

HUANENG POWER INTERNATIONAL INC
Form 20-F
April 16, 2019

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF
1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT
OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

Date of event requiring this shell company report

For the transaction period from _____ to _____

Commission file number: 1-13314

HUANENG POWER INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

PEOPLE'S REPUBLIC OF CHINA

(Jurisdiction of incorporation or organization)

HUANENG BUILDING

6 FUXINGMENNEI STREET, XICHENG DISTRICT, BEIJING, PEOPLE'S REPUBLIC OF CHINA

(Address of principal executive offices)

Mr. Huang Chaoquan

HUANENG BUILDING,

6 FUXINGMENNEI STREET, XICHENG DISTRICT, BEIJING, PEOPLE'S REPUBLIC OF CHINA

Tel: +86 (10) 6322 6999 Fax: +86 (10) 6322 6888

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class

Name of each exchange on which
registered

American Depositary Shares Each Representing 40 Overseas Listed
Shares

New York Stock Exchange

Overseas Listed Shares with Par Value of RMB1.00 Per Share

New York Stock Exchange*

*Not for trading, but only in connection with the registration of our American Depositary Shares

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Domestic A Shares with Par Value of RMB1.00 Per Share	10,997,709,919
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Overseas Listed Shares with Par Value of RMB1.00 Per Share	4,700,383,440
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Emerging growth company

(Do not check if a smaller reporting company)

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If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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INTRODUCTION

We maintain our accounts in Renminbi Yuan ("Renminbi" or "RMB"), the lawful currency of the People's Republic of China (the "PRC" or "China"). References herein to "US\$" or "U.S. dollars" are to United States Dollars, references to "HK\$" are to Hong Kong Dollars, and references to "S\$" are to Singapore Dollars. References to ADRs and ADSs are to American Depositary Receipts and American Depositary Shares, respectively. Translations of amounts from Renminbi to U.S. Dollars are solely for the convenience of the reader. Unless otherwise indicated, any translations from Renminbi to U.S. Dollars or from U.S. Dollars to Renminbi were translated at the middle exchange rate announced by the People's Bank of China (the "PBOC Rate") on December 28, 2018 of US\$1.00 to RMB6.8632. No representation is made that the Renminbi or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Renminbi, as the case may be, at the PBOC Rate or at all.

References to "A Shares" are to common tradable shares issued to PRC domestic shareholders.

References to the "central government" are to the national government of the PRC and its various ministries, agencies and commissions.

References to the "Company," "we," "our" and "us" include, unless the context requires otherwise, Huaneng Power International, Inc. and the operations of our power plants and our construction projects.

References to "HIPDC" are to Huaneng International Power Development Corporation and, unless the context requires otherwise, include the operations of the Company prior to the formation of the Company on June 30, 1994.

References to "Huaneng Group" are to China Huaneng Group Co., Ltd.

References to "local governments" in the PRC are to governments at all administrative levels below the central government, including provincial governments, governments of municipalities directly under the central government, municipal and city governments, county governments and township governments.

References to "our power plants" are to the power plants that are wholly owned by the Company or to the power plants in which the Company owns majority equity interests.

References to the "PRC Government" include the central government and local governments.

References to "provinces" include provinces, autonomous regions and municipalities directly under the central government.

References to "Singapore" are to the Republic of Singapore.

References to the "State Plan" refer to the plans devised and implemented by the PRC Government in relation to the economic and social development of the PRC.

References to "tons" are to metric tons.

Previously, the Overseas Listed Foreign Shares were also referred to as the "Class N Ordinary Shares" or "N Shares." Since January 21, 1998, the date on which the Overseas Listed Foreign Shares were listed on The Stock Exchange of Hong Kong Limited by way of introduction, the Overseas Listed Foreign Shares have been also referred to as "H Shares."

GLOSSARY

actual generation The total amount of electricity generated by a power plant over a given period of time.

auxiliary power Electricity consumed by a power plant in the course of generation.

availability factor	For any period, the ratio (expressed as a percentage) of a power plant's available hours to the total number of hours in such period.
available hours	For a power plant for any period, the total number of hours in such period less the total number of hours attributable to scheduled maintenance and planned overhauls as well as to forced outages, adjusted for partial capacity outage hours.
capacity factor	The ratio (expressed as a percentage) of the gross amount of electricity generated by a power plant in a given period to the product of (i) the number of hours in the given period multiplied by (ii) the power plant's installed capacity.
demand	For an integrated power system, the amount of power demanded by consumers of energy at any point in time.
dispatch	The schedule of production for all the generating units on a power system, generally varying from moment to moment to match production with power requirements. As a verb, to dispatch a plant means to direct the plant to operate.
GW	Gigawatt. One million kilowatts.
GWh	Gigawatt-hour. One million kilowatt-hours. GWh is typically used as a measure for the annual energy production of large power plants.
installed capacity	The manufacturers' rated power output of a generating unit or a power plant, usually denominated in MW.
kV	Kilovolt. One thousand volts.
kW	Kilowatt. One thousand watts.
kWh	Kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour.
MVA	Million volt-amperes. A unit of measure used to express the capacity of electrical transmission equipment such as transformers.
MW	Megawatt. One million watts. The installed capacity of power plants is generally expressed in MW.
MWh	Megawatt-hour. One thousand kilowatt-hours.
peak load	The maximum demand on a power plant or power system during a specific period of time.
planned generation	An annually determined target gross generation level for each of our operating power plants used as the basis for determining planned output.
total output	The actual amount of electricity sold by a power plant in a particular year, which equals total generation less auxiliary power.
transmission losses	Electric energy that is lost in transmission lines and therefore is unavailable for use.

