIMITED**

海天能源國際有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 8261

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

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This report, for which the directors (the “Directors”) of Haitian 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 (the “GEM Listing Rules”) for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief: (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 and (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 responsible.



FINANCIAL HIGHLIGHTS

- Turnover for the three months ended 31 March 2017 amounted to approximately RMB32.1 million (2016: RMB51.9 million), representing a decrease of 38.2% as compared with the corresponding period in 2016.
- Gross profit for the three months ended 31 March 2017 amounted to approximately RMB17.4 million (2016: RMB31.6 million), representing a decrease of 44.9% as compared with the corresponding period in 2016.
- The profit and total comprehensive income attributable to owners of the Company for the three months ended 31 March 2017 was approximately RMB0.2 million compared to a profit of approximately RMB7.3 million for the corresponding period in 2016.
- Basic and diluted earnings per share for the three months ended 31 March 2017 amounted to RMB0.002 cents (2016: RMB0.081 cents).
- The Directors do not recommend the payment of any dividend for the three months ended 31 March 2017.

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the “Board”) of the Company announces herewith the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2017, together with the comparative unaudited figures in the corresponding period of last year, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2017

	Notes	Three months ended 31 March	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Turnover	4	32,107	51,876
Cost of sales		(14,715)	(20,319)
Gross profit		17,392	31,557
Other income	6	1,549	354
Administrative expenses		(4,335)	(3,379)
Finance costs	7	(10,217)	(12,936)
Other operating expenses		(91)	(269)
Profit before tax		4,298	15,327
Income tax expense	8	(2,799)	(5,180)
Profit and total comprehensive income for the period	9	1,499	10,147
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		190	7,302
Non-controlling interests		1,309	2,845
		1,499	10,147
Earnings per share (RMB cents)	11		
Basic and diluted		0.002	0.081

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

The Group

	Attributable to owners of the Company								Non-controlling interests		Total
	Share capital	Share premium	Other reserve	Special reserve	Equity transaction reserve	Statutory reserve	Capital reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (audited)	9,303	222,854	362	48,622	(1,127)	25,495	24	120,494	426,027	60,497	486,524
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	190	190	1,309	1,499
At 31 March 2017 (unaudited)	9,303	222,854	362	48,622	(1,127)	25,495	24	120,684	426,217	61,806	488,023
At 1 January 2016 (audited)	8,883	139,325	362	48,622	(1,127)	16,851	24	88,432	301,372	47,087	348,459
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	7,302	7,302	2,845	10,147
Issue of shares upon placing of shares	420	83,586	-	-	-	-	-	-	84,006	-	84,006
Transaction cost attributable to issue of shares upon placing of shares	-	(57)	-	-	-	-	-	-	(57)	-	(57)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(1,450)	(1,450)
At 31 March 2016 (unaudited)	9,303	222,854	362	48,622	(1,127)	16,851	24	95,734	392,623	48,482	441,105

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2017

1. General

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 is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company was changed from 36/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong to Unit 902, 9/F., 74-77 Connaught Road Central, Hong Kong since 2 May 2017.

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 Group's 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 condensed 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).

2. Basis of Preparation

The condensed consolidated financial statements for the three months ended 31 March 2017 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.



3. Principal Accounting Policies

The accounting policies adopted in preparing the condensed consolidated financial statements for the three months ended 31 March 2017 were consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

4. Turnover

Turnover represents the net amounts received and receivable for electricity sold by the Group to outside customers, net of sales related taxes.

5. 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.

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 self-owned 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 service | – The provision of operating and repair and maintenance services for hydropower plants in the PRC |

5. 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.

Three months ended 31 March

	Hydropower generation by self-owned plants		Hydropower generation by leased plants		Hydropower operation service		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Segment revenue								
Sales to external customers	24,982	40,612	7,125	11,264	-	-	32,107	51,876
Inter-segment sales	-	-	-	-	1,571	1,769	1,571	1,769
Segment revenue	24,982	40,612	7,125	11,264	1,571	1,769	33,678	53,645
Eliminations							(1,571)	(1,769)
Group revenue							32,107	51,876
Segment results	13,960	25,080	970	3,833	189	335	15,119	29,248
Unallocated corporate income							1,549	354
Unallocated expenses							(2,153)	(1,339)
Finance costs							(10,217)	(12,936)
Profit before tax							4,298	15,327

Segment results represents the profit earned by each segment without allocation of other income, central administration costs, directors' remuneration 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.

