VPower Group International Holdings Limited

(Incorporated under the laws of the Cayman Islands with limited liability)

Stock Code: 1608

LIGHTEN UP
THE WORLD OF POSSIBILITIES
2019 ANNUAL REPORT


ORCAN INTERNATIONAL

CONTENTS

COMPANY PROFILE

VPower Group International Holdings Limited (the "**Company**", or together with its subsidiaries, the "**Group**") is one of the world's leading large gen-set system integration providers and one of the leading gas-fired engine-based distributed power generation ("**DPG**") station owners and operators in Asia, with more than 20 years of proven operational excellence in the energy market.

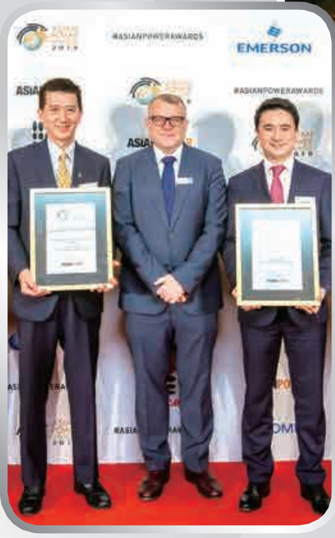
We deliver much-in-demand electricity to keep industries running and power the regional economic growth through (1) designing, integrating and selling gen-sets and power generation systems that primarily run on natural gas or diesel; and (2) designing, investing in, building and operating DPG stations for off-takers. Together, they make up our two principal business segments: (1) System Integration ("**SI**") business; and (2) Investment, Building and Operating ("**IBO**") business. Our fast-track power solutions generate stable and reliable electricity for our customers in emerging markets to improve their power supply and living standards; as well as provide flexible and efficient electricity to our customers in developed markets to supplement the increasing use of renewable energy due to power reform.

Our core strategy is to build on our successful IBO business in existing markets, and tap into new regions leveraging our multi-country platform and replicable business model; expand into combined heat and power and power generation using new forms of fuel; develop a new generation of gen-sets that are more fuel efficient and establish joint ventures to enhance our technological leadership and grow our business.

We seek to build on our proprietary system designs and integration capabilities and the market network developed over the past 20 years to effectively manage the risks and improve the efficiency of our IBO business's expansion into new markets, and to continue to deliver efficient solutions and build long term value for our shareholders, our partners and our customers.

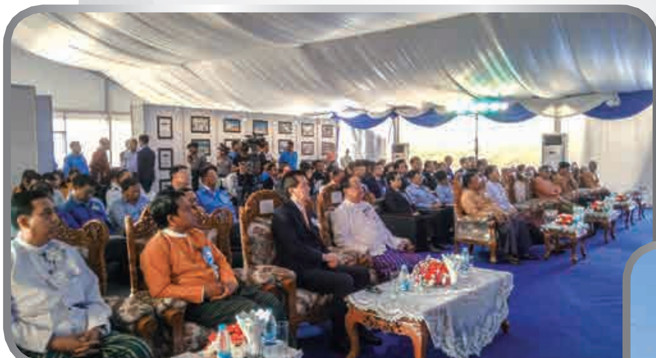
We power the world, and lighten up possibilities.

ACHIEVEMENTS



Honoured with Five Awards at Asian Power Awards 2019

Sharing Overseas Investments Experience at Belt and Road Summit 2019



Fourth Distributed Power Station in Myanmar Commencing Commercial Operation

CHAIRMAN'S STATEMENT

MR. LAM YEE CHUN
Executive Chairman

On behalf of the Board of Directors (the "**Board**") of VPower Group International Holdings Limited ("**VPower Group**" or the "**Company**"), I am pleased to present you our annual results for the year ended 31 December 2019 (the "**Year**" or "**FY2019**").

STRONG OPERATIONAL AND FINANCIAL PERFORMANCE

2019 was regarded as a year full of challenges and volatilities because of Brexit, trade conflicts and geopolitical unrest, yet, our business and operations were proven to be resilient and we managed to continue our business development and maintain satisfactory growth. In 2019, we recorded a revenue of HK$2,794.0 million, representing a year-on-year growth of 15.4%. Our gross profit increased 4.3% to HK$737.2 million with an overall gross profit margin of 26.4%. Our EBITDA recorded a growth of 37.3% to HK$853.2 million; while our profit attributable to owners of the Company was HK$283.6 million, representing an increase of 33.0%.

To reward our shareholders for the great support, the Board proposed a final dividend of HK2.20 cents. Upon shareholder's approval, this will result in a full year dividend of HK2.75 cents, representing 25% of profit for the year.

For SI business segment, with 20 years of operational experience in SI business, the Group continued to strengthen its leadership in the global SI market in the Year and has benefited from the increasing demand from power reserve market and rapid development of data centers and marine market.

For IBO business segment, we continued our strategy to increase market share in existing markets. For example, in Myanmar, we had two new projects commenced commercial operation. We also continued to explore new strategic IBO markets that present growth potential. In 2019, we entered into the power market in Sri Lanka for the first time, with two projects commenced operation in mid-year.

RESPONDING TO THE FUNDAMENTALLY CHANGING MACRO-ENVIRONMENT FOR ENDURING GROWTH

Regardless of the signs of economic recovery and ease of trade disputes towards the end of 2019, the start of year 2020 was unsettled by the outbreak of novel coronavirus (COVID-19) which has brought a damaging impact to all walks of life across different countries. Measures taken by governments to contain the spread of the epidemic, including travel restrictions, operation suspension and quarantine arrangement, have posed huge challenges to many businesses around the world. Attributable to our strategic business footprint in different countries and the flexible management system we built over the years, our operation remains stable and healthy albeit minor operational disruptions with new project development largely on track. The resumption of work in the Group's assembly facilities in China after the normal Chinese New Year holidays was postponed by only three weeks due to the epidemic.

As market predicts, the governments are striving to meet global climate objectives, leading to an accelerating global energy transformation including increasing deployment of cleaner power solutions and moving away from centralized to distributed power generation. At the same time, a significant portion of the world's population remains energy-deprived which will inevitably result in an increase in demand for energy. Given the fast-track and flexible nature of distributed power which is capable of supporting structural power deficit in emerging markets and stabilizing the power grid in developed markets given the intermittent nature of renewable energy, we are seeing strong demand for distributed power solutions in countries in Southeast Asia, Latin America and Europe. We expect the total installed capacity of our project portfolio (including the projects under joint venture) to reach around 1,900MW by the end of 2020. As a result, we are confident to achieve a strong growth in the years ahead.

In the near term, we will continue to focus on materializing the projects in our pipeline, in particular, our newly awarded projects in Myanmar. We expect the new projects in Myanmar will commence commercial operation in the second quarter of 2020. Believing that access to reliable and affordable electricity is a critical enabler of higher living standards, we are committed to completing these projects for the Myanmar people to meet their electricity demand in a timely manner. We continue to see Myanmar as a country with tremendous growth potential. Despite the global uncertainties, Myanmar's economy continues to show resilience with a projected GDP growth of 6.4% in 2019–2020 according to the World Bank. Power demand is expected to grow at a higher rate to support such economic growth. The Myanmar government has taken steps to meet rising power demand and in the 2019–2020 budget, some Myanmar Kyat ("**MMK**") 8 trillion (equivalent to approximately US$5.5billion) was earmarked for electricity and energy, up 28% from the financial year before.

In Sri Lanka, we announced in February 2020 that we secured new projects with planned installed capacity of 38.8MW. The projects are expected to commence commercial operation in the second quarter of 2020. Together with our existing 54.9MW operating projects, the Group's total installed capacity in the country will reach close to 100MW, evidencing the success of our marketing strategy in our existing IBO markets in gaining market share.

For our projects in the United Kingdom (Doncaster Project) and Indonesia (Dumai Project), we experienced slight delays in 2019, but we are expecting the delays would be mitigated, the overall impact would be marginal, and the projects would commence commercial operation within this year. We are positive on the long-term development of the flexible power industry in the United Kingdom. As the increasing use of renewable energy may disrupt the national grid easily due to its intermittent supply, we expect to see the strong demand for distributed power to alleviate the risk of instable supply and potential blackouts.

In view of our increasing number of fleets in operation globally, we have set up a new unit called Global Service Support ("**GSS**") for the support and upkeep of our fleets to ensure high operational efficiency and availability for continued use and/or sale. The GSS has the following support functions: (1) 24x7 specialized field technical service team; (2) integrated logistics center for efficient supply chain; (3) full-pledged service and re-manufacturing center to extend useful life of the assets; and (4) product and service academy center for staff training.

