中广核 CGN

**CGN NEW ENERGY HOLDINGS CO., LTD.**

**中國廣核新能源控股有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock code: 1811)**

# Annual Results for the Year Ended 31 December 2018

## HIGHLIGHTS OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

- Revenue for the year ended 31 December 2018 amounted to US$1,358.5 million, representing an increase of 22.5% from US$1,108.6 million for the year ended 31 December 2017.
- Profit before tax for the year ended 31 December 2018 amounted to US$125.0 million, representing an increase of 32.1% from US$94.6 million for the year ended 31 December 2017.
- Profit attributable to owners of the Company for the year ended 31 December 2018 amounted to US$88.2 million, representing an increase of 42.5% from US$61.9 million for the year ended 31 December 2017.
- The increase in profit was mainly attributable to (1) significant improvement of utilization hours of our wind projects and (2) contribution from 337.4 MW newly commissioned solar and wind projects.
- Earnings per Share for the year ended 31 December 2018 amounted to 2.06 US cents, representing an increase of 43.1% from 1.44 US cents for the year ended 31 December 2017.
- The Board recommended a final dividend for the year ended 31 December 2018 of 0.51 US cents per Share (equivalent to 4.01 HK cents per Share), totalling US$22.1 million (equivalent to HK$172.0 million), which is calculated based on 4,290,824,000 Shares in issue on 20 March 2019.

The Board is pleased to announce the annual results of the Group for the year ended 31 December 2018 together with comparative figures for the corresponding period in 2017.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE GROUP

*FOR THE YEAR ENDED 31 December 2018*

| | **2018** | 2017 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Revenue | **1,358,487** | 1,108,560 |
| Operating expenses: | | |
| Coal, oil and gas | **829,596** | 619,829 |
| Depreciation of property, plant and equipment | **144,473** | 134,299 |
| Repair and maintenance | **44,742** | 40,179 |
| Staff costs | **67,652** | 76,389 |
| Others | **72,843** | 71,634 |
| Total operating expenses | **1,159,306** | 942,330 |
| Operating profit | **199,181** | 166,230 |
| Other income | **41,337** | 14,459 |
| Other gains and losses | **(22,141)** | (7,521) |
| Finance costs | **(110,158)** | (101,708) |
| Share of results of associates | **16,819** | 19,268 |
| Gain on deconsolidation of a subsidiary | **–** | 3,825 |
| Profit before tax | **125,038** | 94,553 |
| Income tax expense | **(33,767)** | (28,587) |
| Profit for the year | **91,271** | 65,966 |

| | 2018 | 2017 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Other comprehensive (expenses) income | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange difference arising on translation of foreign operations | **(84,037)** | 125,763 |
| Fair value loss on hedging instruments designated as cash flow hedge | **(4,850)** | – |
| Deferred tax credit arising on fair value loss on hedging instruments | **1,174** | – |
| Reclassification adjustments for amounts transferred to profit or loss | | |
| – release of hedging reserve | **(129)** | (126) |
| – deferred tax credit arising on release of hedging reserve | **31** | 31 |
| – release of cumulative gain of translation reserve included in profit or loss upon deconsolidation of a subsidiary | **–** | (3,825) |
| Other comprehensive (expenses) income for the year | **(87,811)** | 121,843 |
| Total comprehensive income for the year | **3,460** | 187,809 |
| Profit for the year attributable to: | | |
| Owners of the Company | **88,211** | 61,872 |
| Non-controlling interests | **3,060** | 4,094 |
| | **91,271** | 65,966 |
| Total comprehensive income (expenses) for the year attributable to: | | |
| Owners of the Company | **4,850** | 179,534 |
| Non-controlling interests | **(1,390)** | 8,275 |
| | **3,460** | 187,809 |
| Earnings per Share | | |
| – Basic *(US cents)* | **2.06** | 1.44 |
| – Diluted *(US cents)* | **2.06** | 1.44 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 December 2018*

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US$'000*** | *US$'000* |
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | **2,676,298** | 2,471,558 |
| Prepaid lease payments | **48,258** | 51,004 |
| Goodwill | **169,976** | 178,492 |
| Interests in associates | **163,983** | 168,111 |
| Deferred tax assets | **22,503** | 25,366 |
| Other non-current assets | **83,698** | 61,046 |
| | **3,164,716** | 2,955,577 |
| **CURRENT ASSETS** | | |
| Inventories | **31,474** | 33,723 |
| Prepaid lease payments | **3,087** | 3,343 |
| Trade receivables | **308,475** | 255,441 |
| Contract assets | **20,962** | – |
| Other receivables and prepayments | **165,915** | 134,462 |
| Amounts due from associates | **13,126** | 12,615 |
| Amounts due from fellow subsidiaries | **10,688** | 9,732 |
| Tax recoverable | **729** | 453 |
| Derivative financial instruments | **16** | – |
| Pledged bank deposits | **166,847** | 92,446 |
| Short-term bank deposits | **6,247** | – |
| Bank balances and cash | **246,786** | 242,825 |
| | **974,352** | 785,040 |

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US$'000*** | *US$'000* |
| **CURRENT LIABILITIES** | | |
| Trade payables | **165,062** | 111,146 |
| Other payables and accruals | **221,515** | 170,660 |
| Amounts due to fellow subsidiaries | **3,001** | 5,561 |
| Amounts due to non-controlling shareholders | | |
| – due within a year | **8,997** | 8,709 |
| Loan from a fellow subsidiary | | |
| – due within a year | **43,711** | – |
| Bank borrowings – due within one year | **347,345** | 179,032 |
| Bond payables – due within one year | **–** | 354,858 |
| Government grants | **824** | 658 |
| Deferred connection charges | **–** | 89 |
| Contract liabilities | **2,058** | – |
| Tax payable | **12,730** | 9,975 |
| Derivative financial instruments | **270** | 9,957 |
| | **805,513** | 850,645 |
| **NET CURRENT ASSETS (LIABILITIES)** | **168,839** | (65,605) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **3,333,555** | 2,889,972 |
| **NON-CURRENT LIABILITIES** | | |
| Amount due to a non-controlling shareholder | | |
| – due after one year | **909** | 896 |
| Loans from fellow subsidiaries – due after one year | **700,000** | 450,000 |
| Bank borrowings – due after one year | **1,617,600** | 1,417,715 |
| Government grants | **9,924** | 11,190 |
| Deferred connection charges | **–** | 116 |
| Contract liabilities | **73** | – |
| Deferred tax liabilities | **45,906** | 49,680 |
| Derivative financial instruments | **4,859** | – |
| | **2,379,271** | 1,929,597 |
| **NET ASSETS** | **954,284** | 960,375 |

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US$'000*** | *US$'000* |
| **CAPITAL AND RESERVES** | | |
| Share capital | **55** | 55 |
| Reserves | **865,775** | 875,839 |
| Equity attributable to owners of the Company | **865,830** | 875,894 |
| Non-controlling interests | **88,454** | 84,481 |
| **TOTAL EQUITY** | **954,284** | 960,375 |

**Revenue and segment information**

The Group has three reportable segments as follows:

(1) Power plants in the PRC – Generation and supply of electricity;

(2) Power plants in Korea – Generation and supply of electricity; and

(3) Management companies – Provision of management services to power plants operated by CGN and its subsidiaries.