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

A. Selected financial data

Our consolidated data of financial position as of December 31, 2018 and 2017 and the consolidated income statement and cash flow data for each of the years in the three-year period ended December 31, 2018 are derived from the historical financial statements included herein. Our consolidated data of financial position as of December 31, 2016, 2015 and 2014 and consolidated income statement and cash flow data for each of the years in the two-year period ended December 31, 2015 are derived from the historical financial statements not included herein. The Selected Financial Data should be read in conjunction with the consolidated financial statements and "Item 5 Operating and Financial Reviews and Prospects." The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Selected Financial Data may not be indicative of future earnings, cash flows or financial position.

	Year Ended December 31,				
	2014	2015	2016	2017	2018
	RMB in thousands, except per share data				
Consolidated Income Statement Data					
Operating revenue	125,406,855	128,904,873	113,814,236	152,459,444	169,550,624
Tax and levies on operations	(932,485)	(1,157,760)	(1,177,818)	(1,376,312)	(1,788,998)
Operating expenses	(99,199,728)	(98,604,187)	(94,258,678)	(141,899,742)	(157,647,361)
Profit from operations	25,274,642	29,142,926	18,377,740	9,183,390	10,114,265
Interest income	159,550	160,723	147,063	198,906	234,604
Financial expenses, net	(7,823,606)	(7,970,070)	(7,067,602)	(9,604,645)	(10,647,311)
Other investment income/(loss)	80,580	115,238	1,070,034	1,742,081	(278,669)
Gain/(loss) on fair value changes of financial assets/liabilities	42,538	(16,742)	(12,986)	856,786	726,843
Share of profits less losses of associates and joint ventures	1,315,876	1,525,975	1,298,889	425,215	1,823,415
Profit before income tax expense	19,049,580	22,958,050	13,813,138	2,801,733	1,973,147
Income tax expense	(5,487,208)	(5,698,943)	(3,465,151)	(1,217,526)	(643,173)
Net profit	13,562,372	17,259,107	10,347,987	1,584,207	1,329,974
Attributable to:					
Equity holders of the Company	10,757,317	13,651,933	8,520,427	1,579,836	734,435
Non-controlling interests	2,805,055	3,607,174	1,827,560	4,371	595,539
Basic earnings per share	0.76	0.94	0.56	0.10	0.03
Diluted earnings per share	0.76	0.94	0.56	0.10	0.03

	As of December 31,				
	2014	2015	2016	2017	2018
	RMB in thousands				
Consolidated Financial Position Data					
Current assets	37,865,284	33,565,403	36,966,616	48,537,710	61,799,069
Property, plant and equipment	188,379,057	219,673,070	223,061,809	284,328,093	282,061,272
Available-for-sale financial assets	4,333,377	5,077,863	3,406,032	1,604,993	—
Other equity instrument investments	—	—	—	—	2,083,419
Investments in associates and joint ventures	17,626,910	19,745,192	19,632,113	19,517,623	19,553,964
Land use rights and other non-current assets	10,636,352	14,384,078	14,524,284	20,900,635	32,535,803
Power generation license	3,720,959	3,679,175	3,849,199	3,916,246	4,014,972

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Deferred income tax assets	884,274	1,064,391	1,263,957	2,300,091	2,282,585
Goodwill	11,725,555	11,677,182	12,135,729	15,484,120	15,572,227
Total assets	275,171,768	308,866,354	314,839,739	396,589,511	419,903,311
Current liabilities	(104,846,121)	(123,836,633)	(130,196,251)	(155,950,488)	(138,206,214)

	As of December 31				
	2014	2015	2016	2017	2018
	RMB in thousands				
Consolidated Financial Position Data					
Non-current liabilities	(85,542,941)	(83,336,032)	(82,456,751)	(133,024,419)	(165,575,427)
Total liabilities	(190,389,062)	(207,172,665)	(212,653,002)	(288,974,907)	(303,781,641)
Total equity	(84,782,706)	(101,693,689)	(102,186,737)	(107,614,604)	(116,121,670)

	Year Ended December 31,				
	2014	2015	2016	2017	2018
	RMB in thousands, except per share data				
Consolidated Cash Flow Data					
Purchase of property, plant and equipment	(19,858,216)	(24,191,285)	(20,144,903)	(25,798,009)	(20,613,314)
Net cash provided by operating activities	33,320,067	42,362,708	31,510,824	29,197,363	28,727,978
Net cash used in investing activities	(19,470,813)	(33,015,012)	(17,649,646)	(31,748,825)	(20,375,882)
Net cash (used in)/generated from financing activities	(10,894,180)	(14,140,659)	(13,601,850)	4,013,180	(2,243,070)
Other Company Data					
Dividend declared per share	0.38	0.47	0.29	0.10	0.10
Number of ordinary shares ('000)	14,420,383	15,200,383	15,200,383	15,200,383	15,698,093

Note:

As a result of the adoption of IFRS 15, Revenue from contracts with customers, with effect from January 1, 2018, the Company and its subsidiaries have changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at January 1, 2018. The adoption of IFRS 15 did not have a material impact on the consolidated financial statements. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

The Company and its subsidiaries adopted IFRS 9, Financial instruments, from January 1, 2018. As a result, the Company and its subsidiaries have changed its accounting policies in relation to financial instruments. As allowed by IFRS 9, the Company and its subsidiaries have not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of IFRS 9 were recognised in reserves at January 1, 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to January 1, 2018, figures were stated in accordance with the policies applicable in those years.

B.Capitalization and indebtedness

Not applicable.

C.Reasons for the offer and use of proceeds

Not applicable.

D.Risk factors

Risks relating to our business and the PRC's power industry

Government regulation of on-grid power tariffs and other aspects of the power industry may adversely affect our business

Similar to electric power companies in other countries, we are subject to governmental and electric grid regulations in virtually all aspects of our operations, including the amount and timing of electricity generations, the setting of on-grid tariffs, the performance of scheduled maintenance, and the compliance with power grid control and dispatch directives as well as environment protection regulations. There can be no assurance that these regulations will not change in the future in a manner which could adversely affect our business.