DEVELOPING NEW CAPABILITIES IN THE EVOLVING ENERGY SECTOR

As discussed at our 2019 interim results, we have a positive view on LNG-to-power market in Southeast Asia considering fuel availability, reliability and environmental impact, which has driven us to commit resources in expanding our business opportunities in this sector. We are pleased to work with our strategic partner China National Technical Import & Export Corporation ("**CNTIC**") on our first LNG-to-power project to unlock our business opportunities in this area after winning three power projects in Myanmar with aggregate contract capacity of 900MW as a consortium. The global LNG demand is expected to double to 700 million tonnes by 2040 as it plays a growing role in shaping a lower-carbon energy system. Particularly, the growth in the operating and business model of small-scale LNG-to-power is ever stronger than before, utilizing different operational platforms in moving and receiving LNG for use of power generation. Asia is expected to remain a major region in the decades to come, with South and Southeast Asia generating over half of the increased demand.

Together with CNTIC, we are breaking the record in the global engine-based distributed power industry, by building the largest batch of projects of more than 1,000 MW capacity. It is expected that, these projects will become the benchmark projects in the LNG market illustrating the use of LNG in distributed power projects.

AWARDS AND RECOGNITION

While we are working dedicatedly on our commitment to ensure dependable electricity access to people in need and creating value for our stakeholders, we were honoured with different prestigious awards and recognition. During the Year, we received record breaking five awards at the Asian Power Awards 2019, namely Independent Power Producer — Myanmar; Power Utility of the Year — Myanmar; Fast-Track Power Plant of the Year — Gold; Innovative Power Technology of the Year — Myanmar; and Biomass Power Project of the Year — Silver. The accolades stand as a testimony to the Group's success in the distributed power generation market in Asia.

In addition, the Group received other awards and recognition for its unremitting efforts in promoting environmental, social and governance ("**ESG**") developments, including the ESG Leading Enterprise Award presented by Bloomberg Businessweek/Chinese Edition and Deloitte China, 3 Years+ EcoPioneer of BOCHK Corporate Environmental Leadership Awards presented by Federation of Hong Kong Industries and BOC (Hong Kong) Limited; and Certificate of Excellence in The HKIRA 5th Investor Relations Awards by the Hong Kong Investor Relations Association.

CONTINUING TO PERFORM WITH SUSTAINABILITY

Looking forward, we will continue to formulate appropriate business strategy and structure for each market or project to ensure we could prioritize our resources for the best performance. We may consider synergistic acquisition opportunities, mutual beneficial partnership and project level collaboration.

The outbreak of COVID-19 at the beginning of 2020 has become a threat to all countries around the world. On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. We will closely monitor the development of the current global health emergency. By placing the health and safety of our staff and stakeholders as the top priority, we will ensure swift response to conduct epidemic prevention and control. Despite the economic uncertainty, the global power landscape is changing rapidly. To seize more opportunities and maintain corporate sustainability, we will continue to strengthen our business development, optimize our operation and improve capital efficiency and cost management.

At all times, we are committed to creating the greatest value and sharing the accomplishment with our shareholders, and caring for the well-being of the environment. As we honour our responsibility to the community and environment, we have voluntarily signed up to be a signatory of the United Nations Global Compact. We are committed to the United Nations Global Compact corporate responsibility initiative and its principles in the area of human rights, labour, the environment and anti-corruption. We expect to extend our efforts in maintaining sustainability in the coming years.

GRATITUDE TO OUR PEOPLE AND SUPPORTERS

In closing, on behalf of the Board, I would like to extend my sincere gratitude to all of our shareholders, customers, vendors, investors and business partners for their unwavering trust and continuous support. My deepest appreciation and heartfelt gratitude go to each of our colleagues for serving the world with dedication, professionalism and perseverance, and providing quality services amid the global health emergency.

LAM Yee Chun
Executive Chairman

30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

In the dynamic energy industry, we will continue to grow as a sustainable business by expanding business presences in different countries and providing stable and reliable electricity to the people in need.

BUSINESS OVERVIEW

Market Review

The global economic growth momentum subdued in 2019 due to the intensified trade conflicts, prolonged uncertainty over Brexit and rising geopolitical tensions. Against such a backdrop, the energy industry showed resilience and continued its transition towards decentralisation, decarbonisation and digitalisation.

The developed economies had undergone a more rapid development towards a green future with more renewable energy being deployed to replace coal-fired power generation. As such, demand for distributed power to serve as a backbone solution for pushing the increasing volume of renewable energy in a sustainable way remained robust. On a different front, in developing countries where population still faces serious challenges in accessing energy on a daily basis, the desire for immediate access to safe, reliable and affordable electricity remained strong. Consequently, these basic necessity needs resulted in a demand for fast-track distributed power solutions to work with the relevant government authorities to mitigate power shortage promptly.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Despite the challenges and volatilities in global business environment throughout the year, our business and operations were proven to be resilient and we managed to record a satisfactory growth in both business segments for the year ended 31 December 2019.

*System Integration (“**SI**”) Business*

Leveraging on our 20 years of operational experience in SI business, we continued to strengthen our leadership in the global SI market. Revenue for the year ended 31 December 2019 was HK$1,756.5 million (2018: HK$1,579.0 million), representing a growth of 11.2%, which was mainly attributable to sales to satisfy the increasing demand from power reserve market and rapid development of data centers and marine market.

*Invest, Build and Operate (“**IBO**”) Business*

In 2019, we continued our vertical penetration marketing strategy in existing IBO markets by focusing on growing our market share, while at the same time expand business presence in selective new IBO markets. Southeast Asian countries remained as the core of our business expansion. Our IBO business segment recorded a revenue growth of 23.3% to HK$1,037.5 million for the year ended 31 December 2019 (2018: HK$841.7 million). The increase was primarily contributed by the revenue generated from the new projects in Myanmar and Sri Lanka which was partially offset by the off-hire of a project in Indonesia.

Myanmar, being one of our focus IBO markets covered by China's Belt and Road Initiative, has been facing, and will continue to face, the challenges of electricity deficit. It is due to its accelerating local economic development and urbanisation, and the under performance of their traditional hydro-power generation caused by unfavourable weather conditions. Government is responding to the obvious needs, policies have been put in place to ensure electricity supply growth by encouraging foreign investment and introducing more efficient power solutions. In February 2019, our fourth distributed power station in the country commenced commercial operation, which further consolidated our leadership as an independent power producer in Myanmar. It is a 109.7MW gas-fired project with a contract term of five years ("**Myingyan II Project**"). As part of the Group's efforts in promoting low-carbon power generation, we installed modular organic rankine cycle ("**ORC**") system (a system developed by an investee company of Tamar VPower Energy Fund I, L.P.) to our project for conversion of waste heat into electricity. Besides the Myingyan II Project, we commenced commercial operation of another 4.7MW gas-fired project in March 2019 in Yangon, with a contract term of four years ("**Yangon Project**").

In mid-2019, we were awarded a public tender for a 20MW gas-fired power project (with planned installed capacity of 23.2MW), which is expected to commence commercial operation in the second quarter of 2020. At the same time, the consortium comprising our group members and China National Technical Import & Export Corporation ("**CNTIC**") was awarded three power projects with an aggregate contract capacity of 900MW (with total planned installed capacity of 1,059.5MW). Accordingly, we are building the country's first liquified natural gas ("**LNG**")-to-power station. The win represents an important milestone of the Group as the total capacity of the new projects outnumbers the portfolio we have built since the inception of IBO business segment.

As announced in February 2020, a joint venture company was established by the Group and CNTIC, held as to 50% by each party, for the investment in, development and operation of the three power projects. CNTIC is a large-scale state-owned enterprise and a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited which is under direct supervision of the central government of China. It is an engineering, procurement and construction (EPC) contractor of the Group and the two groups have commenced business relationship since 2010. It is believed that the strategic collaboration between the Group and CNTIC has brought together different strengths from both parties for a synergistic and efficient project implementation and management. It also enables the Group to improve its development strategy and resource deployment plan for other potential markets and projects.

In the distributed power market in Indonesia, we are seeing a major switch to gas-fired power generation from liquid fuel fired power generation and a rapid growth of the captive market, and the Group is responding to the changes. In mid-2019, we secured a gas-fired power project of 18.7MW planned installed capacity with a right of first refusal to supply additional power by increasing our installed capacity up to 60MW for a contract term of 15 years ("**Dumai Project**"). The project is now expected to commence operation in the second half of 2020 instead of late 2019.