(b) Information about geographical areas

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

6. Other Income

	Three months ended 31 March	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Bank interest income	424	345
Net exchange gain	173	–
Rental income (net of outgoings: nil)	13	9
Government grant (note)	939	–
	1,549	354

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

7. Finance Costs

	Three months ended 31 March	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Interest on debentures	532	504
Interest on finance leases	1,382	2,629
Interest on secured bank borrowings	8,303	9,803
	10,217	12,936

8. Income Tax Expense

	Three months ended 31 March	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
The charge comprises:		
PRC Enterprise Income Tax ("EIT")	2,462	5,557
Deferred taxation	337	(377)
	2,799	5,180

8. Income Tax Expense (Continued)

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

9. Profit for the Period

	Three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Depreciation	5,874	6,123
Amortisation of prepaid lease payments (included in cost of sales)	102	122
Amortisation of intangible assets	56	189
Net exchange (gain) loss	(173)	51
Operating lease charges in respect of properties (included in administrative expenses)	256	336
Operating lease charge in respect of leased hydropower plants (included in cost of sales)	5,644	7,431

10. Dividend

The Directors do not recommend the payment of any dividend for the three months ended 31 March 2017.

11. 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:

	Three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	190	7,302

	Three months ended 31 March	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited) (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	9,136,000	8,990,944

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the three months ended 31 March 2016 has been adjusted for the share subdivision on 17 May 2016.

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2017 and 2016.

12. Events after the Reporting Period

There was no material acquisition or disposal of subsidiaries and affiliated companies during or after the period under review. Save for the extension development of Jiulong Hydropower plant as disclosed under Business Review of this First Quarterly Report, there is no plan for material investments of capital assets as at 31 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Hydropower Operation

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 March 2017, the Group possessed two 110 kV electricity transmission lines with total length of 190 km and eleven (six wholly-owned and four non wholly-owned) hydropower plants, namely, Ma Tou Shan Hydropower Plant, Qianping Hydropower Plant, Jiulong 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 85.47 MW.

Repair and Maintenance Services

As at 31 March 2017, the Group also owns a subsidiary engaging in the provision of hydropower operation services and repair and maintenance services, namely, Shouning Guangyuan Hydropower Operation Management Co., Ltd. (壽寧縣廣源水電營運有限公司).

Extension Development of Jiulong Hydropower Plant

As at 31 March 2017, the approval documents from Fujian Development and Reform Commission had been obtained and the mainframe construction work was started. The Directors believe the overall construction work will last for 20 months and project will start to contribute revenue to the Group upon completion.



Acquisition of Hydropower Plants

As a core of expansion strategy, the Group continues to seek for acquiring small and medium-size hydropower plants with attractive return and appreciation potential. During the three months ended 31 March 2017, no acquisition of hydropower plant was completed.

Financial Review

Revenue

The Group recorded a revenue of approximately RMB32.1 million for the three months ended 31 March 2017, representing a 38.2% decrease as compared to approximately RMB51.9 million for the corresponding period in 2016. Such decrease in revenue was mainly due to the fact that the decrease in precipitation in Shouning County, Zhouning County and Fuan City in Fujian Province during the three months ended 31 March 2017 as compared with the corresponding period in 2016.

Gross Profit and Gross Profit Margin

The Group achieved a gross profit of approximately RMB17.4 million for the three months ended 31 March 2017 (2016: RMB31.6 million), representing a decrease of 44.9% as compared to that for the corresponding period in 2016. Cost of sales decreased from approximately RMB20.3 million for the three months ended 31 March 2016 to approximately RMB14.7 million for the three months ended 31 March 2017. Gross margin, calculated as gross profit divided by revenue, for the three months ended 31 March 2017 amounted to 54.2% (2016: 60.8%). The decrease in gross profit margin in 2017 was mainly attributable to decrease of revenue while certain cost of sales are fixed costs. During the period under review, the cost of sales mainly included depreciation, direct salaries, operation fees, water resource fees and operating lease charges for hydropower plants.