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

**For the year ended 31 December 2018**

| | **Power plants in the PRC** *US$'000* | **Power plants in Korea** *US$'000* | **Management companies** *US$'000* | **Total** *US$'000* |
|---|---|---|---|---|
| Segment revenue – external | **461,269** | **871,770** | **25,448** | **1,358,487** |
| Segment results | **67,571** | **70,970** | **1,212** | **139,753** |
| Unallocated other income | | | | **93** |
| Unallocated operating expenses | | | | **(2,975)** |
| Unallocated finance costs | | | | **(34,627)** |
| Unallocated other gains and losses | | | | **5,975** |
| Share of results of associates | | | | **16,819** |
| Profit before tax | | | | **125,038** |

For the year ended 31 December 2017

| | Power plants in the PRC *US$'000* | Power plants in Korea *US$'000* | Management companies *US$'000* | Total *US$'000* |
|---|---|---|---|---|
| Segment revenue – external | 407,861 | 663,536 | 37,163 | 1,108,560 |
| Segment results | 86,519 | 39,850 | 1,779 | 128,148 |
| Unallocated other income | | | | 388 |
| Unallocated operating expenses | | | | (8,282) |
| Unallocated finance costs | | | | (35,021) |
| Unallocated other gains and losses | | | | (9,948) |
| Share of results of associates | | | | 19,268 |
| Profit before tax | | | | 94,553 |

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

| | **2018** | 2017 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| ***Segment assets*** | | |
| Power plants in the PRC | **2,522,366** | 2,170,194 |
| Power plants in Korea | **1,400,257** | 1,340,191 |
| Management companies | **2,433** | 2,565 |
| Total segment assets | **3,925,056** | 3,521,950 |
| Interests in associates | **163,983** | 168,111 |
| Unallocated | | |
| – Others | **50,029** | 59,556 |
| Consolidated assets | **4,139,068** | 3,740,617 |
| ***Segment liabilities*** | | |
| Power plants in the PRC | **1,489,425** | 1,107,696 |
| Power plants in Korea | **881,850** | 845,983 |
| Management companies | **534** | 908 |
| Total segment liabilities | **2,371,809** | 1,954,587 |
| Unallocated | | |
| – Bank borrowings | **100,000** | – |
| – Bond payables | **–** | 354,858 |
| – Derivative financial instruments | **–** | 9,957 |
| – Loans from fellow subsidiaries | **700,000** | 450,000 |
| – Others | **12,975** | 10,840 |
| Consolidated liabilities | **3,184,784** | 2,780,242 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 December 2018*

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and the Shares are listed on the Main Board of the Stock Exchange in October 2014. The registered office of the Company is at Victoria Place, 31 Victoria Street, Hamilton HM 10, Bermuda. The principal place of business of the Company is at 15/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. Its immediate holding company is CGN Energy International, a company incorporated in Hong Kong with limited liability and its ultimate holding company is CGN, a state-owned enterprise established in the PRC.

The consolidated financial statements have been prepared in accordance with accounting policies which conform with IFRSs (as defined below). In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance for the year ended 31 December 2018.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

**New and amendments to IFRSs that are mandatorily effective for the current year**

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| IFRIC – 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

**Summary of effects arising from initial application of IFRS 15**

The following adjustments were made to the amounts recognised in the consolidated statement of financial position as at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Notes | Carrying amounts previously reported at 31 December 2017 | Reclassification | Carrying amounts under IFRS 15 at 1 January 2018 |
|---|---|---|---|---|
| | | *US$'000* | *US$'000* | *US$'000* |
| CURRENT ASSETS | | | | |
| Trade receivables | | 255,441 | (4,845) | 250,596 |
| Contract assets | *(a)* | – | 4,845 | 4,845 |
| CURRENT LIABILITIES | | | | |
| Other payables and accruals | | 170,660 | (1,730) | 168,930 |
| Deferred connection charges | | 89 | (89) | – |
| Contract liabilities | *(b)* | – | 1,819 | 1,819 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred connection charges | | 116 | (116) | – |
| Contracts liabilities | | – | 116 | 116 |

*Notes:*

(a) As at 1 January 2018, tariff income receivables of US$4,845,000 which were pending the approval for the registration in the Renewable Energy Tariff Subsidy Catalogue (the "Catalogue") from the relevant government authorities were reclassified as contract assets.

(b) As at 1 January 2018, deposits received in advance from customers of US$1,730,000 and connection charges received in advance from customers of US$205,000 were reclassified as contract liabilities.

The following table summarises the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for the line items affected. Line items that were not affected by the changes have not been included.

| | *Notes* | **As reported** *US$'000* | **Adjustments** *US$'000* | **Amounts without application of IFRS 15** *US$'000* |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Trade receivables | | 308,475 | 20,962 | 329,437 |
| Contract assets | *(a)* | 20,962 | (20,962) | – |
| | | | | |
| CURRENT LIABILITIES | | | | |
| Other payables and accruals | | 221,515 | 1,823 | 223,338 |
| Deferred connection charges | | – | 235 | 235 |
| Contract liabilities | *(b)* | 2,058 | (2,058) | – |
| | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Deferred connection charges | | – | 73 | 73 |
| Contracts liabilities | | 73 | (73) | – |

*Notes:*

(a) As at 31 December 2018, tariff income receivables of US$20,962,000 which were pending the approval for the registration in the Catalogue from the relevant government authorities were reclassified as contract assets.

(b) As at 31 December 2018, deposits received in advance from customers of US$1,823,000 and connection charges received in advance from customers of US$308,000 were reclassified as contract liabilities.

**Summary of effects arising from initial application of IFRS 9**

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. The application of IFRS 9 has had no material effect on classification and measurement of financial assets in these consolidated financial statements. The directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. No additional impairment allowance was recognised at 1 January 2018 as the amount is considered not material. The directors of the Company assessed the Group's existing hedging relationship and concluded that they will qualify as continuing hedging relationship on application of IFRS 9. Accordingly, there is no impact on the Group's current hedge designation and hedge accounting.

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. Operating Results and Analysis

In 2018, the revenue of the Group amounted to approximately US$1,358.5 million, representing an increase of approximately 22.5% compared with last year. The profit attributable to the owners of the Company amounted to approximately US$88.2 million, representing an increase of approximately US$26.3 million or 42.5% as compared with last year.

In 2018, the profit of the Group amounted to approximately US$91.3 million, representing an increase of approximately US$25.3 million or 38.3% as compared with approximately US$66.0 million of last year.

***Revenue***

In 2018, the revenue of the Group amounted to approximately US$1,358.5 million, representing an increase of 22.5% compared with approximately US$1,108.6 million of last year. The increase in revenue was mainly attributable to (1) the higher electricity generation by Yulchon I & II Power Projects as a result of the extremely cold weather during winter and the increase in demand of clean energy in Korea; and (2) the higher dispatch volume by the wind projects with improvement of wind curtailment situations.

***Operating Expenses***

In 2018, the operating expenses of the Group amounted to approximately US$1,159.3 million, representing an increase of approximately 23.0% compared with approximately US$942.3 million of last year. The increase in operating expenses was mainly due to the increase in gas consumption of our Yulchon I & II Power Projects which was in line with the increase in electricity generation. In addition, the consistent increase in coal price and coal consumption of the coal-fired and cogen projects has led to the increase in operating costs.

***Operating Profit***

In 2018, the operating profit, which is equal to revenue minus operating expenses, of the Group amounted to approximately US$199.2 million, representing an increase of approximately US$33.0 million or 19.9% compared with approximately US$166.2 million of last year. The increase in operating profit was mainly due to (1) the significant improvement of dispatch volume by the wind projects with better wind resources and lower grid curtailment; and (2) contribution from newly operating wind and solar projects.

### *Other Income*

Other income mainly represented income on sales of carbon emission quota, interest income, government grants and the refund of value added tax. In 2018, other income of the Group amounted to approximately US$41.3 million, representing an increase of approximately US$26.8 million or 184.8% compared with approximately US$14.5 million of last year. The significant increase in other income was mainly due to the non-recurring one-off gains of approximately US$23.0 million from the sale of carbon emission quota of the Korea projects.