The on-grid tariffs for our planned output are subject to a review and approval process involving the National Development and Reform Commission ("NDRC") and the relevant provincial government. Since April 2001, the PRC

Government has been implementing an on-grid tariff-setting mechanism based on the operating terms of power plants as well as the average costs of comparable power plants. Pursuant to the NDRC circular issued in June 2004, the on-grid tariffs for our newly built power generating units commencing operation from June 2004 have been set on the basis of the average cost of comparable units adding tax and reasonable return in the regional grid. Any future reductions in our tariffs, or our inability to raise tariffs (for example, to cover any increased costs we may have to incur) as a result of the new on-grid tariff-setting mechanism, may adversely affect our revenue and profits. In addition, the PRC Government started a program in 1999 to effect power sales through competitive bidding in some of the provinces where we operate our power plants. The on-grid tariffs for power sold through competitive bidding are generally lower than the pre-approved on-grid tariffs for planned output. In the more recent few years, power sales through competitive bidding only accounted for a portion of our overall power sales.

Nevertheless, the PRC Government is seeking to expand the program. Any increased power sales through competitive bidding may reduce our on-grid tariffs and may adversely affect our revenue and profits.

Furthermore, the PRC Government started in 2009 to promote the practice of direct power purchase by large power end-users. Pursuant to the circular jointly issued by NDRC, the State Electricity Regulatory Commission ("SERC") and China National Energy Administration in June 2009, the direct transaction price shall include the direct transaction price, the grid transmitting price and the governmental fund and additional charges, of which the direct transaction price shall be freely determined through negotiation between the power generation company and the large power end-user. The price of direct power purchase shall be subject to the demand in the power market. Furthermore, the scale and mode of the transaction are also subject to the structure and level of development of local economy. In terms of power generation companies engaged in direct power purchase, direct power sales constitute a portion of the total power sales, thus affecting the on-grid power sales of the Company. For the past few years, the PRC Government continued the reform in the area of direct power purchase by large power end-users. In 2013, China National Energy Administration officially launched the direct power purchase program in seven provinces where we have power plants and the program has been steadily rolled out in other provinces. Although the direct power purchase may act as an alternative channel for our power sales, there is uncertainty as to the effect of the practice of direct power purchase over our operating results basing on the relatively lower tariffs generally for this portion.

The on-grid tariff-setting mechanism is evolving with the reforming of the PRC electric power industry. The PRC government announced a number of development and reform plans for the power market in 2016, covering areas including laws and regulations, comprehensive pilot plans, power transmission and distribution prices and supply side dynamics, the establishment of the power exchanges, rules and market administration committees, and opening up incremental distribution business. In 2017, the development and reform plans have been further expanded to the nationwide scale, with multiple issuances made by the PRC government governing power development plan, electricity transmission and distribution price, opening up of the electricity generation and consumption plans, supply side dynamics, electricity power stock and ancillary market development, electricity exchange rules, market supervision and clean energy consumption, etc. In 2018, the development and reform entered into a implementation stage, reflected in the areas of distribution price reform, establishment of the power exchanges and ancillary market and the incremental distribution network reform, etc.

There is no assurance that government regulations on the industry will not change in a manner which could adversely affect our business and results of operations or the measures we take would effectively help us to adapt to the new changes and developments. See "Item 4 Information of the Company – B. Business Overview – Pricing Policy."

If our power plants receive less dispatching than planned generation, the power plants will sell less electricity than planned

Our profitability depends, in part, upon each of our power plants generating electricity to meet or surpass the planned generation, which in turn will be subject to a local demand for electric power and dispatching to the grids by the dispatch centers of the local grid companies.

The dispatch of electric power generated by a power plant is controlled by the dispatch center of the applicable grid companies pursuant to a dispatch agreement with us and to governmental dispatch regulations. In each of the markets we operate, we compete against other power plants for power sales. No assurance can be given that the dispatch centers will dispatch the full amount of the planned generation of our power plants. A reduction by the dispatch center in the amount of electric power dispatched relative to a power plant's planned generation could have an adverse effect on the profitability of our operations. We have not encountered such situation before.

In August 2007, the General Office of the State Council issued a notice, promoting the energy saving electricity dispatch policy, which provides dispatching priority to electricity generated from renewable resources over electricity generated from unrenewable resources. In 2013, the government made continuous effort to encourage energy-saving power distribution. In 2014, the NDRC issued Guidance on Strengthening and Improving the Operation of Power Management Regulation. In 2015, the NDRC and China National Energy Administration ("NEA") jointly issued Guidelines on Improving Electric Power Operations and Deepening Clean Energy Generation confirming a system ensuring the full-priced purchasing of renewable energy, and requests furthering

the electric power differentiation system on coal-fired units. In 2016, the NDRC and China National Energy Administration issued Notice on Issuing the Measures for the Administration of the Guaranteed Buyout of Electricity Generated by Renewable Energy Resources, Directive on the Measures for the Administration of the Guaranteed Buyout of Electricity Generated by Solar, Wind Energy Resources and Provisionary, Measures for Priority Dispatch of Renewable Peaking Power Generation Units and Notice on Power Supply and Notice on the Measures on the Consumption of Renewable Energy in Tri-North Area. In 2017, NDRC and NEA issued Circular on Orderly Opening Up the Electricity Generation and Consumption Plans, Interim Measures for Guaranteeing the Safe Consumption of Nuclear Power, Pilot Rules on Inter-regional Spare Renewable Energy Electricity Power Stock Trading, Circular on the Establishment of Pilot Electricity Power Stock Exchange, Circular on Promoting Hydropower Consumption in Southwest China, and Solutions to Abandoning Hydro, Wind and Solar Energy, to promote the development of the power stock exchange and renewable power consumption. In 2018, the NDRC and NEA issued the Circular on Promoting the Capability to Adjust the Power System and Plan for Consumption of Clean Energy (2018-2020) to further direct the development of the clean energy and push for the reform of the power market. The NEA also solicited for public opinions on the Circular on the Renewable Power Quota System, proposing a coordination between the power suppliers and users to take responsibilities under quota system.