Seeing the growth in electricity demand and business opportunities in Sri Lanka, we set foot in the market in the first half of 2019 by successfully securing two diesel-fired power projects in the country through public tenders. The projects with a total installed capacity of 54.9MW commenced commercial operation in mid-2019.

The following table shows our distributed power projects in operation as of the date of this report:

Projects	Installed capacity *(MW)*[(1)]	Contract length *(months)*[(2)]	Location
Teluk Lembu I	20.3	12	Indonesia
Teluk Lembu II	65.8	12	Indonesia
Jambi	56.4	60	Indonesia
Rengat	20.3	36	Indonesia
Muko	6.5	24	Indonesia
Subtotal	169.3		
Kyauk Phyu I	49.9	60	Myanmar
Kyauk Phyu II	49.9	60	Myanmar
Myingyan I[(3)]	149.8	60	Myanmar
Myingyan II	109.7	60	Myanmar
Yangon	4.7	48	Myanmar
Subtotal	364.0		
Iquitos[(4)]	79.8	240	Peru
Amazonas State[(5)]	70.3	60–180	Brazil
Subtotal	150.1		
Shandong I	8.2	180	China
Shandong II[(6)]	6.2	180	China
Subtotal	14.4		
Hambantota	28.1	6	Sri Lanka
Horana	26.8	6	Sri Lanka
Subtotal	54.9		
Total	752.7		

Notes:

(1) Installed capacity refers to the maximum power generating capacity of the distributed power station based on an aggregate capacity of power generation systems installed.

(2) Contract length refers to the term of the contract entered into by the Group in respect of the distributed power projects.

(3) It includes some installed capacity located in Magway, Myanmar.

(4) We hold 51% equity interest of the project company that owns and operates the Iquitos Project.

(5) The Amazonas State Project consists of five power stations, three of which have commenced commercial operation in early 2020 and the remaining are expected to commence commercial operation in the second half of 2020. After the acquisition of the minority interests in the project company that owns and operates these power stations in 2019, the project company has become an indirectly wholly-owned subsidiary of the Company.

(6) The Shandong II project is under trial operation.

The following table shows the projects in our pipeline, for which we have either won a public tender or entered into a binding contract for operation or acquisition, and have commenced activities and committed resources in their planning and development, as of the date of this report:

Projects	Planned installed capacity *(MW)*	Location
Kyun Chaung	23.2	Myanmar
Thaketa	477.1[(1)]	Myanmar
Thanlyin	410.2[(1)]	Myanmar
Kyauk Phyu III	172.2[(1)]	Myanmar
Galle and Pallekele	38.8	Sri Lanka
Dumai	18.7[(2)]	Indonesia
Doncaster	20.3	United Kingdom
UK	132.0	United Kingdom
Total	1,292.5	

Notes:

(1) Projects were awarded to a consortium comprising the Group and CNTIC in 2019. As announced in February 2020, a 50–50 joint venture company was established for the investment in, development and operation of the projects.

(2) Under the relevant power purchase agreement, we are granted a right of first refusal to supply additional power by increasing our installed capacity of up to 60MW.

In addition to the projects in our pipeline, as of the date of this report, we have projects with approximately 300MW planned installed capacity under advanced stage of development and negotiation in Sri Lanka, Myanmar, Indonesia and the United Kingdom.

In regard to our project in Ghana with an installed capacity of 56.2MW ("**Ghana Project**"), we have decided to decommission the project after discussion with the local government. The decommissioning is not expected to have any material impact on the financials and operation of the Group nor affect our overall business development strategy. Leveraging on the flexibility and mobility of our generation fleet and our strong business development capabilities, a disposal/ redeployment plan has been developed to dispose of or relocate the fleet under the Ghana Project and other off-hired projects.

Tamar VPower Energy Fund I, L.P.

We and CITIC Pacific, one of China's largest conglomerates and our 8% shareholder, established Tamar VPower Energy Fund I, L.P. (the "**Fund**") in 2018. The Fund seeks for long-term capital appreciation through investments in companies or operating projects in the energy sector positioned to benefit from economic growth in the PRC, Central Asia, and Southeast Asia, and in the markets encompassed by the Belt and Road Initiative. As at 31 December 2019, the Group invested approximately HK$778.4 million in the Fund. According to the valuation assessment conducted by an independent third party, the fair value of our investment in the Fund was approximately HK$853.0 million, representing around 9.5% of the Group's total assets as at 31 December 2019. The Group recorded a share of profit of HK$68.3 million for the year ended 31 December 2019.

Since its establishment, the Fund has invested in three companies, namely Orcan International Energy Technology Co., Ltd., Byrne Equipment Rental LLC and 科源動力科技有限公司 Keyuan Power Technology Co. Ltd* (formerly known as 中高柴油機重工有限公司 Zgpt Diesel Heavy Industry Co., Ltd*). The businesses of the above investee companies of the Fund are related to our core businesses and could support our business development, in particular, they will enhance our power solutions' energy efficiency, strengthen our research and development capability, broaden and upgrade our product range, and strengthen our self-manufacturing capacity. We believe these investments are synergistic to us and will continue to contribute return to the Fund and hence to us in the future.

Financial Review

Revenue

The revenue of the Group was mainly derived from: (i) SI business by providing gen-sets and power generation systems to customers; and (ii) IBO business based on the actual amount of electricity that we deliver to the off-takers, as well as the contract capacity we make available to the off-takers.

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
SI	**1,756,502**	1,579,038
IBO	**1,037,534**	841,711
Total	**2,794,036**	2,420,749

In 2019, the Group recorded a revenue of approximately HK$2,794.0 million, representing an increase of 15.4% as compared with approximately HK$2,420.7 million of the previous year. The increase in revenue was mainly due to the growth of both business segments. Please refer to the paragraph headed "Business Review" for the increase in revenue.

Revenue by geographical locations

The table below sets forth a revenue breakdown for our SI business by geographical markets for the year indicated, both in actual amounts and as a percentage of total revenue:

	Year ended 31 December			
	2019		2018	
	HK$'000	**% of total revenue**	HK$'000	% of total revenue
Hong Kong and Mainland China	**551,854**	**19.8**	461,733	19.1
Other Asian countries(1)	**1,002,476**	**35.9**	961,596	39.7
Other countries	**202,172**	**7.2**	155,709	6.4
Total	**1,756,502**	**62.9**	1,579,038	65.2

Note:

(1) Other Asian countries include Singapore, United Arab Emirates, Myanmar, Indonesia, South Korea, Bangladesh, Malaysia and Israel.

* *For identification purpose only*

The table below sets forth a revenue breakdown for our IBO business by geographical markets for the year indicated, both in actual amounts and as a percentage of total revenue:

	Year ended 31 December			
	2019		2018	
	HK$'000	**% of total revenue**	HK$'000	% of total revenue
Peru	**449,592**	**16.1**	333,374	13.8
Myanmar	**412,586**	**14.8**	256,763	10.6
Indonesia	**138,144**	**4.9**	172,622	7.1
Sri Lanka	**21,618**	**0.8**	—	—
Mainland China	**15,594**	**0.5**	13,232	0.6
Bangladesh	**—**	**—**	65,720	2.7
Total	**1,037,534**	**37.1**	841,711	34.8

Cost of sales

Under our SI business, our cost of sales mainly consists of cost of goods sold and services provided, staff costs and depreciation. We use engines, radiators, alternators, other parts and ancillary equipment to produce gen-sets and power generation systems. Under our IBO business, our cost of sales mainly includes depreciation and operating expenses. We engage contractors for labour outsourcing.

For the years ended 31 December 2019 and 2018, our cost of sales was HK$2,056.8 million and HK$1,714.0 million, respectively. The increase was due to the growth of both SI and IBO businesses and the higher depreciation charged on the power generation assets of the IBO projects in Indonesia.

Gross profit and gross profit margin

	Year ended 31 December			
	2019		2018	
	HK$'000	**gross profit margin %**	HK$'000	gross profit margin %
SI	**356,703**	**20.3**	334,656	21.2
IBO	**380,539**	**36.7**	372,086	44.2
Total	**737,242**	**26.4**	706,742	29.2

Gross profit of the Group was approximately HK$737.2 million, representing an increase of 4.3% as compared with approximately HK$706.7 million of the previous year. Gross profit margin for this year decreased to 26.4% from 29.2% for 2018 which was mainly attributable to the increase in pass-through fuel cost in IBO business and the relatively lower gross profit margin of the IBO projects in Indonesia.