### *Other gains and losses*

In 2018, other losses of the Group amounted to approximately US$22.1 million, representing an increase of approximately US$14.6 million or 194.7% compared with approximately US$7.5 million of last year. The increase in other losses was mainly attributable to the non-recurring one-off impairment losses of approximately US$23.4 million in respect of property, plant and equipment of the PRC cogen projects, which was offset by gain on fair value of derivative financial instruments of approximately US$6.0 million.

### *Finance Costs*

In 2018, the finance costs of the Group amounted to approximately US$110.2 million, representing an increase of approximately US$8.5 million or 8.4% compared with approximately US$101.7 million of last year. The increase in finance costs was mainly attributable to the increase in weighted average balances of bank borrowings.

### *Share of Results of Associates*

In 2018, the share of results of associates amounted to approximately US$16.8 million, representing a decrease of approximately US$2.5 million or 13.0% compared with approximately US$19.3 million of last year. The decrease in profit of the associates was mainly due to the increase in standard coal price in the PRC.

### *Income Tax Expenses*

In 2018, the income tax expenses of the Group amounted to approximately US$33.8 million, representing an increase of approximately US$5.2 million or 18.2% compared with approximately US$28.6 million of last year.

### *Liquidity and Capital Resources*

The Group's bank balances and cash slightly increased from US$242.8 million as at 31 December 2017 to US$246.8 million as at 31 December 2018. The increase was primarily due to increase in net cash generated from operations.

***Net Debt/Equity Ratio***

The Group's net debt/equity ratio increased from 2.25 as at 31 December 2017 to 2.58 as at 31 December 2018 due to the increase in bank borrowings.

***Dividend***

At the Board meeting held on 20 March 2019, the Board recommended the payment of a final dividend for the year ended 31 December 2018 of 0.51 US cents per Share (equivalent to 4.01 HK cents per Share), totalling US$22.1 million (equivalent to HK$172.0 million), which is calculated based on 4,290,824,000 Shares in issue on 20 March 2019. Payout ratio of the proposed dividend is 25%.

***Earnings per Share***

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US cents*** | *US cents* |
| Earnings per Share, basic and diluted – calculated based on the weighted average number of ordinary shares for the year | **2.06** | 1.44 |
| Earnings per Share, basic and diluted – calculated based on the number of ordinary shares outstanding at year end | **2.06** | 1.44 |

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US$'000*** | *US$'000* |
| Earnings for the purpose of calculating basic and diluted earnings per Share (profit for the year attributable to owners of the Company) | **88,211** | 61,872 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per Share | **4,290,824** | 4,290,824 |
| Number of ordinary shares outstanding at year end | **4,290,824** | 4,290,824 |

***Trade Receivables***

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US$'000*** | *US$'000* |
| Trade receivables | **310,025** | 255,787 |
| Less: allowance for doubtful debts | **(1,550)** | (346) |
| | **308,475** | 255,441 |

The following is an aging analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the revenue recognition dates.

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US$'000*** | *US$'000* |
| 0 – 60 days | **159,815** | 174,826 |
| 61 – 90 days | **11,101** | 8,099 |
| 91 – 120 days | **26,646** | 32,595 |
| 121 – 180 days | **57,785** | 39,852 |
| Over 180 days | **53,128** | 69 |
| | **308,475** | 255,441 |

***Trade Payables***

The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period.

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US$'000*** | *US$'000* |
| 0 – 60 days | **105,878** | 104,280 |
| 61 – 90 days | **1,472** | 1,643 |
| Over 90 days | **57,712** | 5,223 |
| Total | **165,062** | 111,146 |

The average credit period on purchases of goods is 32 (2017: 26) days for the year ended 31 December 2018. The Group has financial risk management policies in place to ensure all payables are settled within the credit period.

***Financial Position***

Non-current assets increased from US$2,955.6 million as at 31 December 2017 to US$3,164.7 million as at 31 December 2018, which was mainly due to the additions of property, plant and equipment during the year.

Current assets increased from US$785.0 million as at 31 December 2017 to US$974.4 million as at 31 December 2018, which was mainly attributable to the increase in pledged bank deposits, trade receivables and other receivables and prepayments.

Current liabilities decreased from US$850.6 million as at 31 December 2017 to US$805.5 million as at 31 December 2018, which was mainly due to settlement of bond payables.

Non-current liabilities increased from US$1,929.6 million as at 31 December 2017 to US$2,379.3 million as at 31 December 2018, which was mainly due to increase in loans from fellow subsidiaries and bank borrowings.

***Bank Borrowings***

The Group's total bank borrowings increased from US$1,596.7 million as at 31 December 2017 to US$1,964.9 million as at 31 December 2018. Details of bank borrowings are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***US$'000*** | *US$'000* |
| Secured | **1,728,830** | 1,548,923 |
| Unsecured | **236,115** | 47,824 |
| | **1,964,945** | 1,596,747 |

The maturity profile of bank borrowings is as follows:

| | | |
|---|---|---|
| Within one year | **347,345** | 179,032 |
| More than one year but not exceeding two years | **271,637** | 151,241 |
| More than two years but not exceeding five years | **523,216** | 496,015 |
| Over five years | **822,747** | 770,459 |
| | **1,964,945** | 1,596,747 |
| Less: Amounts due for settlement within one year shown under current liabilities | **(347,345)** | (179,032) |
| Amounts due for settlement after one year | **1,617,600** | 1,417,715 |

As at 31 December 2018, the Group had committed unutilized banking facilities of US$1,737.9 million.

***Bond Payables***

The Company issued bonds in an aggregate principal amount of US$350.0 million on 19 August 2013 priced at 99.686% of the principal amount that carries interest at 4% per annum and interest is payable semi-annually in arrears and has become matured on 19 August 2018. As 19 August 2018 was a Sunday, the Company effected payment for the redemption of the bonds in full on 20 August 2018, such that the carrying amount of the bond payables became nil as at 31 December 2018.

***Loans from Fellow Subsidiaries***

Loan from China Clean Energy Development Limited, a fellow subsidiary of the Company, amounted to US$450.0 million as at 31 December 2018 and 2017, is unsecured, interest bearing at 4.5% per annum and repayable in 2025. It is shown as non-current liability as at 31 December 2018 and 2017.

During 2018, the Company has drawn (i) the loan from CGN Finance Co., Ltd, a fellow subsidiary of the Company, amounting to RMB300.0 million, which is unsecured, interest bearing at 4.57% per annum, repayable in 2019 and shown as current liability as at 31 December 2018 and (ii) the loan from CGNPC Huasheng Investment Limited, a fellow subsidiary of the Company, amounting to US$250.0 million, which are unsecured, interest bearing at 3 months London Interbank Offered Bank plus 1.3% per annum and repayable in 2021 and shown as non-current liability as at 31 December 2018.

***Capital Expenditures***

The Group's capital expenditure increased by US$388.9 million to US$498.0 million in 2018 from US$109.1 million in 2017.

***Contingent Liabilities***

As at 31 December 2018 and 2017, the Group had no material contingent liabilities.

***Pledged Assets***

The Group pledged certain property, plant and equipment, land use rights, trade receivables, bank deposits and restricted cash for credit facilities granted to the Group. As at 31 December 2018, the total book value of the pledged assets amounted to US$2,681.9 million.

***Employees and Remuneration Policy***

As at 31 December 2018, the Group had about 1,917 full-time employees, with the majority based in China. The Group provides its employees with salaries and bonuses, as well as employee benefits, including retirement schemes, medical and life insurance schemes.

Employees located in China are covered by the mandatory social security schemes required by local practice and regulations of the PRC, which are essentially defined contribution schemes. The Group is required by the PRC law to contribute a certain percentage of the average salaries of the employees to various schemes in accordance with the respective regulatory requirements of each city. The PRC government is directly responsible for the payment of the benefits to these employees.