We cannot assure that such implementation will not result in any decrease in the amount of the power dispatched by any of our power plants.

The power industry reform may affect our business

The PRC Government in 2002 announced and started to implement measures to further reform the power industry, with the ultimate goal of creating a more open and fair power market. As part of the reform, five power generation companies, including Huaneng Group, were created or restructured to take over all the power generation assets originally belonging to the State Power Corporation of China. In addition, two grid companies were created to take over the power transmission and distribution assets originally belonging to the State Power Corporation of China. An independent power supervisory commission, the SERC, was created to regulate the power industry. There might be further reforms, and it is uncertain how these reform measures and any further reforms will be implemented and impact our business. In December 2012, the PRC Government issued a notice to further reform the coal pricing mechanism, which mandated (1) the termination of all key coal purchase contracts between power generation companies and coal suppliers, and the abolition of national guidance of the railway transportation capacity plan, and (2) the cancellation of the dual-track coal pricing system, effective from January 1, 2013. For a detailed discussion of the reform, see "Item 4 Information on the Company – B. Business overview – Pricing policy." There can be no assurance that such coal pricing reform will not adversely affect our results of operation. In 2013, the PRC Government continued the reform in power industry. In July 2013, China National Energy Administration issued the Notice on Direct Purchases between Power End-users and Power Generation Companies, which officially implemented the direct purchases programs by large end-users.

On March 15, 2015, the Opinions of CPC Central Committee and State Council Regarding Further Deepening Reform of the Electricity System was released, according to which the reform will be focused and directed to orderly liberalize the tariff of the competitive markets other than electricity transmission and distribution, gradually allow investment from private investors in power distribution and selling businesses, consistently open the power generation market other than those for non-profit purpose or under regulation, push for independent and regulated operation of the parties involved in electricity transactions, continue the study of regional power grid construction and the transmission and distribution system suitable for China, further strengthen government regulations for enhanced power coordination and planning, and further improve safe and efficient operation of electricity and reliable power supply. These reforms will have a profound impact on the business models of power generation enterprises and may intensify the competition which may adversely affect our business. In November 2015, the NDRC and China Energy Administration issued six official documents regarding electricity system reform, namely Opinions on Deepening Electricity Price Reform, Opinions on Furthering Electricity Market Development, Opinions on Establishing and Institutionalizing Electricity Purchasing Organizations, Opinions on Orderly Opening Up Electricity Generation and Consumption, Opinions on Deepening Electricity Sales Reform and Guidelines on Fortifying and Institutionalizing the Management of Coal-fired Power Plants, further confirming the direction of the newest round of reforms of the electricity system.

In 2016, the PRC Government implemented various measures to further reform the power industry on many fronts, including (i) seeking public comments on the proposed amendment to the electric power law of the People's Republic of China, (ii) implementing structural reform pilot programs in nineteen provinces; (iii) establishing national electricity exchanges in Beijing and Guangzhou, (iii) setting up independent third party credit rating system for market players, (iv) promulgating rules governing the price and method of direct power purchase/competitive bidding programs as well as the market entrance and exit mechanism, and (v) furthering reform on the pricing mechanism for power transmission and distribution prices.

In 2017, The PRC Government issued various measures to further reform the power industry, including: (i) establishing the national power development plan covering the consumption share of the non-fossil fuel, heating system reform based on "coal to gas," "coal to electricity" and renewable energy development, and new technology programs; (ii) speeding up the reform of electricity transmission and distribution price; (iii) orderly opening up the electricity generation and consumption plans; (iv) establishing the union of power exchanges and speeding up the electricity stock and ancillary service market development; (v) enhancing the development of the electricity power supply side reform; (vi) issuing the rules for monthly inter-region electricity power trade in South China; and (vii) furthering the development of the power-related credit system.

In 2018, NDRC and NEA issued Circular on Promoting the Capability to Adjust the Power System and Plan for Consumption of Clean Energy (2018-2020), Circular on the Renewable Power Quota System and Notice on Actively Promoting Market-oriented Power Exchange and Further Improving the Trading Mechanism to further promote the consumption of renewable energy and increase the utilization rate of the renewable energy. From 2018, users from coal, steel, non-ferrous metal and construction materials industries, among others, shall participate in the market-oriented power exchange process instead of applying the catalog price. Users are encouraged to negotiate with power generating enterprises to establish the "baseline with floating adjustment" pricing mechanism. These reform actions will have a profound impact on the operations of power generation companies and may intensify competition, which may negatively impact our company.

We are effectively controlled by Huaneng Group and HIPDC, whose interests may differ from those of our other shareholders

Huaneng Group, directly or indirectly holds 45.67% of our total outstanding shares, and HIPDC directly holds 32.28% of our total outstanding shares. As Huaneng Group is HIPDC's parent company, they may exert effective control over us acting in concert. Their interests may sometimes conflict with those of our other minority shareholders. There is no assurance that Huaneng Group and HIPDC will always vote their shares, or direct the directors nominated by them to act in a way that will benefit our other minority shareholders.

Disruption in coal supply and its transportation as well as increase in coal price may adversely affect the normal operation of our power plants

A substantial majority of our power plants are fueled by coal. The coal supply for our power plants is arranged through free negotiation between power companies, coal suppliers, and railway authorities. Thus, any material disruption in coal supply and its transportation may adversely affect our operations. To date, we have not experienced shutdowns or reduced electricity generation caused by inadequate coal supply or transportation services.