Profit before tax

Profit before tax for the year ended 31 December 2019 was approximately HK$323.1 million, representing an increase of 39.9% as compared with HK$231.0 million of the previous year. The increase was mainly due to addition of IBO projects in Myanmar and Sri Lanka, increase in other income and gains and increase in share of profits of joint ventures which was partially offset by increase in finance costs as a result of increase in interest-bearing bank and other borrowings; and increase in administrative expenses.

Other income and gains

In 2019, other income and gains of the Group amounted to approximately HK$143.5 million, representing an increase of 257.0% as compared with approximately HK$40.2 million of the previous year. The increase was mainly attributable to a consultancy income recognised during the year.

Selling and distribution expenses

Selling and distribution expenses of the Group primarily consist of costs for transportation and traveling expenses, commission expense, insurance expense, staff costs and others. In 2019, selling and distribution expenses of the Group increased by 20.2% from approximately HK$25.8 million in 2018 to HK$31.0 million. It was mainly attributable to the increase in transportation cost.

Administrative expenses

Administrative expenses primarily consist of administrative service fees, staff costs, legal and other professional fees, insurance expenses, and office and other expenses. Office and other expenses include bank charges, advertising, exhibition and related promotion expenses and headquarter expenses.

In 2019, administrative expenses of the Group were approximately HK$339.0 million, an increase of 24.4% over the previous year of approximately HK$272.6 million. The increase was mainly due to the expenses incurred for the development of new projects (such as increase in headcounts and professional fees) and increase in research and development cost.

Other expenses, net

Other expenses, net of the Group primarily consist of unrealised foreign exchange loss on realignment of accounts payable and bank borrowings which are denominated in Euro for purchases of equipment and engines, impairment of trade receivables, loss on disposal of items of property, plant and equipment and write-down of inventories to net realisable value.

In 2019, other expenses, net were approximately HK$5.2 million, which represented a decrease of 84.0% as compared with the previous year of approximately HK$32.5 million. The decrease was mainly attributable to the decrease in foreign exchange loss.

Finance costs

Finance costs of the Group primarily consist of interest and other finance costs on letters of credit, bank loans and overdrafts, notional interest on other payables and interest on lease liabilities and other borrowings. In 2019, finance costs was approximately HK$249.3 million, which represented an increase of 30.3% over the previous year of approximately HK$191.4 million. The increase was primarily due to the loan interest for the increased interest-bearing bank and other borrowings.

Income tax expense

Income tax expense of the Group primarily consists of income tax payable by our subsidiaries in the PRC and Hong Kong. In 2019, income tax expense was approximately HK$40.9 million, representing an increase of 35.9% over the previous year of approximately HK$30.1 million, and our effective tax rate was 12.7% and 13.0% for 2019 and 2018, respectively.

Profit Attributable to Owners and Earnings per Share

In 2019, profit attributable to owners of the Company was approximately HK$283.6 million, representing an increase of approximately HK$70.3 million or approximately 33.0% as compared with approximately HK$213.3 million of the previous year.

Basic earnings per share for the year ended 31 December 2019 were HK11.12 cents as compared with HK8.36 cents of the previous year.

Liquidity, Financial and Capital Resources

As at 31 December 2019, total current assets to the Group amounted to HK$3,956.0 million (2018: HK$4,447.0 million). In terms of financial resources as at 31 December 2019, cash and cash equivalents of the Group were HK$772.4 million (2018: HK$541.4 million).

As at 31 December 2019, total bank and other borrowings and senior notes of the Group amounted to approximately HK$4,014.4 million (2018: HK$3,755.8 million), representing an increase of approximately 6.9% as compared to that of 31 December 2018. The Group's bank and other borrowings include short-term loans with 1-year maturity and term loans with maturity within 3 years. As at 31 December 2019, the Group's bank and other borrowings and senior notes denominated in U.S. dollars, HK dollars, Euro and Great British Pound ("**GBP**") were approximately HK$3,656.7 million (2018: HK$3,284.0 million), HK$287.5 million (2018: HK$409.2 million), approximately HK$66.0 million (2018: HK$62.6 million), and approximately HK$4.2 million (2018: nil), respectively.

During the year, the Group had drawn a new unsecured US$200 million three-year term loan facility with a group of five banks to refinance bank loans maturing in 2019 and 2020. The increase in cash and cash equivalents was mainly due to the Group's internally generated cash flows from operation and cash drawn under the aforesaid term loan facility.

As at 31 December 2019, the Group's current ratio was 1.1 (2018: 1.4). The Group's debt ratio, which is calculated as a percentage of total liabilities to total assets, was 68.1% (2018: 64.6%). The debt ratio, adjusted by excluding the total liabilities and the total assets held by the non-wholly owned subsidiaries for the operation of Iquitos Project, was 64.4% (2018: 58.9%). The Group's net gearing ratio, which is calculated as a percentage of total interest-bearing bank and other borrowings and senior notes less cash and cash equivalents, pledged deposits and restricted cash to shareholders' equity was approximately 108.4% (2018: 117.9%). The net gearing ratio, adjusted by excluding the senior notes issued by a non-wholly owned subsidiary which are non-recourse to the Company and any other subsidiaries, and restricted cash held under that non-wholly owned subsidiary, was 83.9% (2018: 91.0%).

Charge of Assets

As at 31 December 2019, the Group had charged certain property, plant and equipment with a net book value of approximately HK$59.8 million (31 December 2018: HK$565.8 million) and pledged deposits of HK$62.2 million (31 December 2018: HK$48.4 million) to certain banks and a finance leasing company to secure bank and other borrowings; and the equity interest in a 51% owned subsidiary with a total asset value of approximately HK$814.1 million (31 December 2018: HK$862.0 million) and restricted cash of HK$81.6 million (31 December 2018: HK$81.2 million) as security for the senior notes issuance of such subsidiary.

Exposure on Foreign Exchange Fluctuations

The Group's revenue and payments are mainly in U.S. dollars, Indonesian Rupiah ("**IDR**"), Renminbi ("**RMB**"), Euro, Myanmar Kyat ("**MMK**") and GBP. The impact of such difference would translate into our exposure to any particular currency fluctuations during the period. The Group has a hedging policy to manage such risks and costs associated with currency fluctuations.

The Group is exposed to foreign exchange risk through sales and purchase that are denominated in currencies other than the functional currency of the respective operations, which are primarily Euro, IDR, RMB, MMK and GBP. A majority of the Group's purchases are either in Euro or U.S. dollar. During the year ended 31 December 2019, the Group entered into currency forward contracts to manage its partial foreign exchange exposure against Euro appreciation. The Group will closely follow the hedging policy and monitor its overall foreign exchange exposure from time to time to minimize the relevant exposures.

As market conditions continue to evolve, the Group's Investment Committee will continue to closely monitor the currency risk and adopt strategies that, if necessary, reduce the exposure of currency risks.

Contingent Liabilities

Details of contingent liabilities as at 31 December 2019 are set out in the note 42 to the audited consolidated financial statements.

Capital Expenditures

For the year ended 31 December 2019, the Group invested HK$1,363.9 million (2018: HK$1,012.1 million) in property, plant and equipment of which HK$1,359.9 million (2018: HK$998.3 million) mainly for IBO projects relate to distributed power stations located in Myanmar and Sri Lanka.

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries, associates and joint ventures during the year.

EMPLOYEES

As at 31 December 2019, the Group had 466 employees (2018: 371). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set out the Mandatory Provident Fund Scheme for the Hong Kong's employees and has made contributions to the state-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has share option schemes and a share award scheme to motivate valued employees. During the year of 2019, the Group provided internal and external training (e.g. orientation training, on-the-job training, product training and site safety training) to enrich the knowledge and skills of our employees.