In Korea, the Group is required by law to contribute 4.5% of the employees' monthly average salaries for the national pension, 3.06% for national health insurance (6.55% of the national health insurance contribution for long term care insurance), 0.9% for unemployment insurance, 0.86% (Seoul Office)/0.76% (Yulchon)/0.76%(Daesan) for the industrial accident compensation insurance and 0.06% for a wage claim guarantee fund.

In Hong Kong, the Group participates in a mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance (Cap. 485). Employees contribute 5.0% of their relevant income to the mandatory provident fund scheme and the Group contributes 10.0% of each employee's monthly base salary.

## II. Industry Overview

In 2018, China's macro economy had been developing smoothly and achieving progress amidst stability. According to the data published by the National Energy Administration of the PRC, the installed capacity of the PRC amounted to 1,900 GW throughout the year, representing a year-on-year increase of 6.5%, while electricity consumption amounted to 6,845 TWh, representing a year-on-year increase of 8.5%.

The accumulated installed grid-connected wind power capacity for 2018 reached 184 GW, with a year-on-year increase of 12.4%, while the annual accumulated on-grid wind power generation amounted to 366 TWh, representing a year-on-year growth of 20.2%. The annual average curtailment rate of wind power amounted to 7%, representing a year-on-year decrease of 5%, showing a remarkable reduction in curtailment rate. In 2018, the accumulated installed grid-connected solar power capacity recorded 175 GW, with a year-on-year increase of 33.9%. The annual accumulated on-grid solar power generation amounted to 178 TWh, representing a year-on-year growth of 50.8%. The annual average curtailment rate of solar power amounted to 3%, representing a year-on-year decrease of 2.8%.

Under the guidance of national policy and planning, power investment gradually shifted its focus to clean energy with an accelerating transformation towards low-carbon energy structure. In 2018, China had introduced a number of policies to secure the development of renewable energy.

The Wind Power 518 New Policy and Photovoltaic 531 New Policy were introduced due to the inordinate insufficiency of the renewable energy subsidy. The promulgation of the two new policies implied that development of wind power and photovoltaic industries in the PRC has entered into a new era, where price competition centering on subsidy cut and market-oriented reform took place.

In June 2018, the Ministry of Finance, the NDRC and the National Energy Administration jointly issued the "Notice on Publication of the Renewable Energy Tariff Subsidies Catalogue (the Seventh Batch)" (《關於公佈可再生能源電價附加資金補助目錄(第七批)的通知》), which provided policy support and subsidy to the renewable energy industry, with a view to easing the funding pressure faced by the enterprises and firmly supporting the development of the renewable energy industry in China through practical actions.

In October 2018, the "Action Plan on Clean Energy Consumption (2018-2020)"(《清潔能源消納行動計劃(2018-2020年)》) issued by the NDRC and National Energy Administration clearly stated that the objective of clean energy consumption work was to focus on basically solving the problem of clean energy consumption by 2020. The document pointed out the difficulties in clean energy consumption would be tackled with more devotion, bigger efforts and more effective measures, aiming at establishing a long-term mechanism for clean energy consumption.

In order to accelerate the construction of a clean, low-carbon, safe and efficient energy system as well as to promote the development and utilization of renewable energy, the Renewable-Sourced Electricity Quotas was introduced in PRC. In November 2018, the NDRC and National Energy Administration issued the "Circular on Operating the Renewable-Sourced Electricity Quotas (draft for comments)" (《關於實行可再生能源電力配額制的通知(徵求意見稿)》), the third round of consultation draft on Renewable-Sourced Electricity Quotas and Examination Method in 2018, emphasizing the dedication to the consumption of renewable energy through quota system.

In January 2019, in an endeavour to boost the high-quality development of renewable energy and enhance the market competitiveness of wind power and photovoltaic power generation, the NDRC and National Energy Administration issued the "Notice on Actively Promoting Work Related to Unsubsidized Wind Power and Photovoltaic Power Generation Grid-Parity Projects" (《關於積極推進風電、光伏發電無補貼平價上網有關工作的通知》) to facilitate the requirements of the projects and supporting policy measures.

The future structural shifts in energy consumption will give top priority in making wind power and photovoltaic power as the key factors of future growth in clean energy. Enterprises are required to comply with the national strategy for renewable energy development and unswervingly promote the existing strategic objectives, while actively adapting to the new requirements under the new situation with strong confidence to hold on a clear strategic focus.

From 2018 onwards, with the introduction of offshore wind power planning in various locations, offshore wind power ushered in a golden period of development. In early 2018, "Guidelines for Energy Work in 2018" (《2018年能源工作指導意見》) published by the National Energy Administration stated the construction scale of the newly-commenced wind power projects for 2018 amounted to approximately 25 GW with newly commissioned installed capacity of approximately 20 GW, which aimed at promoting offshore wind power construction in an active and stable manner, as well as exploring the establishment of offshore wind power demonstration project in deep seas. According to the "13th Five-Year Plan", installed capacity of offshore wind power would be around 5 GW in 2020. It is hoped that, by 2020, the cost of offshore wind power would be close to that of onshore wind power.

In 2018, the newly commissioned installed capacity of offshore wind power amounted to 1,610 MW, bringing the accumulated installed capacity to 3,630 MW, while projects under construction reached approximately 11 GW. It is expected that the "13th Five-Year Plan" target could be fulfilled in advance. High-power wind turbines have become the direction of future development of offshore wind power. Currently, an offshore generation unit with the maximum single capacity in China achieved 8 MW and is soon to rise to 10 MW. Currently, the major provinces for developing offshore wind power, such as Guangdong, Fujian and Jiangsu, have explored various opportunities with "competitive pricing terms". It is foreseeable that offshore wind power generation will have a promising development prospect and huge market potential.

In addition, the GDP growth rate in the Korean market for 2018 was 2.7%, representing a significant slowdown in growth. The overall economic level has maintained in a slump and the unemployment rate continued to rise. As the Korean power market is undergoing a transformation of energy structure, it is expected that there would be an increase in renewable energy and natural gas power plants in the future. Against an increasingly intense competition in the power market caused by the operation of new power plants, coupled with the impact of rising natural gas prices, the profitability of Korean gas-fired power generation companies was affected.

## III. Business Review

The Group's portfolio of assets comprises wind, solar, gas-fired, coal-fired, oil-fired, hydro, cogen and fuel cell projects as well as a steam project, which are operating in the PRC and Korea power markets. Our business in the PRC covers 11 provinces, two autonomous regions and a municipality with wide geographical coverage and diversified business scope. As of 31 December 2018, the operations in the PRC and Korea accounted for approximately 61.0% and 39.0% of our attributable installed capacity of 5,274.5 MW respectively. Clean and renewable energy projects (namely wind, solar, gas-fired, hydro and fuel cell projects) accounted for 66.5% of our attributable installed capacity; and conventional energy projects (namely coal-fired, oil-fired and cogen projects) accounted for 33.5% of our attributable installed capacity.