In addition, our results of operations are sensitive to the fluctuation of coal price. For the past few years, the Chinese coal market was showing a surplus in production, resulting in a significantly decreased coal price. However, the policies of reducing overcapacity of the Chinese coal producers implemented in early 2016 led to a supply shortage with surging coal prices in the Chinese coal market. There is no assurance that the increase in coal prices will not continue in the future, and if the price increase does continue, there is no assurance that we will be able to adjust our power tariff to pass on the increase in the coal price in time. Although the government has established a coal-electricity price linkage mechanism to allow power generation companies to increase their power tariffs to cope with the increase in the coal price, the implementation of the mechanism involves uncertainties. For a detailed discussion of the coal-electricity price linkage mechanism, see "Item 4 Information on the Company – B. Business overview – Pricing policy."

Power plant development, acquisition and construction are a complex and time-consuming process, the delay of which may negatively affect the implementation of our growth strategy

We develop, construct, manage and operate large power plants. Our success depends upon our ability to secure all required PRC Government approvals, power sales and dispatch agreements, construction contracts, fuel supply and transportation and electricity transmission arrangements. Delay or failure to secure any of these could increase cost or delay or prevent commercial operation of the affected power plant. Although each of our power plants in operation and the power plants under construction received all required PRC Government approvals in a timely fashion, no assurances can be given that all the future projects will receive approvals in a timely fashion or at all. In addition, due to national policies and related regulations promoting environment-friendly energy, the approval requirements and procedures for power plant are becoming increasingly stringent, which may negatively affect the approval process of our new projects.

We have generally acted as, and intend to continue to act as, the general contractor for the construction of our power plants. As with any major infrastructure construction effort, the construction of a power plant involves many risks, including shortages of equipment, material and labor, labor disturbances, accidents, inclement weather, unforeseen engineering, environmental, geological, delays and other problems and unanticipated cost increases, any of which could give rise to delays or cost overruns. Construction delays may result in loss of revenues. Failure to complete construction according to specifications may result in liabilities, decrease power plant efficiency, increase operating costs and reduce earnings. Although the construction of each of our power plants was completed on or ahead of schedule and within its budget, no assurance can be given that construction of future projects will be completed on schedule or within budget.

In addition, from time to time, we may acquire existing power plants from HIPDC, Huaneng Group or other parties. The timing and the likelihood of the consummation of any such acquisitions will depend, among other things, on our ability to obtain financing and relevant PRC Government approvals and to negotiate relevant agreements for terms acceptable to us.

Substantial capital is required for investing in or acquiring new power plants and failure to obtain capital on reasonable commercial terms will increase our finance cost and cause delay in our expansion plans

An important component of our growth strategy is to develop new power plants and acquire operating power plants and related development rights from HIPDC, Huaneng Group or other companies on commercially reasonable terms. Our ability to arrange financing and the cost of such financing depend on numerous factors, including general economic and capital market conditions, credit availability from banks or other lenders, investor confidence in us and the continued success of our power plants. Although we have not been materially affected by inflation in the past, there is no assurance that we would not be affected in the future. The Chinese government is expected to implement active fiscal policies and sound monetary policies. The fiscal policies would be focused on reducing taxes and other fiscal levies with the view to addressing, in collaboration with the implementation of monetary policies, funding difficulties and prohibitive funding prices encountered by business enterprises. The sound monetary policies would be implemented to underscore overall economic stability, strengthen counter-cyclical monetary administration, optimize credit structure, and maintain reasonably adequate liquidity. Accordingly, it is expected that the market would have reasonably sufficient funding in 2019 and funding costs are expected to be consistent with slight decline. The interest bearing debts of the Company are mostly denominated in Renminbi, changes in benchmark lending interest rate published by the PBOC will have a direct impact on the Company's cost of debt. Regarding our debts denominated in other currencies, it is less likely that the U.S. and other major economies would further increase interest rates due to expected slowdown of the global economy. As the debts denominated in other currencies represent a small percentage in our total debts, the change of interest rates of foreign currencies are not expected to have material effect on the Company. Though the finance costs are expected to be consistent with slight decline, we may not be able to carry out our expansion plans due to the failure to obtain financing or increased financing costs. Furthermore, although we have historically been able to obtain financing on terms acceptable to us, there can be no assurance that financing for future power plant developments and acquisitions will be available on terms acceptable to us or, in the event of an equity offering, that such offering will not result in substantial dilution to existing shareholders.

Operation of power plants involves many risks and we may not have enough insurance to cover the economic losses if any of our power plants' ordinary operation is interrupted

The operation of power plants involves many risks and hazards, including breakdown, failure or substandard performance of equipment, improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards and industrial accidents. The occurrence of material operational problems, including but not limited to the above events, may adversely affect the profitability of a power plant.

Our power plants in the PRC currently maintain insurance coverage that is typical in the electric power industry in the PRC and in amounts that we believe to be adequate. Such insurance, however, may not provide adequate coverage in certain circumstances. In particular, in accordance with industry practice in the PRC, our power plants in the PRC do not generally maintain business interruption insurance, or any third party liability insurance other than that included in construction all-risks insurance or erection all-risks insurance to cover claims in respect of bodily injury or property or environment damage arising from accidents on our property or relating to our operation. Although each of our power plants has a good record of safe operation, there is no assurance that the afore-mentioned accidents will not occur in the future.

If the PRC Government adopts new and stricter environmental laws and additional capital expenditure is required for complying with such laws, the operation of our power plants may be adversely affected and we may be required to make more investment in compliance with these environmental laws

Most of our power plants, being coal-fired power plants, discharge pollutants into the environment. We are subject to central and local government environmental protection laws and regulations. The Environmental Protection Tax Law of People's Republic of China came into effect in 2018 and impose base-level environmental protection tax for various polluting substances. In addition, such environmental protection laws and regulations also set up the goal for the overall control on the discharge volume of key polluting substances. These laws and regulations impose fines for violations of laws, regulations or decrees and provide for the possible closure by the central government or local government of any power plant which fails to comply with orders requiring it to cease or cure certain activities causing environmental damage. Also, the PRC Government requires thermal power plants to equip all units with desulphurization and denitrification facilities, and sets higher anti-dust standards. The Chinese government is working on a pollution prevention and control campaign, which shall subject us to a more stringent standards for our air pollution control, waste water pollution control and ecological environmental protection efforts. Such stringent standards, together with the environmental protection tax, will result in the increases in the environmental protection expenditure and operating costs of power plants and may have an adverse impact on our operating results.