CORPORATE SOCIAL RESPONSIBILITY

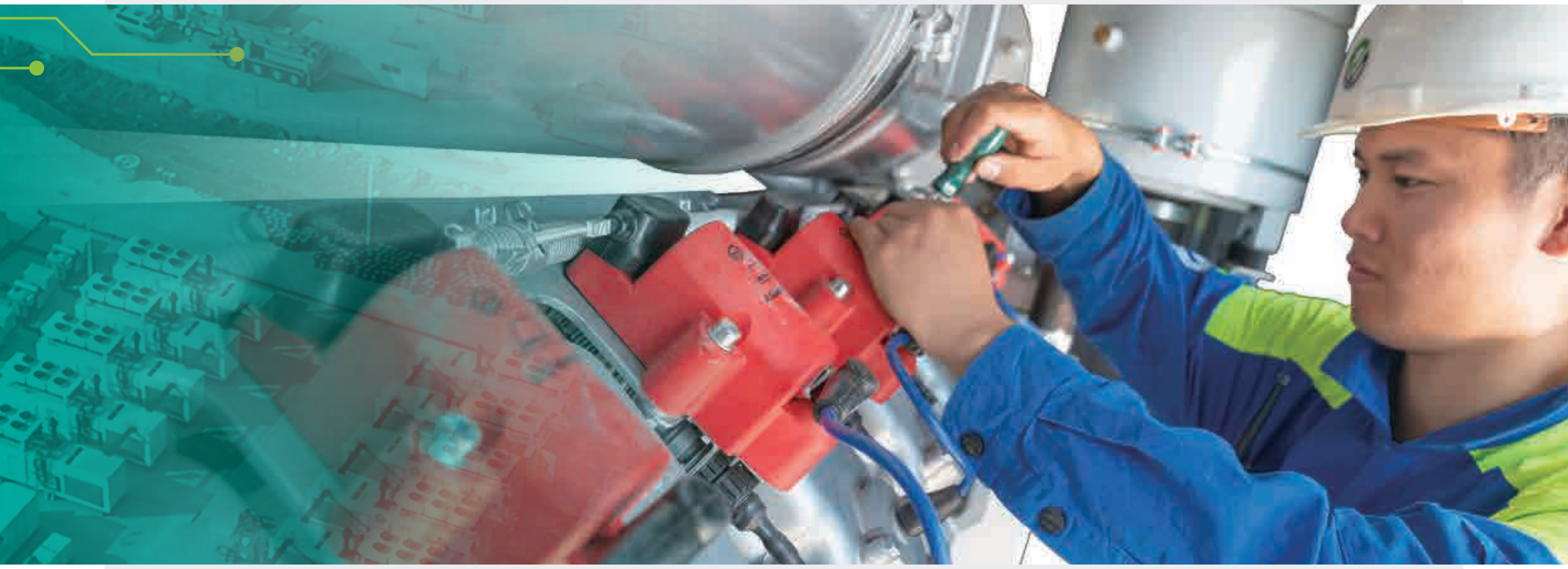
In pursuit of satisfactory returns for our shareholders and investors, we also care for people, our community and the environment. We will keep on building an enduring stakeholder relationship and continue to invest in the community for a better future for all.

HONG KONG

Promoting Healthy Culture Of Work-Life Harmony

Human capital is the most important asset of VPower Group. Over the years, we have been cultivating a work environment that nurtures both personal and professional growth of our employees. As the forward-looking employer, we see the growing significance of work-life balance to physical and mental health of our employees. As such, we encourage them to develop a diverse life from building a harmonious family, devoting in charitable events to pursuing continuous studies. To enrich their work life and explore different interests, we organised a series of workshops, such as moss terrarium workshop and coffee art workshop in 2019.

CORPORATE SOCIAL RESPONSIBILITY



Go Further, You Are Not Alone

While we are taking part in building a harmonious and diversified society, there are tens of thousands of children with different kinds of developmental disorders being misunderstood and neglected in Hong Kong. In support of "World Autism Awareness Day" in 2019, we sponsored and participated in "You Run With I" charity run and concert organised by Bridge Foundation. The big smiley faces of the children with Autism Spectrum Disorder and their families when having the fun and friendly running race with other families are the most precious rewards to us.

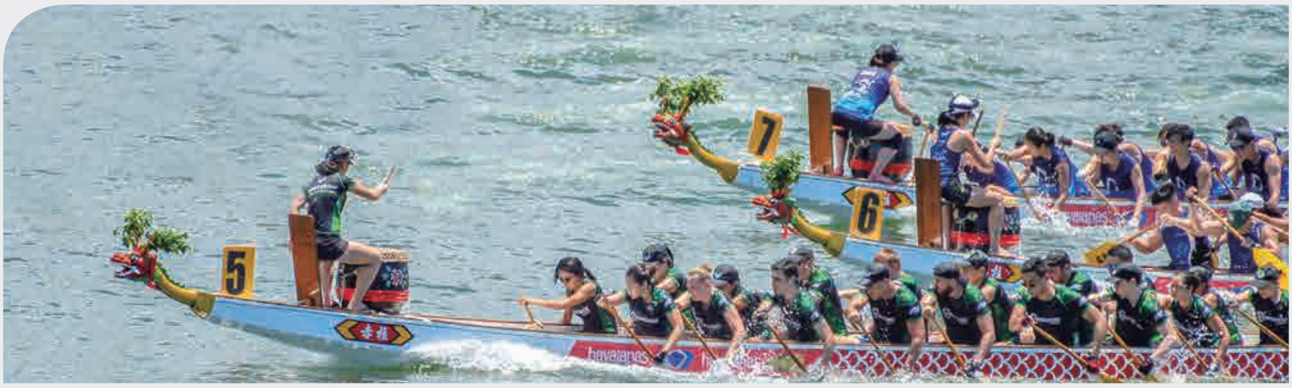
Run For A Greener And Sustainable City

Sharing the same goal with the Green Council to raise public awareness about environmental protection and promote the transformation of Hong Kong into a sustainable city, we sponsored and sent a team to participate in the "Green Run 2019". Upholding its mission to encourage the public to implement greener choices and living habits in their daily lives, the Green Council encouraged participants to reduce plastic waste and food waste throughout the run by offering water in reusable water cups and food in appropriate amount. Not only supporting the green ideas of the event, our team also enjoyed the run on the breezy Sunday.

CORPORATE SOCIAL RESPONSIBILITY

Go With Passion Hand In Hand To Make It Happen

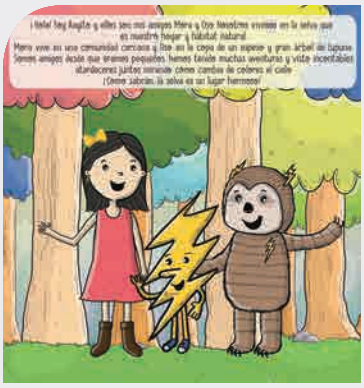
We have sponsored a team of local and expatriate sports aficionados to form the VPower Group Dragon Boat Team since 2015 in promoting this traditional Chinese folk activity. Dedicated and focused to strive for the best result throughout the journey, the team won the second runner-up of the mixed division at the grand finale of the Stanley International Dragon Boat Championship 2019.

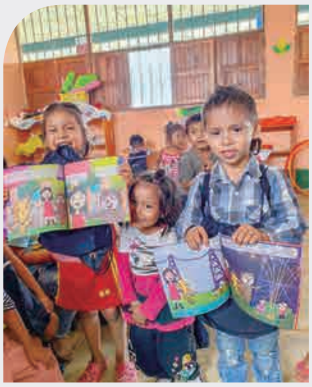


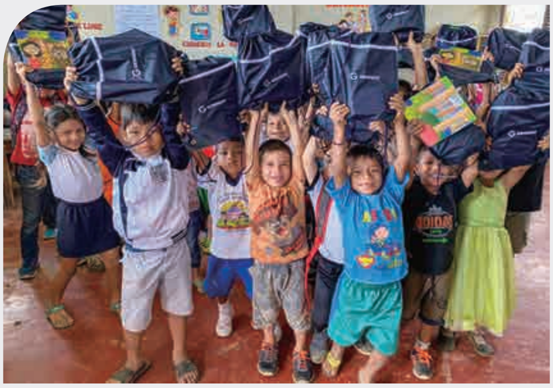
PERU

The Power of Knowledge

Not only do we believe the significance of access to reliable electricity in improving people's living standard, but we also understand the power of knowledge in shaping one's future. To support the education of communities in Iquitos, Peru where we operate our business, our staff in a local subsidiary launched a number of school visits in 2019 to distribute 1,300 sets of school bags with different kinds of stationery to the students. Hoping to educate them about power generation activities and safety, we prepared an illustrative storybook, *Little Ray in the Jungle*.