The following table sets out items selected by us from the results of the Group (by fuel type):

| **US$ million** | **Korea Gas-fired and Oil-fired projects** | **PRC Coal-fired, Cogen and Gas-fired projects** | **PRC Hydro projects** | **PRC Wind projects** | **PRC Solar projects** | **Corporate** | **Total** |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | | | | |
| Revenue | **871.8** | **223.8** | **33.3** | **153.5** | **50.2** | **25.9** | **1,358.5** |
| Operating expenses | **(800.5)** | **(202.8)** | **(22.6)** | **(73.4)** | **(22.9)** | **(37.1)** | **(1,159.3)** |
| Operating profit | **71.3** | **21.0** | **10.7** | **80.1** | **27.3** | **(11.2)** | **199.2** |
| Profit for the year | **55.2** | **8.2** | **9.2** | **45.8** | **17.3** | **(44.4)** | **91.3** |
| Profit attributable to the owners of the Company | **55.2** | **6.3** | **8.7** | **45.1** | **17.3** | **(44.4)** | **88.2** |

| US$ million | Korea Gas-fired and Oil-fired projects | PRC Coal-fired, Cogen and Gas-fired projects | PRC Hydro projects | PRC Wind projects | PRC Solar projects | Corporate | Total |
|---|---|---|---|---|---|---|---|
| For the year ended 31 December 2017 | | | | | | | |
| Revenue | 663.6 | 206.7 | 33.6 | 129.4 | 38.0 | 37.2 | 1,108.5 |
| Operating expenses | (601.2) | (187.5) | (20.1) | (65.0) | (17.2) | (51.3) | (942.3) |
| Operating profit | 62.3 | 19.2 | 13.6 | 64.4 | 20.8 | (14.1) | 166.2 |
| Profit for the year | 30.6 | 36.4 | 10.4 | 31.3 | 12.9 | (55.6) | 66.0 |
| Profit attributable to the owners of the Company | 30.6 | 32.6 | 10.0 | 31.4 | 12.9 | (55.6) | 61.9 |

***Korea Gas-fired and Oil-fired projects***

The utilization hours of our Korea gas-fired plants increased from 4,124 hours to 4,911 hours in 2018, which was mainly due to higher power demand caused by the extremely cold weather and higher demand from clean energy. This led to higher dispatch and increased revenue to US$871.8 million.

Net profit increased from US$30.6 million to US$55.2 million, which was mainly attributable to the non-recurring one-off post tax gains of approximately US$17.4 million arising from the sale of carbon emission quota.

***PRC Coal-fired, Cogen and Gas-fired projects***

The increase in revenue is mainly due to increase in sales of steam by US$11.7 million as a result of increase in both the number of tonnes sold and the weighted average tariff of the cogen projects. However, the profit dropped by US$28.2 million mainly due to one-off impairment loss and loss on disposal of property, plant and equipment of the cogen projects of US$23.4 million and US$2.9 million, respectively.

***PRC Wind projects***

In 2018, the Group's newly commissioned installed capacity of wind projects amounted to 113.4 MW. The increase in revenue was mainly attributable to (1) contribution from newly commissioned wind projects amounting to US$21.4 million; (2) better wind resources and lower grid curtailment which led to the increase in average utilization hours from 1,619 hours to 1,894 hours as well as the increase in generation of gross electricity. Overall, the operating profit soared to US$80.1 million.

***PRC Solar projects***

The Group's newly commissioned installed capacity of solar projects amounted to 224.0 MW in 2018. The increase in revenue was mainly attributable to contribution from newly commissioned solar projects amounting to US$14.2 million. With stable operating expense, the operating profit amounted to US$27.3 million, representing an increase of US$6.5 million as compared with US$20.8 million in 2017.

The attributable installed capacity of the Group's power assets as of 31 December 2018 and 2017 by fuel type are set out as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***(MW)*** | *(MW)* |
| **Clean and renewable energy portfolio** | | |
| Wind | **1,308.8** | 1,201.2 |
| Solar | **403.8** | 209.3 |
| Gas-fired | **1,655.0** | 1,645.0 |
| Hydro | **137.3** | 137.3 |
| Subtotal | **3,504.9** | 3,192.8 |
| **Conventional energy portfolio** | | |
| Coal-fired | **1,187.6** | 1,187.6 |
| Oil-fired | **507.0** | 507.0 |
| Cogen | **75.0** | 75.0 |
| Subtotal | **1,769.6** | 1,769.6 |
| **Total attributable installed capacity** | **5,274.5** | 4,962.4 |

In 2018, there have been material changes in the environment of renewable energy market. Under the new situation, the Group strived to conduct forward-looking research of renewable energy policy. Throughout the year, the Group closely monitored and looked into the policy in relation to bidding prices, quota system and offshore wind power, with the purpose of providing effective guidance for the development.

***Project Additions***

As at 31 December 2018, the attributable installed capacity of the Group reached 5,274.5 MW, representing an increase of 312.1 MW or 6.3% from last year, among which, attributable installed capacity of wind power was 1,308.8 MW, representing a year-on-year increase of 9.0%, while that of solar power amounted to 403.8 MW with a year-on-year increase of 92.9%. As at 31 December 2018, the consolidated installed capacity of the Group's power plants reached 4,520.3 MW.

The Group pushed forward the development of wind power business steadily. In 2018, the newly commissioned installed capacity of wind power of the Company amounted to 113.4 MW, which included (1) the Anqiu Huangminshan wind power project in Shandong Province with a capacity of 59.4 MW; (2) the Qingyun Zaoyuan wind power project in Shandong Province with a capacity of 44.0 MW; and (3) the Lankao Lanyang distributed wind power project in Henan Province with a capacity of 10.0 MW.

In 2018, the Group further consolidated the development of solar power business with an additional total installed capacity of 224.0 MW in new projects, which included (1) two distributed rooftop photovoltaic power projects, Jiajia project in Hunan Province with a capacity of 6.0 MW and Tongce project in Shanghai City with a capacity of 4.5 MW; (2) the Ledu photovoltaic project with a capacity of 30.0 MW in Qinghai Province; (3) Laoling Tieying II Project with a capacity of 20.0 MW in Shandong Province; and (4) the Wuhai photovoltaic frontrunner project with a capacity of 50.0 MW in Inner Mongolia Autonomous Region.

Furthermore, in November 2018, the Group commenced commercial operation of the 10.0 MW Yulchon Fuel Cell Project (Phase IV) in Korea. The Group's Nantong cogen project in Jiangsu Province expanded installed capacity by 30.0 MW, and commenced commercial operation in January 2019.

***Safety Management***

Upholding the belief that safety is the first priority, the Group paid close attention to safety by continuously enhancing operational management, maintaining equipment quality and improving controlling level to ensure a safe and stable operation of each project site. The Group actively promoted standardisation of production safety. Through the optimization of operational procedure, elimination of potential safety hazards and unification of safety signs, the safety management level was enhanced as a whole to ensure a stable safety environment of the Company.

***Onshore Development of Preliminary Projects***

The Group continued to optimise the development layout of wind power and solar power, thereby maintaining sustainable development and preparing for resources reservation. In 2018, there was a total installed capacity of over 1,000 MW in respect of additional wind power projects which have been approved and not yet commenced construction. All these projects were located in the regions that were not subject to grid curtailment. It is expected that the total newly installed capacity in 2019 will keep steady growth.

### *Offshore Wind Power*

In 2018, the development of offshore wind power in China has progressed steadily. Under the strong policy support and driven by positive factors, such as the deregulation of wind power construction in various provinces, many provinces successively developed offshore wind power. As at 31 December 2018, the offshore wind power projects of the Company and entrusted to be managed by the Company, which have been approved but not yet commenced construction, has accumulated over 8,000 MW, which are located in Guangdong Province, Jiangsu Province and Zhejiang Province. The Company will manage the construction of its projects and the pace of their operation in accordance with the national policies and the Company's overall strategy.

### *Electricity Generation*

The electricity sales (GWh) of the projects of the Group are set out as follows:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| PRC wind projects | **2,405.0** | 1,976.3 |
| PRC solar projects | **406.2** | 295.2 |
| PRC coal-fired, cogen and gas-fired projects | **1,644.0** | 1,643.0 |
| PRC hydro projects | **818.9** | 775.3 |
| Korea gas-fired projects | **7,368.9** | 6,168.5 |
| **Total** | **12,643.0** | 10,858.3 |

As of 31 December 2018, the electricity sales by the Group's consolidated power generation projects amounted to 12,643.0 GWh, representing an increase of 16.4% from 10,858.3 GWh as compared with that of last year. The increase in electricity sales was mainly due to (1) higher dispatch volume of the Korea gas-fired projects arising from increase in demand of clean energy in Korea; and (2) higher dispatch volume of the wind projects with better wind resources and lower grid curtailment. The electricity sales by wind power projects and solar power projects reached 2,405.0 GWh and 406.2 GWh, representing growth rates of 21.7% and 37.6%, respectively.