Administrative Expenses

The administrative expenses of the Group primarily comprised professional fees and staff costs. For the three months ended 31 March 2017, the Group's administrative expenses increased to approximately RMB4.3 million as compared to approximately RMB3.4 million for the corresponding period of last year, representing an increase of approximately 26.5%. The administrative expenses increased mainly due to the increase in professional fees and staff costs for the three months ended 31 March 2017.

Finance costs

The finance costs of the Group represented interest expenses on bank borrowings, debentures, and finance charges on obligations under finance leases. For the three months ended 31 March 2017 and 2016, finance costs recorded by the Group were approximately RMB10.2 million and RMB12.9 million respectively. The decrease in finance costs for the three months ended 31 March 2017 was due to (i) the decrease in obligation under finance lease as the result of disposal of Ningde Xingyuan Hydropower Co., Ltd. (寧德市興源水電有限公司) during the year ended 31 December 2016 and (ii) repayment of certain bank borrowings during the period from 31 March 2016 to 31 March 2017.

Income Tax Expense

Owing to decrease in profit in certain subsidiaries, the income tax expense of the Group decreased by 46.2% from approximately RMB5.2 million for the three months ended 31 March 2016 to approximately RMB2.8 million for the three months ended 31 March 2017.

Profit and Total Comprehensive Income

As a result of the above changes, profit and total comprehensive income attributable to owners of the Company decreased by 97.3% from approximately RMB7.3 million for the three months ended 31 March 2016 to approximately RMB0.2 million for the three months ended 31 March 2017.

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.

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

As at 31 March 2017, the interests or short positions of the Directors and chief executive of the Company 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 (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long Position in the Shares

Number of Director	Nature of interest	Number of Shares held	Approximate shareholding percentage (%)
Mr. Lin Yang ("Mr. Lin") (Note)	Interest of controlled corporation	6,000,000,000 Shares	65.67

Note: 6,000,000,000 Shares are held by Victor River Limited ("Victor River"), which is wholly and beneficially owned by Mr. Lin. Accordingly, Mr. Lin is deemed to be interested in the Shares held by Victor River under the SFO.


Saved as disclosed above, as at 31 March 2017, none of the Directors and chief executive of the Company had any other interests or short positions in any Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

So far as the Directors are aware, as at 31 March 2017, other than a Director or chief executive of the Company whose interests or short positions are disclosed under the paragraph headed "Interests and Short Positions of the Directors and Chief Executive in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above, the following persons had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Long Position in the Shares

Name of Shareholder	Nature of interest	Number of Shares held	Approximate shareholding percentage (%)
Victor River (Note 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



Name of Shareholder	Nature of interest	Number of Shares held	Approximate shareholding percentage (%)
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:

- 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.
- 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.
- 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).
- (L) – Long position, (S) – short position

Save for disclosed above, as at 31 March 2017, 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.

Directors' Interests in Competing Business

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

Purchase, Sales or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed Shares during the three months ended 31 March 2017.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Since the Scheme has become effective, no share options were granted, exercised or cancelled by the Company under the Scheme during the period under review and there were no outstanding share options under the Scheme as at 31 March 2017.

Code on Corporate Governance Practice

The Company has applied and adopted the principles of Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules (the "CG Code") throughout the period under review. During the three months ended 31 March 2017, the Company has complied with the code provisions as set out in the CG Code.

Code of Conduct for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by Directors on terms which are the same as the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the required standards of dealings throughout the period under review.



Audit Committee

The audit committee of the Company (the “Audit Committee”) has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including the review of the unaudited first quarterly financial results and first quarterly report of the Group for the three months ended 31 March 2017. The Audit Committee is of opinion that the unaudited first quarterly financial results of the Group for the three months ended 31 March 2017 comply with the applicable accounting Standards, GEM listing Rules and that adequate disclosures have been made.

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

Fujian Province, the PRC, 15 May 2017

At the date of this report, the Board comprises four executive Directors, namely Mr. Lin Yang, Mr. Zheng Xuesong, Mr. Chen Congwen and Mr. Lin Tian Hai; and three independent non-executive Directors, namely Mr. Cheng Chuhan, Mr. Chan Kam Fuk and Mr. Xie Zuomin.