MYANMAR

Career In the Energy Sector

We are an equal opportunity employer practicing fair and equal treatment in all aspects of human resources regardless of gender, nationality and cultural background. As we are committed to fostering talents for the engineering industry, we welcome young people to join our diversified taskforce. In an effort to provide on-site exposure and a taste of life as an engineer for the youngsters who show interests in developing their career in this industry, we hosted a site visit to one of our power stations for a group of engineering students from Yangon Technological University in 2019. During the visit, classes about power station operation, equipment maintenance were arranged by our professional engineers.

INDONESIA

Building Multicultural Society

One of the fundamental principles in our multinational business operation is to understand and accept cultural difference. We always show respect to the religious beliefs of our local employees and the communities of our power stations. In Indonesia, the Festival of the Sacrifice is celebrated by Muslims as a major holiday. We were pleased to support the people in need in Jambi, Pekanbaru, and Rengat by making donations for them to enjoy the festival.

DIRECTORS AND SENIOR MANAGEMENT

Good corporate governance enhances our credibility and protect the interest of our stakeholders, which is a key to long-term value creation. We maintain diversification in our Board of Directors and management team.

The Board of Directors comprises Mr. LAM Yee Chun, Mr. LEE Chong Man Jason, Mr. AU-YEUNG Tai Hong Rorce and Mr. LO Siu Yuen as executive directors; Ms. CHAN Mei Wan and Mr. KWOK Man Leung as non-executive directors; and Mr. David TSOI, Mr. YEUNG Wai Fai Andrew and Mr. SUEN Wai Yu as independent non-executive directors.

We recruit professionals from different fields to form our strong and experienced team of management. Their leadership and unique insights of the markets will lead us to a bigger success.

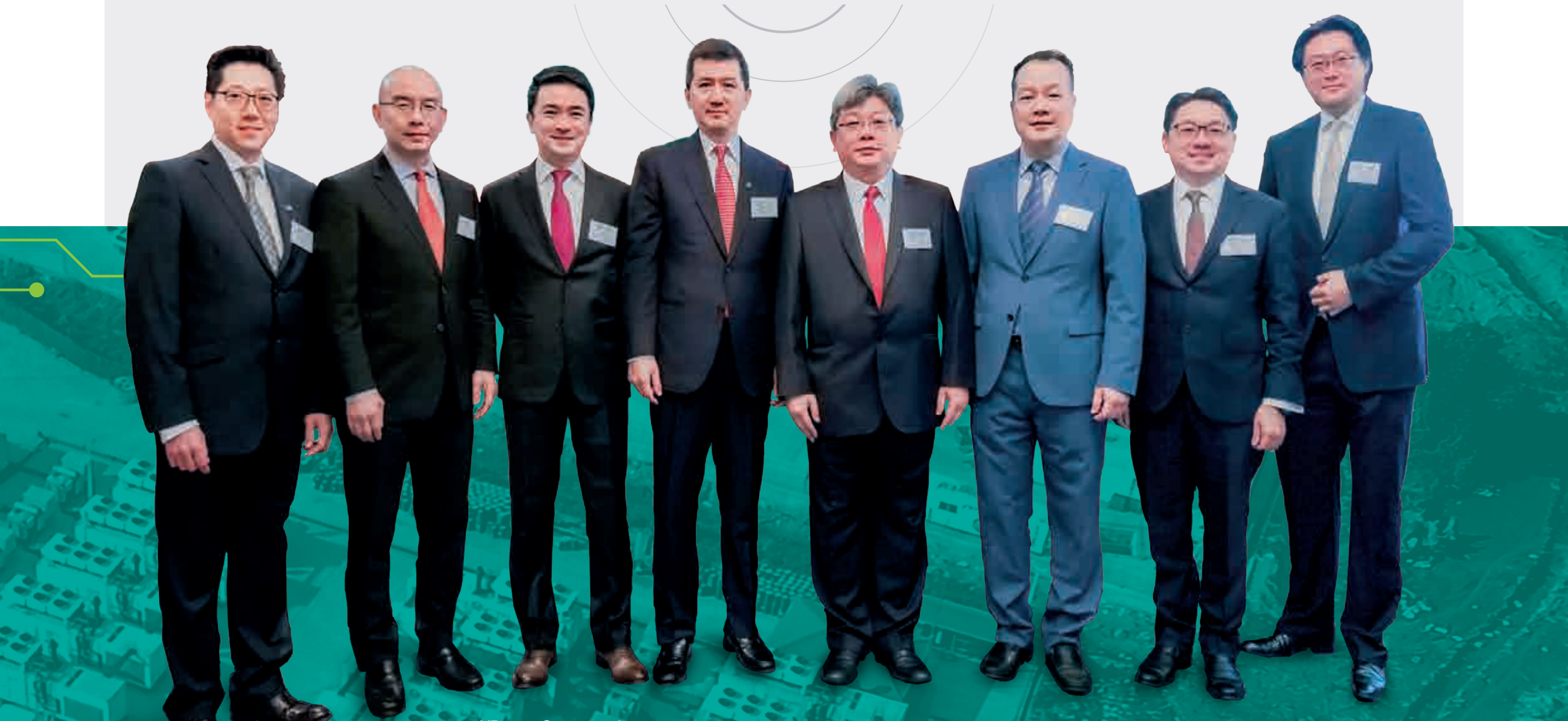
Mr. LAM Yee Chun, aged 48, was appointed as an Executive Director of the Company on 22 February 2016. He is a Co-founder and the Executive Chairman of the Group, a member of the Company's Nomination Committee and a director of various subsidiaries of the Group. Mr. LAM is principally responsible for the Group's strategic developments in both commercial and technical aspects. He is also responsible for formulating overall mission and vision of the Group, responsible for the leadership of the Board, performing his duties under the nomination committee and providing top-level leadership of the general management of the Group.

Mr. LAM has more than 23 years of experience in entrepreneurship, general management, project management, supply chain management, system integration and operation and maintenance in the engine based power generation industry. As a project engineer for Cummins Hong Kong Ltd., in charge of power generation projects between 1993 and 1995, Mr. LAM has gained numerous experiences in design, practical works and operation. He has years of experiences in designing power generation system for various applications, including backup or prime use in emergency situations such as disasters or power outages as well as continuous power generation for power stations.

Mr. LAM was awarded the Young Industrialist Awards of Hong Kong 2016 by the Federation of Hong Kong Industries and Owner-Operator Award at the DHL/SCMP Hong Kong Business Awards 2017 for his outstanding achievement as an entrepreneur and power generation solution provider. He obtained a higher certificate in building services engineering from the Hong Kong Polytechnic University in November 1997.

Mr. LAM is the spouse of Ms. CHAN Mei Wan ("**Ms. CHAN**"), the Vice Chairwoman of the Group and a Non-Executive Director of the Company.

DIRECTORS AND SENIOR MANAGEMENT



VPower Group senior management team
From left to right: Mr. CHAN Kam Shing, Mr. Boyang LIU, Mr. LEE Siu Ming, Mr. AU-YEUNG Tai Hong Rorce, Mr. LAM Yee Chun, Mr. LEE Chong Man Jason, Mr. LO Siu Yuen and Mr. CHEUNG Yeung Earnest

Mr. LEE Chong Man Jason, aged 50, was appointed as an Executive Director of the Company on 26 April 2016. He is a Co-founder and a Co-Chief Executive Officer and a director of various subsidiaries of the Group. Mr. LEE is responsible for formulating overall corporate strategies and policies of the Group and for general management and day-to-day operation of the Group.

Mr. LEE has more than 18 years of experience in general management, global sales, distribution, project management, business development, power monitoring, power quality control and power saving in the engine based power generation industry, as well as setting our current business strategies, direction and goals.

Mr. LEE obtained a bachelor of science in electrical engineering from University of Calgary, Canada in June 1994.

Mr. AU-YEUNG Tai Hong Rorce, aged 63, joined the Group in June 2014 and was appointed as an Executive Director of the Company on 26 April 2016. He is a Co-Chief Executive Officer and a director of various subsidiaries of the Group. Mr. AU-YEUNG is responsible for formulating overall corporate strategies and policies of the Group and for general management and day-to-day operation of the Group.