The total steam sold by the Group amounted to 3,238,000 tonnes, representing an increase of 36,000 tonnes with a growth rate of 1.1% as compared with last year. The increase was mainly due to higher local demand.

The following table sets out the average utilization hour applicable to our projects for the Group:

**Average utilization hour by fuel type**(1)

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| PRC Wind Projects(2) | **1,894** | 1,619 |
| PRC Solar Projects(3) | **1,418** | 1,458 |
| PRC Coal-fired Projects(4) | **4,617** | 4,028 |
| PRC Cogen Projects(5) | **5,183** | 5,485 |
| PRC Hydro Projects(6) | **4,310** | 4,080 |
| Korea Gas-fired Projects(7) | **4,911** | 4,124 |

*Notes:*

(1) Average utilization hour is the gross electricity generated in a specified period divided by the average installed capacity in the same period.

(2) Average utilization hours for the year ended 31 December 2018 for the PRC wind projects in the Shandong Province, the Zhejiang Province, the Gansu Province and the Henan Province were 2,191, 2,064, 1,740 and 2,517, respectively. Average utilization hours for the PRC wind power projects increased mainly due to the following two reasons: i) better overall wind resources which led to increase in the total volume of electricity generation; and ii) the improvement in the situation of domestic wind power curtailment in 2018.

(3) The average utilization hours for the year ended 31 December 2018 for the PRC solar projects in the Western Region, the Central Region and the Eastern Region of the PRC were 1,512, 1,022 and 1,170, respectively. Average utilization hours for the PRC solar power projects decreased slightly mainly due to the following two reasons: i) the situation of domestic solar power curtailment in the Central Region slightly worsened in 2018; and ii) the newly installed capacity was mainly commissioned in the second half of 2018, during which the sunshine period is relatively shorter.

(4) Average utilization hour for the PRC coal-fired projects increased in 2018 due to increase in electricity generation arising from increase in local demand.

(5) Average utilization hour for the PRC cogen projects decreased mainly due to decrease in local demand, which led to decrease in total volume of electricity generation.

(6) Average utilization hour for the PRC hydro projects increased due to better water resources in the Guangxi province in 2018.

(7) Our Korea gas-fired power projects had higher utilization hour in 2018 mainly due to the higher electricity generation by Yulchon I Power Project & Yulchon II Power Project as a result of the extremely cold weather during winter and the increase in demand of clean energy in Korea.

The table below sets out the weighted average tariffs (inclusive of value-added tax ("**VAT**")) applicable to our projects in the PRC and Korea for the Group for the periods indicated below:

**Weighted average tariff (inclusive of VAT)**[(1)]

| | Unit | For the year ended 31 December 2018 | 2017 |
|---|---|---|---|
| PRC Wind Projects[(2)] | RMB per kWh | **0.50** | 0.53 |
| PRC Solar Projects[(3)] | RMB per kWh | **0.94** | 1.02 |
| PRC Coal-fired Projects[(4)] | RMB per kWh | **0.45** | 0.45 |
| PRC Cogen Projects[(4)(5)] | RMB per kWh | **0.47** | 0.46 |
| PRC Hydro Projects[(6)] | RMB per kWh | **0.32** | 0.34 |
| Korea Gas-fired Projects[(7)] | KRW per kWh | **121.16** | 104.98 |
| **Weighted average tariff-steam (inclusive of VAT)** | | | |
| PRC Cogen Projects[(8)] | RMB per ton | **228.10** | 176.90 |

*Notes:*

(1) The weighted average tariffs are affected not only by the change in the tariff for each project but also the change in net power generation for each project.

(2) The weighted average tariff of our PRC wind projects decreased in 2018 mainly due to increase in distribution of electricity through the electricity bid trading market.

(3) The weighted average tariff of our PRC solar projects decreased in 2018 due to keen competition of involvement in electricity bid trading.

(4) The weighted average tariffs for our PRC coal-fired and PRC cogen projects remained stable in 2018.

(5) The weighted average tariff for our PRC cogen projects excludes steam tariff.

(6) The tariff of peak season from May to October in 2018 was adjusted downwards by 10% by the Guangxi local government, which led to decrease in weighted average tariff.

(7) The weighted average tariff for Korea gas-fired projects includes the tariff for the 25.4 MW fuel cell projects owned by Yulchon I Power Project. The increase in weighted average tariff for our Korea gas-fired projects was in line with the increase in Korean gas price.

(8) The weighted average tariff of steam increased in 2018, which was in line with the increase in PRC coal price.

The following table sets out the weighted average gas and standard coal (inclusive of VAT) applicable to our projects in the PRC and Korea for the Group for the periods indicated below:

| | | **For the year ended 31 December** | |
|---|---|---|---|
| | **Unit** | **2018** | 2017 |
| PRC weighted average standard coal price*(1)(2)* | RMB per ton | **842.0** | 785.0 |
| Korea weighted average gas price*(1)(3)* | KRW per $Nm^3$ | **594.6** | 516.8 |

*Notes:*

(1) The weighted average standard coal and the weighted average gas prices are weighted based on the consumption of gas or coal in each applicable period.

(2) The PRC weighted average standard coal price in 2018 increased compared to 2017 due to increase of coal price in the market.

(3) Our Korea weighted average gas price in 2018 increased compared to 2017 due to the increase in the prices known as the Japanese Crude Cocktail, which are calculated with reference to the average prices of crude oil imported into Japan and are an important determinant of natural gas prices in Korean markets. Yulchon I Power Project's power purchase agreement ("**PPA**") allows us to pass on the fuel cost fluctuations of the tariff to our customers in accordance with the laws.

### *Collection of Renewable Energy Subsidy*

The Group attached great importance to the application, approval and collection of renewable energy tariff subsidy. The receipt of subsidy will positively affect the cash flow of the Company and reduce operation cost. In addition, after the issuance of the seventh batch of the Tariff Subsidy Catalogue, the Group has organized the internal inspection of information relating to application for the eighth batch of the Tariff Subsidy Catalogue with reference to the application criteria under the seventh batch of the Tariff Subsidy Catalogue, and has made advanced preparation for the application. Meanwhile, the Group fully leveraged the voluntary subscription policy of the green certificate to seek opportunities for green certificate trading, striving to carry out green certificate sales with a reasonable price in a proactive and secure manner, so as to realize partial receipt of tariff subsidy.

In the future, the Renewable-Sourced Electricity Quotas together with the green certificate trading will replace the implementation of certain subsidy policies and further alleviate the existing inordinate insufficiency of national new energy subsidy, which will be beneficial to the sustainable development of the industry. The Group closely followed up latest changes in policies, in order to adjust the collection strategy of receivables of the Company.

### *Social Responsibility*

In 2018, in active response to the State's call, the Group strengthened its efforts in poverty alleviation and social responsibility fulfillment. It has initiated two photovoltaic poverty alleviation and power generation projects, Chayou Zhongqi project and Chifeng New Golden Energy project in Inner Mongolia Autonomous Region, with a total installed capacity of 30.0 MW and 60.0 MW respectively, in an effort to increase the income of poor households.

The Group established a new power plant, Siyang Beichuan in Jiangsu Province with a total installed capacity of 31.0 MW, the first fishing-photovoltaic power project of the Group. Capitalizing on the resourceful local water resources, the project developed a fish farm underneath the photovoltaic panels, demonstrating an integration of power generation and aquaculture development that fully took advantage of the land nature and planning, with an aim to create employment opportunities and generate income to the local residents while improving their living standard. As at 31 December 2018, the Siyang Beichuan project in Jiangsu Province has started on-grid connection and commenced power generation, with an installed capacity of 23.5 MW. It is expected to achieve full on-grid connection in 2019.