We attach great importance to the environmental related matters of our existing power plants and our power plants under construction. We have implemented a system that is designed to control pollution caused by our power plants, including the establishment of an environmental protection administration system at each power plant, adoption of relevant control and evaluation procedures and the installation and maintenance of certain pollution control equipment. We also upgraded the super low emission facilities on our coal-fired units. We believe our environmental protection systems and facilities for the power plants are adequate for us to comply with applicable central government and local government environmental protection laws and regulations. However, the PRC Government may impose new, stricter laws and regulations on environmental protection, which may adversely affect our operations.

The PRC is a party to the Framework Convention on Climate Change ("Climate Change Convention"), which is intended to limit or capture emissions of "greenhouse" gases, such as carbon dioxide. Ceilings on such emissions could limit the production of electricity from fossil fuels, particularly coal, or increase the costs of such production. At present, ceilings on the emissions of "greenhouse" gases have not been assigned to developing countries under the Climate Change Convention. Therefore, the Climate Change Convention would not have a major effect on us in the short term because the PRC as a developing country is not obligated to reduce its emissions of "greenhouse" gases at present, and the PRC Government has not adopted relevant control standards and policies. If the PRC were to agree to such ceilings, or otherwise reduce its reliance on coal-fired power plants, our business prospects could be adversely affected. In addition, pilot carbon emission trading programs have been conducted in certain regions and are expected to be gradually implemented throughout China. This may also adversely affect our business and financial prospects in the future.

Our business benefits from certain PRC Government tax incentives. Expiration of, or changes to, the incentives could adversely affect our operating results

Prior to January 1, 2008, according to the relevant income tax law, domestic enterprises were, in general, subject to statutory income tax of 33% (30% enterprise income tax and 3% local income tax). If these enterprises are located in certain specified locations or cities, or are specifically approved by State Administration of Taxation, a lower tax rate would be applied. Effective from January 1, 1999, in accordance with the practice notes on the PRC

income tax laws applicable to foreign invested enterprises investing in energy and transportation infrastructure businesses, a reduced enterprise income tax rate of 15% (after the approval of State Administration of Taxation) was applicable across the country. We applied this rule to all of our wholly owned operating power plants after obtaining the approval of State Administration of Taxation. In addition, certain power plants were exempted from enterprise income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most of five years), followed by a 50% reduction of the applicable tax rate for the next three years. The statutory income tax was assessed individually based on each of their results of operations.

On March 16, 2007, the Enterprise Income Tax Law of PRC, or the New Enterprise Income Tax Law, was enacted, and became effective on January 1, 2008 and was amended on February 24, 2017. The New Enterprise Income Tax Law imposes a uniform income tax rate of 25% for domestic enterprises and foreign invested enterprises. Therefore, our power plants subject to a 33% income tax rate prior to January 1, 2008 are subject to a lower tax rate of 25% starting on January 1, 2008. With regard to our power plants entitled to a reduced enterprise income tax rate of 15% prior to January 1, 2008, their effective tax rate gradually increased to 25% within a five-year transition period commencing on January 1, 2008. Accordingly, the effective tax rate of our wholly owned power plants has increased over time. In addition, although our power plants entitled to tax exemption and reduction under the income tax laws and regulations that are effective prior to the New Enterprise Income Tax Law will continue to enjoy such preferential treatments until the expiration of the same, newly established power plants will not be able to benefit from such tax incentives, unless they can satisfy specific qualifications, if any, provided by then effective laws and regulations on preferential tax treatment.

The increase of applicable income tax rate and elimination of the preferential tax treatment with regard to certain of our power plants may adversely affect our financial condition and results of operations. Moreover, our historical operating results may not be indicative of our operating results for future periods as a result of the expiration of the tax benefits currently available to us.

In addition, according to the New Enterprise Income Tax Law and its implementation rules, any dividends derived from the distributable profits accumulated from January 1, 2008 and paid to the shareholders who are non-resident enterprises in the PRC will be subject to the PRC withholding tax at the rate of 10%. The withholding tax will be exempted if such dividends are derived from the distributable profits accumulated before January 1, 2008. Under a notice issued by the State Administration of Taxation of the PRC on November 6, 2008, we are required to withhold PRC income tax at the rate of 10% on annual dividends paid for 2008 and later years payable to our H Share investors who are non-resident enterprises.

Fluctuations in exchange rates could have an adverse effect on our results of operations and your investment. As a power producer operating mainly in China, we collect most of our revenues in Renminbi and have to convert Renminbi into foreign currencies to (i) repay some of our borrowings which are denominated in foreign currencies, (ii) purchase foreign made equipment and parts for repairs and maintenance, (iii) purchase fuel from overseas suppliers, and (iv) pay out dividend to our overseas shareholders.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. On July 21, 2005, the PRC government introduced a floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. Renminbi appreciated by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. On June 19, 2010, the PBOC decided to further promote the reform of the Renminbi exchange rate formation mechanism, and improve the flexibility of Renminbi exchange rate. The Company and its subsidiaries (both domestic and overseas) have debts denominated in foreign currencies, fluctuations in the exchange rates of Renminbi and Singapore dollar into foreign currencies create exchange risk for the Company. With the internationalization process and RMB joining the SDR, RMB exchange rate may continue to fluctuate in the future. In August 2015, the PBOC further improved its midpoint rate determination mechanism, which led to a 2% depreciation of Renminbi against the U.S. dollar. With effect from October 1, 2016, RMB is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency. In the fourth quarter of 2016, the RMB has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China.