Mr. AU-YEUNG has over 23 years of multinational corporate executive experience in the environmental infrastructure and energy industry. Mr. AU-YEUNG was the chief executive officer of Dongjiang Environment (HK) Co., Limited, a subsidiary of Dongjiang Environmental Company Limited (listed on Hong Kong Stock Exchange, Stock Code: 895) between September 2007 and June 2010. Prior to that and during the period from 1989 to 2007, Mr. AU-YEUNG served on various executive management roles for multinational corporations including acting as the executive vice president of Veolia Environmental Services Hong Kong Limited when he left the company in August 2007 and prior to that as legal counsel of Pacific Waste Management Limited (now part of Veolia Environmental Services China Limited) from February 1994 and as attorney of Exxon Chemical International — Asia Limited between January 1991 and December 1993.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LO Siu Yuen, aged 49, joined the Group in September 2011 and was appointed as an Executive Director of the Company on 26 April 2016. He is also the Chief Operation Officer of the Group. Mr. LO is responsible for formulating overall corporate strategies and policies in relation to the project functional operation including human resources planning of the Group and overseeing ongoing project functional business operations including procurement and logistics.

Mr. LO has been a certified public accountant since July 1998 with over 23 years of experience in accounting, auditing, and financial management. He had served as various managerial, consultant, compliance and/or auditing roles from 1994 to 2011 including as the senior consultant of various consultant companies between February 2008 and August 2011, as a compliance officer of CITIC-Prudential Life Insurance Company Limited from January 2006 to December 2007, as the assistant compliance manager and compliance manager of American International Assurance Company (Bermuda) Limited from January 2003 to January 2006. Mr. LO joined Hong Kong Exchanges and Clearing Limited in June 2001 and was an assistant manager of the group international audit business unit prior to his departure in January 2003. He worked for First Pacific Bank Limited from December 1999 to May 2001 with his last position being a manager and was an associate and senior associate of PricewaterhouseCoopers Ltd. from April 1997 to December 1999. Mr. LO also practiced audits and accountancy in W. M. Sum & Co. from September 1994 to March 1997.

Mr. LO obtained a master of science in computer science from Victoria University of Technology in February 2004 and bachelor of business administration in applied economics from Hong Kong Baptist University in December 1994.

Ms. CHAN Mei Wan, aged 47, joined the Group in June 2001 and was appointed as a Non-Executive Director of the Company on 26 April 2016. She is the Vice Chairwoman of the Group and a member of the Company's Audit Committee and Remuneration Committee. Through assisting Mr. LAM Yee Chun ("**Mr. LAM**") and Mr. LEE Chong Man Jason, she was heavily involved in the founding of the Group. Ms. CHAN is responsible for advising on key human resources and financial matters and performing her duties as a Non-Executive Director through the Board, the Audit Committee and the Remuneration Committee.

Ms. CHAN has more than 18 years of experience in entrepreneurship, general management, corporate administration and human resources. Ms. CHAN supported Mr. LAM's power generation system business since its founding and worked closely with Mr. LAM to expand the Group's business. She also assisted in the setup of the current operation system, corporate reorganisation and staff welfare scheme.

Ms. CHAN is the spouse of Mr. LAM, the Executive Chairman of the Group.

Mr. KWOK Man Leung, aged 51, was appointed as a Non-Executive Director of the Company on 11 April 2017.

Mr. KWOK is the executive vice president and a director of CITIC Pacific Limited ("**CITIC Pacific**"), a wholly-owned subsidiary of CITIC Limited (listed on the Hong Kong Stock Exchange, stock code: 267), China's largest conglomerate. Mr. KWOK joined CITIC Pacific in 1993, having over 23 years of experience in leading large-scale projects including corporate mergers and acquisitions, listing, investment evaluation, business negotiation and strategies setting. Mr. KWOK is a Chartered Financial Analyst. He is a director of certain member companies of CITIC Limited involved in iron ore mining and of certain member companies of CITIC Pacific involved in special steel, energy, property and infrastructure business. He is in charge of the business development and human resources and administration of CITIC Pacific. Mr. KWOK is also a director of CITIC Pacific Special Steel Group Co., Ltd. (formerly Daye Special Steel Co., Ltd.) (listed on the Shenzhen Stock Exchange, stock code: 000708). Mr. KWOK is currently a director of Dah Chong Hong Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1828, the listing of the shares of Dah Chong Hong Holdings Limited on the Hong Kong Stock Exchange was withdrawn on 10 January 2020). Prior to delisting, Mr. KWOK was a non-executive director of Dah Chong Hong Holdings Limited.

Mr. David TSOI, aged 72, was appointed as an Independent Non-Executive Director of the Company on 24 October 2016. He is also the Chairman of the Company's Audit Committee and a member of the Nomination Committee.

Mr. TSOI is a director of Alloitt, Tsoi CPA Limited since January 2006. He has been a certified public accountant since September 1981 with over 33 years of experience in accounting, auditing and financial management. Mr. TSOI is a certified public accountant registered at the Hong Kong Institute of Certified Public Accountants and a certified tax adviser registered at the Taxation Institute of Hong Kong; a fellow of the Association of Chartered Certified Accountants since September 1981; a fellow of the Institute of Chartered Accountants in England & Wales since May 2015; a member of the Society of Chinese Accountants & Auditors since April 1987 and a fellow since December 2015; a fellow of the CPA Australia since November 2009 and a member of the Chartered Professional Accountants of British Columbia, Canada since June 2015. He obtained a master of business administration in October 1986 from University of East Asia Macau.

Mr. TSOI has been an independent non-executive director of Loto Interactive Limited (listed on the Hong Kong Stock Exchange, stock code: 8198) from October 2001 to July 2017; CRRC Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 1766) from March 2008 to June 2014; Enviro Energy International Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1102) from July 2008 to June 2017; Anxin-China Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1149) from February 2017 to May 2017; Universal Technologies Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1026) since June 2013; Guru Online (Holdings) Limited (listed on the Hong Kong Stock Exchange, stock code: 8121) since May 2014; Green International Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 2700) since June 2017; Tianli Holdings Group Limited (listed on the Hong Kong Stock Exchange, stock code: 117) since August 2017; and Everbright Grand China Assets Limited (listed on the Hong Kong Stock Exchange, stock code: 3699) since January 2018.

Mr. YEUNG Wai Fai Andrew, aged 47, was appointed as an Independent Non-Executive Director of the Company on 24 October 2016. He is also the Chairman of the Company's Remuneration Committee and a member of the Audit Committee.

Mr. YEUNG is the vice president of Huijing Holdings Company Limited (listed on the Hong Kong Stock Exchange, stock code: 9968). He has over 19 years of experience in investment and private banking. Mr. YEUNG was the managing director of Titan Financial Services Limited between October 2018 and June 2019. He was the deputy chairman and non-executive director of Qianhai Health Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 911) between January 2017 and June 2018. He was the independent non-executive director of Huabang Financial Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 3638) between June and September 2016 and was the non-executive director between June 2018 and January 2019. He had been the head of investment banking and advisory of Kim Eng Securities (Hong Kong) Limited from July 2015 to October 2016. He was the head of corporate finance advisory of Edmond de Rothschild (Suisse) S.A., Hong Kong Branch, from August 2014 to May 2015. Prior to joining Edmond de Rothschild (Suisse) S.A., Hong Kong Branch, he was the managing director of DBS Asia Capital Limited and he worked at DBS Asia Capital Limited for over 10 years. Mr. YEUNG worked as the corporate finance associate in BNP Paribas Peregrine Capital Limited from April 2000 to May 2002 and was the manager of KPMG Hong Kong between 1994 to 2000.

Mr. YEUNG graduated from the Hong Kong Polytechnic University with a bachelor of arts (Hons) in accountancy in 1994. He has been a certified public accountant with the Hong Kong Institute of Certified Public Accountants.

Mr. SUEN Wai Yu, aged 42, was appointed as our Independent Non-Executive Director of the Company on 24 October 2016. He is also the Chairman of the Company's Nomination Committee and a member of the Remuneration Committee.

Mr. SUEN is the chief legal officer of ANTA Sports Products Limited (listed on the Hong Kong Stock Exchange, stock code: 2020) and responsible for overseeing all its legal and regulatory matters. He has over 16 years of experience in advising companies on capital and debt market transaction, merger and acquisition, commercial and project financing, regulatory and compliance, and dispute resolution. Prior to joining ANTA Sports Products Limited, he was the group legal counsel and company secretary of Haitian International Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1882) between August 2010 and February 2019. Mr. SUEN worked in private practice as a solicitor from 2003 to 2010.

Mr. SUEN obtained a bachelor of laws in November 2000 and a postgraduate certificate in laws (PCLL) in June 2001 from the University of Hong Kong. He has been admitted as a solicitor in Hong Kong since September 2003.

DIRECTORS AND SENIOR MANAGEMENT

Mr. CHEUNG Yeung Earnest, aged 46, joined the Group in August 2015. He is the Chief Commercial Officer of the Group. Mr. CHEUNG is responsible for formulating overall strategies and policies in relation to the commercial and business development of the Group, and the overall marketing, sales, product development, customer services to drive business growth and market share of the Group.