### *Brand Promotion: Recognitions and Awards*

The Group adheres to the core value of "Doing Things Right in One Go" and embraces the value at all aspects, such as project development, project construction and production operation.

In February 2018, the wind power plant construction of the Group in Ninghai Yishi, Zhejiang Province was awarded "National Water and Soil Conservation Ecological Civilisation Project". During the project construction, the impacts on the environment were minimized through meticulous construction. Completion of project will improve the overall environment and landscape by building a "garden-style" wind power plant. Through creating high quality and high standard environment, the project has become premium resources of the local tourism and culture. In the future, the Group will actively fulfill social responsibility to realize a harmonious development among the enterprises, the local and the environment, in a view of nurturing a beautiful China with blue skies and clean water.

In November 2018, the Group received the "2018 Best PRC Wind Power Developer Award" from the Chinese Wind Energy Association in a recognition of the active development in the Group's wind power business. In the same month, two informatization projects of the Group were awarded the 2018 Electricity Innovation Special Prizes by the China Electricity Council, showing the persistent effort of the Group in the development of informatized and intelligent production and operation, as well as the promotion of informanization and industrialization integration management system.

In December 2018, Mr. Li Yilun, the President of the Group, was awarded the "Top Ten People in the New Energy Industry of 2018". The rising brand influence of the Group was an achievement under the concerted effort of all staff, reflecting the implementation of our core values.

## IV. Risk Factors and Management

### *Risks Relating to the Industry*

Our power projects are located in the PRC and Korea, both of which have undergone, and may continue to undergo, regulatory changes. Governmental regulations affect all aspects of our power project operations, including the amount and timing of electricity generation, the setting of tariffs, compliance with power grid controls, dispatch directives and environmental protection. Regulatory changes in the PRC and Korea can affect, among other things, dispatch policies, clean and renewable energy and environmental compliance policies and tariffs, and may result in a change of tariff setting procedures or mandatory installation of costly equipment and technologies to reduce environmental pollutants.

Further, the solar power projects are highly dependent on solar illumination conditions, and the wind power projects are dependent particularly on wind conditions. Extreme wind or weather conditions could lead to downtime of the wind power projects. Illumination conditions and wind conditions vary across seasons and locations, and could be unpredictable and are out of our control.

### *Risk Relating to Fuel Cost*

The non-renewable energy power projects of the Group require supplies of coal, oil and gas as fuel. Fuel costs represent a significant portion of our operating expenses and the operating expenses of our associates. The extent to which our profit is ultimately affected by the cost of fuel depends on our ability to pass through fuel costs to our customers as set out under the relevant regulatory guidelines and the terms of our PPA for a particular project, as we currently do not hedge our exposure to fuel price fluctuations. Our fuel costs are also affected by the volume of electricity generated because the coal consumption rate of coal-fired and cogen power projects decrease when we generate more electricity as a result of economies of scale. In the PRC, government tariff regulations limit our ability to pass through changes in fuel costs. In Korea, while our Yulchon I Power Project is able to pass through our exposure to fuel price fluctuations through fuel cost pass through provisions in the tariff formula, our Yulchon II Power Project and Daesan I Power Project receive payments based on the system marginal price, which is influenced by market demand and supply, and may not fully reflect the power plants' respective fuel price fluctuations. Our diversified generation portfolio enables us to diversify the risks that we would face to utilize a single resource for electricity generation. In particular, our exposure to several fuel types mitigates risks such as price increases in or the availability of any particular fuel source.

### *Interest Rate Risk*

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt with floating interest rates based on market prevailing rates. We undertake debt obligations to support asset acquisition and general corporate purposes including capital expenditures and working capital needs. Certain of our indebtedness is calculated in accordance with floating interest rate or interest that are subject to adjustment by our lenders. We periodically review the ratio of debt with floating interest rates to debt with fixed rates, taking into account the potential impact on our profit, interest coverage and cash flows.

### *Foreign Exchange Risk*

The functional currency of the Company is US dollars, and our reportable profit is affected by fluctuations in foreign currency exchange rates. We collect most of our revenue from our projects in Renminbi and Korean Won, some of which are converted into foreign currencies to (1) purchase foreign-made equipment and parts for repair and maintenance, (2) make investments in certain joint ventures or acquire interests from other companies, (3) pay out dividends to the shareholders of our project companies, and (4) service our outstanding debt. By managing and monitoring the risks of foreign currency, we ensure that appropriate measures are adopted effectively in a timely manner.

On 3 July 2018, CGN Daesan Power Co., Ltd., an indirectly wholly-owned company of the Company, entered into a set of foreign exchange hedging contracts with Shinhan Bank and KEB Hana Bank, respectively, to hedge against USD/EUR/CAD currency risks, in respect of the principal amount of approximately US$29.2 million, EUR10.8 million (equivalent to approximately US$13.3 million) and CAD165.8 million (equivalent to approximately US$125.4 million) respectively. Please refer to the announcement of the Company dated 3 July 2018 for further details.

## V. Prospects

The new energy industry is facing both opportunities and challenges. However, the determination of China to promote the transformation towards green and low carbon energy has never wavered. China will subsequently boost the implementation of the Renewable-Sourced Electricity Quotas and increase the consumption of clean energy through various methods. With the standardized development and technological advancement of wind power and photovoltaic power, China will endeavor to commence the development and construction of the bidding-pricing, parity-pricing and low-pricing projects.

With the grid parity project gradually replacing the subsidized project to become an inevitable trend for the development of the new energy industry in China, the market players who adopt business models with technological innovation, quality and efficiency enhancement and cost reduction may gain room for development in the era of grid parity.

The Group actively responds to the changes arising from the new situation, where price competition takes place. With a focus on price competition, the Group strives to excel and achieve breakthrough in the businesses such as bidding projects, grid parity bases, photovoltaic frontrunner projects, major bases and offshore wind power, etc.

Adhering to the concept of innovative development, the Group increased its effort in the technological advancement and management innovation and actively obtained development rights in new projects. Having realized the intense competition arising from the market-oriented tariff, the Group established a more efficient decision-making and purchasing system to adapt to the market requirements of bidding with high concentration, fast pace and short cycle, thereby improving the competitiveness in bidding. The Group proactively regained the foothold in the "three northern regions" through active participation in bidding, so as to secure quality resources reservation. Meanwhile, it focused on the window period for the development of offshore wind power to seize resources, obtain approval, compete for tariff, and closely monitor the reserves of quality assets in the market, thus exploring a long-term path towards high quality and innovative development.

With the implementation of competitive allocation measures for the wind power projects in various provinces, such as Guangdong, Fujian and Jiangsu, the offshore wind power industry will enter into a new era of comprehensive pricing competition in 2019. Subsequently, the offshore wind power industry will trend towards scaled development. Under the new era of comprehensive pricing competition, technological advancement will also speed up. The Group will spare no effort in achieving the objectives of "reducing cost and enhancing effectiveness to compete for resources, optimizing measures to facilitate the construction". First of all, the Group will strengthen the technological innovation and enhance the system. Secondly, it will optimize the technology to increase the power generation efficiency and reduce the amount of work. Thirdly, it will carry out in-depth research and analysis on the approved projects to facilitate the construction.

The implementation of the quota system will establish a long-term mechanism to address the renewable energy consumption problem, which will effectively increase the proportion of renewable energy consumption, reduce wind and solar power curtailment and benefit renewable energy power generation enterprises as a whole. The Group continued its concern on the policy direction of quota system, enabling the renewable energy to enjoy the advantage of low marginal costs in the market competition of power generation while realizing a healthy and sustainable development of renewable energy under the force of the market.