In 2017, the RMB has appreciated significantly in the backdrop of a weak U.S. dollar, robust Chinese economy in 2017 and stringent foreign exchange regulation. In the first quarter of 2018, the RMB continued to appreciate. However, the RMB depreciated significantly in the remaining quarters of 2018. However, it is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. There remains significant international pressure on the PRC Government to further liberalize its currency policy, which could result in further fluctuations in the value of the Renminbi against the U.S. dollar. However, there is no assurance that there will not be a devaluation of Renminbi in the future. If there is such devaluation, our debt servicing cost will increase and the return to our overseas investors may decrease. Our revenues from SinoSing Power Pte. Ltd. ("SinoSing Power") and its subsidiaries are collected in Singapore dollars. However, commencing from 2008, the operating results of SinoSing Power and its subsidiaries were consolidated into our financial statements, which use Renminbi as the presentation currency. The situation of our Pakistan operation is similar after we consolidate our business in Pakistan since December 2018. As a result, we are exposed to foreign exchange fluctuations between Renminbi and the Singapore dollar or Pakistan Rupee. Appreciation of Renminbi against the Singapore dollar or Pakistan Rupee may cause an adverse impact on our operation results and foreign translation difference.

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection. Auditors of companies that are registered with the U.S. Securities and Exchange Commission and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the U.S. Public Company Accounting Oversight Board (United States) (the "PCAOB") and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantial operations within the People's Republic of China and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditor's work related to our operations in China is not currently inspected by the PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission ("CSRC") and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges. On December 7, 2018, the Securities and Exchange Commission, or the SEC, and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

This lack of PCAOB inspections of audit work performed in China prevents the PCAOB from regularly evaluating audit work of any auditors that was performed in China including that performed by our auditors. As a result, investors may be deprived of the full benefits of PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Our independent registered public accounting firm may be temporarily suspended from practicing before the SEC. If a delay in completion of our audit process occurs as a result, we could be unable to timely file certain reports with the SEC, which may lead to the delisting of our stock.

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the "Big Four" accounting firms, including our independent registered public accounting firm, from, among other things, practicing before the SEC for six months. In February 2014, the initial decision was appealed. While under appeal and in February 2015, the Chinese member firms of "Big Four" accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of "Big Four" accounting firms agreed to settlement terms that include a censure; undertakings to make a payment to the SEC; procedures and undertakings as to future requests for documents by the US SEC; and possible additional proceedings and remedies should those undertakings not be adhered to.

If the settlement terms are not adhered to, Chinese member firms of "Big Four" accounting firms may be suspended from practicing before the SEC which could in turn delay the timely filing of our financial statements

with the SEC. In addition, it could be difficult for us to timely identify and engage another qualified independent auditor. A delinquency in our filings with the SEC may result in NYSE initiating delisting procedures, which could adversely harm our reputation and have other material adverse effects on our overall growth and prospect.

Forward-looking information may prove inaccurate

This document contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words "anticipate," "believe," "estimate," "expect," "going forward" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statement. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. We do not intend to update these forward-looking statements.

There can be no assurance that we will not be passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in the ADSs or our H Shares to significant adverse United States income tax consequences

We will be a "passive foreign investment company," or "PFIC," if, in the case of any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of "passive" income or (b) 50% or more of the average quarterly value of our assets (as determined on the basis of fair market value) during such year produce or are held for the production of passive income (the "asset test"). For United States federal income tax purposes, and based upon our income and assets, we do not believe that we were classified as a PFIC for the taxable year ended December 31, 2018, and do not anticipate becoming one in the foreseeable future.

While we do not expect to become a PFIC, because the value of our assets for purposes of the asset test may be determined by reference to the market price of the ADSs, fluctuations in the market price of the ADSs may cause us to become a PFIC for the current or subsequent taxable years. The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets. Under circumstances where we determine not to deploy significant amounts of cash for active purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we are a PFIC in any taxable year, a U.S. Holder (as defined in "Item 10. Additional Information—E. Taxation—United States federal income tax considerations") may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or H Shares and on the receipt of distributions on the ADSs or H Shares to the extent such gain or distribution is treated as an "excess distribution" under the United States federal income tax rules and such holders may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. Holder holds the ADSs or our H Shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds the ADSs or our H Shares. For more information see "Item 10. Additional Information—E. Taxation—United States federal income tax considerations—Passive Foreign Investment Company Considerations."

Risks relating to doing business in the PRC

China's economic, political and social conditions as well as government policies could significantly affect our business

As of December 31, 2018, the majority of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including government involvement, control of foreign exchange, and allocation of resources.

The economy of China has been transitioning from a planned economy to a more market-oriented economy. After multiple years of strenuous and sustained economic restructuring reforms, China has become a leading player in the global economy and a major contributing force to the economic revival and growth worldwide. The PRC Government has implemented economic reform measures emphasizing utilization of market forces in the development of the economy of China and a higher level of autonomy for the private sector. Some of these measures will benefit the overall economy of China, but may have a negative effect on us for a short term. For example, our operating results and financial condition may be adversely affected by changes in power tariff for our power plants, cost of fuels, increasingly stringent environment protection policies, and changes in State policies affecting the power industry.

Interpretation of PRC laws and regulations involves significant uncertainties

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but are not considered as binding precedents.

We are subject to certain PRC regulations governing PRC companies that are listed overseas. These regulations contain certain provisions that are required to be included in the articles of association of these PRC companies and are intended to regulate the internal affairs of these companies. As the PRC regulations are constantly evolving with the goal of better protecting shareholder's interests, we may face greater uncertainties in the interpretation of PRC laws and regulations. Furthermore, the PRC regulations for protection of shareholder's rights are different from those applicable in the United States and/or exchanges where we are listed. Therefore we made it our policy to adopt the strictest standards of any listing rules potentially applicable to us. Some of these standards are incorporated in our articles of association and bylaws with the view to providing most protection for the interests of our shareholders.