The Group will also continue to develop and acquire clean and renewable power generation projects with solid returns to develop its core capacity in the business operation and maintenance of the wind power and solar power, with the aim of enhancing the competitiveness and market position of the Group in the non-nuclear clean energy sector. The Group will continue to seize the policy and industry opportunities with a relentless effort to improve the project profitability and competitiveness, so as to reward shareholders with excellent outcome.

## EVENT OCCURRING AFTER THE REPORTING PERIOD

No other important event or transaction affecting the Group has taken place after 31 December 2018.

## USE OF PROCEEDS

The Company was listed on the Main Board of the Stock Exchange on 3 October 2014. Net proceeds from the global offering (including the proceeds from the exercise of the overallotment option) were approximately HK$1,966.1 million (after deducting the underwriting fees and commissions and other listing-related expenses). On 27 December 2017, the Board resolved to reallocate the unutilised proceeds with a view to deploy its financial resources more effectively to enhance the operational and financial efficiency of the Group. For details, please refer to the announcement of the Company dated 27 December 2017. As at 31 December 2018, the net proceeds have been fully utilised and the unutilised amount became nil.

### Use of net proceeds from global offering

| | Percentage to total amount | Net proceeds *(HK$ million)* | Utilised amount (up to 31 December 2018) *(HK$ million)* | Unutilised amount (up to 31 December 2018) *(HK$ million)* |
|---|---|---|---|---|
| Acquisition of clean and renewable power projects from CGN, the parent company of the Company | 70% | 1,376.3 | 1,376.3 | – |
| Acquisition of operational power projects and development of greenfield projects acquired from independent third parties | 1% | 12.2 | 12.2 | – |
| Repayment of bond with maturity date on 19 August 2018 | 17% | 335.0 | 335.0 | – |
| Working capital and other general corporate purpose | 7% | 144.4 | 144.4 | – |
| Payment of interest expense from third-party borrowings and loan from fellow subsidiaries | 5% | 98.2 | 98.2 | – |
| | | 1,966.1 | 1,966.1 | – |

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 20 August 2018, the Company effected payment for the redemption of the US$350.0 million 4.0% unsecured bonds (which were listed on the Stock Exchange) in full at maturity. The aggregate amount of consideration paid by the Company in relation to the redemption was USD357,000,000, which comprised the principal amount of USD350,000,000 and the interest coupon amount of USD7,000,000. Subsequent to the completion of the redemption, the bonds were cancelled and the listing of the Bonds was withdrawn from the Stock Exchange.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

## CORPORATE GOVERNANCE CODE

During the year ended 31 December 2018, the Company has complied with all the code provisions of the Corporate Governance Code.

## COMPLIANCE WITH MODEL CODE

The Company has adopted its own Code for Securities Transactions by Directors, the stipulations of which are no less exacting than those set out in the Model Code, as a code of conduct for dealing in securities of the Company by the Directors.

Specific enquiries have been made with the Directors, and all Directors confirmed in writing that they have complied with the required standards in respect of securities transactions by the Directors set out in the Model Code and the Company's Code during the year ended 31 December 2018.

## REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2018 have been reviewed by the audit committee of the Company.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## FINAL DIVIDEND

The Board recommended a final dividend of 0.51 US cents per Share (equivalent to 4.01 HK cents per Share). As at 20 March 2019, 4,290,824,000 Shares were in issue. If the recommendation is approved, the final dividend of 0.51 US cents per Share (equivalent to 4.01 HK cents) will be payable on Friday, 21 June 2019 to registered Shareholders as at Monday, 10 June 2019.

For the purpose of determining the entitlement to the proposed final dividend, the register of members will be closed from Wednesday, 5 June 2019 to Monday, 10 June 2019, both days inclusive. In order to be qualified for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Tuesday, 4 June 2019.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Boardroom 3-4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 30 May 2019 at 10:00 a.m. A circular containing, inter alia, the information required by the Listing Rules concerning (1) re-election of retiring Directors; and (2) grant of general mandates to repurchase Shares and to issue new Shares, together with the notice of the Annual General Meeting, will be published and despatched to the Shareholders in the manner as required by the Listing Rules on or before 29 April 2019.

For the purpose of determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019 (both days inclusive), during which period no transfer of Shares will be registered. In order to be qualified for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Friday, 24 May 2019.

## PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the Stock Exchange's website (http://www.hkex.com.hk) and the Company's website (http://www.cgnne.com). The 2018 annual report of the Company containing all the information required by the applicable Listing Rules will be despatched to the Shareholders and available on the above websites on or before 29 April 2019.

## DEFINITIONS

| | |
|---|---|
| "Annual General Meeting" | an annual general meeting of the Company for the year 2019 to be held on Thursday, 30 May 2019 or any adjournment thereof |
| "Board" | the board of Directors of the Company |
| "CAD" | Canadian dollars, the lawful currency of Canada |
| "CGN" | China General Nuclear Power Corporation（中國廣核集團有限公司）, a state-owned enterprise established in the PRC and the controlling shareholder of the Company |
| "CGN Energy International" | CGN Energy International Holdings Co., Limited（中國廣核能源國際控股有限公司）, an indirectly wholly-owned subsidiary of CGN incorporated in Hong Kong with limited liability and the immediate shareholder of the Company |
| "Company" | CGN New Energy Holdings Co., Ltd., a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange |
| "Company's Code" | Code for Securities Transactions by Directors of the Company |
| "Consolidated installed capacity" | the aggregate installed capacity of our project companies that we fully consolidated in our consolidated financial statements only. It is calculated by including 100% of the installed capacity of our project companies that we fully consolidate in our consolidated financial statements and are deemed as our subsidiaries. Consolidated installed capacity does not include the capacity of our associated companies |
| "Corporate Governance Code" | Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules |
| "Daesan I Power Project" | a 507.0 MW oil-fired project in Korea |
| "Directors" | the directors of the Company |

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|---|---|
| "EUR" | European dollars, the lawful currency of the European Union |
| "GDP" | gross domestic product |
| "Group" | the Company and its subsidiaries from time to time |
| "GW" | gigawatt, equal to one million kilowatts |
| "GWh" | gigawatt-hour, or one million kilowatt-hours. GWh is typically used as a measure for the annual energy production of large power projects |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | The Hong Kong Special Administrative Region of the PRC |
| "Korea" | the Republic of Korea |
| "KRW" | Korean Won, the lawful currency of Korea |
| "kWh" | kilowatt-hour, the standard unit of energy used in the power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) |
| "Model Code" | Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules |
| "MW" | megawatt, or one million watts. The installed capacity of power projects is generally expressed in terms of MW |
| "NDRC" | National Development and Reform Commission of the PRC |
| "PRC" or "China" | the People's Republic of China, and for the purpose of this announcement, excludes Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan |

| | |
|---|---|
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Share(s)" | ordinary share(s) of HK$0.0001 each in the share capital of the Company |
| "Shareholder(s)" | the shareholders of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "TWh" | terawatt-hour, or one million megawatt-hours. TWh is typically used as a measure for the annual energy production of a region or a country |
| "US$" or "US dollar(s)" | United States dollars, the lawful currency of the United States of America |
| "Yulchon I Power Project" | a 577.4 MW gas-fired project in Korea |
| "Yulchon II Power Project" | a 946.3 MW gas-fired project in Korea |
| "%" | per cent. |

By order of the Board
**CGN New Energy Holdings Co., Ltd.**
**Li Yilun**
*President and Executive Director*

Hong Kong, 20 March 2019

*As at the date of this announcement, the Board comprises seven Directors, namely:*

| | | |
|---|---|---|
| *Chairman and non-executive Director* | : | *Mr. Chen Sui* |
| *President and executive Director* | : | *Mr. Li Yilun* |
| *Non-executive Directors* | : | *Mr. Yao Wei and Mr. Xing Ping* |
| *Independent non-executive Directors* | : | *Mr. Leung Chi Ching Frederick, Mr. Yang Xiaosheng and Mr. Wang Minhao* |