Risks relating to our operations in Singapore

Our operations in Singapore are subject to a number of risks, including, among others, risks relating to electricity pricing, dispatching, fuel supply, project development, capital expenditure, environmental regulations, government policies, and Singapore's economic, political and social conditions. Any of these risks could materially and adversely affect our business, prospects, financial condition and results of operations.

Fluctuation in demand and intensified competition may adversely affect Tuas Power's business and results of operations.

Our operations in Singapore depend on market demand and are subject to competition. Overall power system demand grew by 2.2% in 2018 over 2017. The future growth is highly dependent on a sustained recovery in the Singapore and global economies. The liberalization of Singapore's power market and the further deregulation of its power industry have resulted in more intense competition among the power generation companies in Singapore. Tuas Power Group, or Tuas Power, one of our wholly owned business units, is one of the three largest power generation companies in Singapore. If Tuas Power is unable to compete successfully against other power generation companies in Singapore, its business, prospects, financial condition and results of operations may be adversely affected.

An electricity futures market was also established in 2015 through an incentive scheme by the authority to market makers (MM) in the futures market. This has attracted independent retailers which are expected to exert some price competition in the retail market. A Demand Response (DR) scheme is currently being established which could potentially introduce further price competition in the wholesale generation market in Singapore. Furthermore, the Singapore government recently announced plans to raise the adoption of solar energy to 350 MWp by 2020 and 1,000MWp beyond 2020, compared to around 183 MWp in third quarter 2018.

TP Utilities Pte Ltd ("TPU"), an entity in Tuas Power Group, sells utilities, such as steam, industrial water and demineralized water to industrial customers for their direct consumption. The time of potential customers of TPU to site their premises, if at all, is subject to microeconomic situations. The demand of the utilities by these customers may vary as well. Despite Tuas Power's efforts to develop its facilities in stages and/or in modules to provide sufficient capacity matching the demand, and require customers to pay minimum capacity payment charges

to mitigate the demand risk, its business and results of operations may be adversely affected by fluctuation in demand. Regulatory changes of the vesting regime in Singapore could expose Tuas Power to electricity price volatility and adversely affect its business and results of operations

Tuas Power derives its revenue mainly from sale of electricity to the National Electricity Market of Singapore (the "NEMS") through a bidding process and vesting contracts under which a significant portion of power sales is predetermined by the Energy Market Authority ("EMA"). The vesting contract regime in Singapore is targeted at mitigation of market power in the wholesale electricity spot market. The regime achieves this objective by assigning a quantity of vesting contracts to generation companies, thereby limiting their incentives to exercise whatever level of market power they may possess. Vesting contracts are a form of bilateral contract imposed/vested on the major power generation companies in Singapore. Vesting contract price is set by the EMA, which is Singapore's power market regulator. Vesting contract price is set at the long run marginal cost of the most efficient base-loaded technology plant employed in Singapore and is reviewed every two years. On a quarterly basis, the EMA allows for vesting contract quantity to be adjusted to account for changes in demand (due to seasonality) and the vesting contract price to be adjusted to account for inflation and changes in fuel prices. Such a mechanism helps protect the profit margins of the power generation companies in the Singapore market, such as Tuas Power, to a large degree. The quantity of vesting contract allocated to the power generation company depends on the proportion of such power generation company's capacity to the total licensed or planned generation capacity at the commencement of the vesting contracts regime. A portion of the volume under the Vesting Contract Scheme has also been allocated to the LNG Vesting Scheme - an incentive scheme where players who have committed to an initial tranche of LNG for Singapore are allocated electricity sale contracts. The volume allocated to the generation companies under the LNG vesting scheme is fixed for a period of 10 years until 2023. Following EMA's review of the Vesting Contract Regime in 2016, it is determined that the vesting contract level will be maintained at 25% until the end of the first half of 2018 and it will be reduced to LNG vesting level by the second half of 2019. The vesting contract regime will be phased out by 2023 when the LNG vesting contract expires, which could lead to volatility in electricity prices and adversely affect our business, financial condition and results of operation.

In July 2018, EMA issued a determination paper to allow vesting contract holders with steam turbine generation plants, i.e., Tuas Power, Senoko Energy and YTL PowerSeraya, to retain their allocated vesting quantities irrespective of whether the steam turbine generation plants are retired. This will facilitate the three generation companies in making commercial decisions on whether and when to retire their steam turbine generation plants so as to reduce overhead costs and free up resources.

The fuel cost of Tuas Power is exposed to volatility of international fuel price and foreign currency risk. The fuel for Tuas Power consists of natural gas, coal, biomass, fuel oil and diesel oil. Since the procurement price of natural gas is closely linked to oil price and the procurement price of coal and biomass is linked to a coal index, the fuel cost of Tuas Power is exposed to the volatility of international oil and coal prices. The prices of oil were on upward trend from January to September 2018 and turned downwards in the remaining months of 2018. The price of coal remained strong in 2018. In addition, the commitments for the purchase of fuel are denominated in U.S. dollars, which further exposes Tuas Power to foreign currency risk. Any increase in fuel price and/or appreciation of the U.S. dollar against the Singapore dollar will translate into an increase in fuel cost for Tuas Power. Part of this increase can be passed through electricity sale contracts and utilities sale contracts, while fuel and foreign exchange hedging strategies done appropriately will mitigate the impact of such increase. No assurance can be given that such increase will not adversely affect results of its operation. Tuas Power is highly dependent upon the import of gas via pipelines from Indonesia. The movement in the price of oil over the course of 2018 has resulted in variation in the price for its various sources of gas supply within the same month. Any disruption of such supply would impact the normal operation of Tuas Power significantly. This risk has been mitigated through Tuas Power's contract to buy LNG for its incremental needs, although there is no assurance that, in the event of fuel supply shortfall, Tuas Power's operations will not be adversely affected.

ITEM 4 INFORMATION ON THE COMPANY

A. History and development of the Company