Mr. CHEUNG has over 20 years of banking experience specializing in business development and cross-border structured financing transactions. He has years of experience in origination and deal execution in a variety of geographies covering energy and utilities clients. Mr. CHEUNG was an executive director for the corporate finance business of Standard Chartered Bank (HK) Limited from October 2007 to August 2015 prior to his departure and joining the Group.

Mr. CHEUNG obtained a bachelor of science in management sciences (first class honours) from University of Warwick in July 1995.

Mr. LEE Siu Ming, aged 44, joined the Group in April 2017. He is the Chief Strategy Officer and Head of Capital Markets/ Corporate Finance of the Group. Mr. LEE is responsible for formulating the overall strategy of the Group and in charge of the overall capital markets, financing and corporate finance activities of the Group, including fund raisings, merger and acquisitions and investor relations.

Mr. LEE has over 20 years of experience in investment banking and asset management. He was with BOCI Asia Limited from 2009 to 2016 with last position as the managing director and head of Hong Kong Coverage. Prior to that, he held various positions at Morgan Stanley Asia Limited, Deutsche Bank AG, Hong Kong Branch and BNP Paribas Peregrine Capital Limited, etc in Hong Kong, where he participated in corporate finance and capital markets transactions. Mr. LEE has been the independent non-executive director, chairman of the remuneration committee and a member of the audit committee and nomination committee of Impro Precision Industries Limited (listed on the Kong Stock Exchange, stock code: 1286) since April 2019.

Mr. LEE obtained his Master of Business Administration and Bachelor of Business Administration degrees at University of Wisconsin — Madison, the United States in December 1997 and May 1997 respectively. In addition, he has been a CFA® charterholder since May 2001.

Mr. Boyang LIU, aged 49, joined the Group in January 2015. He is the Chief Investment Officer of the Group. Mr. LIU is responsible for formulating overall strategies and policies in relation to the project investment of the Group, responsible for the long term strategies, project investment direction, business planning and forecasting, merger & acquisition, capital structure and capital allocation of the Group.

Mr. LIU has over 17 years of experience in investment banking, strategic investment and private equity investment. Before joining the Group, he served as the managing director of Guangdong Success Capital Partners Limited from January 2014 to December 2014, co-founder and chief financial officer of NovaSolar Limited from May 2011 to May 2014, and chief financial officer of Dongjiang Environmental (HK) Co. Limited, a subsidiary of Dongjiang Environmental Company Limited (listed on the Hong Kong Stock Exchange, stock code: 895), from November 2007 to April 2010. Prior to that, he held various management positions in strategic planning, investment management and investment banking including as the Senior Finance Manager of PayPal Inc. from October 2005 to September 2007, as a manager in the financial strategy and analysis group of HSBC Card Services (under HSBC Bank USA, N.A.) from August 2004 to October 2005, worked at Byron Venture Partners L.P. from July 2001 to May 2004, and as the investment banking associate of JP Morgan Securities Inc. from July 2000 to June 2001.

Mr. LIU obtained a master of business administration from the Wharton School, University of Pennsylvania in May 2000, a master of science in environmental engineering from University of Connecticut in August 1998, and a bachelor of science in nuclear engineering from Tsinghua University in July 1993.

Mr. CHAN Kam Shing, aged 48, joined the Group in January 2015. He is the Chief Financial Officer and the Company Secretary of the Group. He is responsible for formulating overall strategies and policies in relation to the financial management, strategic and tactical matter related to financial reporting, budget management, cost-benefit analysis, tax planning and treasury management of the Group.

Mr. CHAN has been a certified public accountant with the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since April 1998 with more than 23 years of professional experience in accounting, auditing, financial management, and corporate operation and productivity enhancement, with the most recent assignment with the Hong Kong and China Gas Company Limited as the manager of internal audit between February 2010 and December 2014.

Mr. CHAN obtained a bachelor of arts (Hons.) in accountancy from Hong Kong Polytechnic University in November 1994.

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "**Board**") is committed to maintaining high standards of corporate governance. The Board recognizes that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the year ended 31 December 2019, the Company has complied with all code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), except for the following deviation:

Code Provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. One of the Independent Non-Executive Directors of the Company was unable to attend the annual general meeting of the Company held on 3 June 2019 due to his other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard as set out in the Model Code regarding securities transactions by directors during the year ended 31 December 2019.

BOARD AND BOARD OF COMMITTEES

Board's Role and Function

The Board takes responsibility for the formulation of the overall strategy and the leadership and control of the Group such as the Group's long term objectives and strategies, the approval of the Group's corporate and capital structure, financial reporting and controls, internal controls and risk management, material contracts, communication with the shareholders, the Board membership and other appointments, remuneration of Directors and other key senior management, delegation of authority to Board committees and corporate governance matters.

Board's Delegation

The Board, led by the Chairman, approves and monitors group-wide strategies and policies, evaluates the performance of the Group and supervises the management. To enhance efficiency, the Board has delegated to the Co-Chief Executive Officers the day-to-day leadership and management of the Group. The senior management of the Group, on the other hand, is responsible for the management and administrative functions and the day-to-day operations of the Group under the supervision of the Co-Chief Executive Officers.

Board's Responsibilities for the Consolidated Financial Statements

The Board acknowledges its responsibilities for preparing the consolidated financial statements of the Group and for ensuring that the preparation of the consolidated financial statements of the Group is in accordance with statutory requirements and applicable standards.

The statement of the external auditor of the Company concerning its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 57 to 63 of this annual report.

Board Composition

As at the date of the Directors' Report, there are nine Directors in our Board consisting of four Executive Directors, two Non-Executive Directors and three Independent Non-Executive Directors. Save as Mr. LAM and Ms. CHAN, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board and senior management.

There was no change of Directors and Board committee members during the year ended 31 December 2019. Brief biographical details of each Director (including his/her age, gender, term of office, professional qualification and experience) are set out under the section headed "Directors and Senior Management" on pages 22 to 28 of this annual report.

The Company also maintained on its website and HKEx's website an updated list of its Directors identifying their respective roles and functions and whether they are Independent Non-Executive Directors. Independent Non-Executive Directors are also identified as such in all corporate communications that disclose the name of Directors of the Company.

Each Independent Non-Executive Director is required to inform the Company as soon as practicable if there is any change in his own personal particulars that may affect his independence. No such notification was received during the year. Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation on independence from each Independent Non-Executive Director. The Company considers all of the Independent Non-Executive Directors to be independent.

Chairman and Co-Chief Executive Officers

The roles of the Chairman and the Co-Chief Executive Officers are separate and are not performed by the same individual. The Chairman, Mr. LAM Yee Chun, is responsible for overseeing the functioning of the Board and, with the support of Executive Directors and the Company Secretary, seeking to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate and reliable information timely. The Co-Chief Executive Officers, Mr. LEE Chong Man Jason and Mr. AU-YEUNG Tai Hong Rorce are responsible for managing the business of the Group and leading the management to implement strategies and objectives adopted by the Board.

Board Diversity Policy

A board diversity policy setting out the approach to achieve diversity on the Board was adopted in October 2016. Under the policy:

(a) the Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in achieving a sustainable and balanced development of the Company;

(b) the Nomination Committee is primarily responsible for reviewing the structure, size and composition of the Board, identifying and selecting suitable individuals to the Board and making recommendations to the Board on any proposed changes to the Board; and

(c) selection of candidates for directorship with the Company will be based on diversity of perspectives which can be achieved through consideration of a number of factors including but not limited to gender, age, cultural and educational background, professional and industrial experience, skills, knowledge and independence (if applicable).

The Nomination Committee will monitor the implementation of the policy and review the policy, where necessary, to ensure its continued effectiveness.

Board Meetings and Process

The Board held 4 meetings in the year ended 31 December 2019. Senior management members and project managers are invited to attend Board meetings to brief the Board on issues considered by the Board where appropriate.

Directors' attendance record of meetings held during the year ended 31 December 2019:

		Board Committees			
	Board	**Audit**	**Remuneration**	**Nomination**	**Shareholders**
Number of meetings held during the year	4	3	1	1	1
Executive Directors					
Mr. LAM Yee Chun *(Executive Chairman)*	4/4	—	—	1/1	1/1
Mr. LEE Chong Man Jason *(Co-Chief Executive Officer)*	4/4	—	—	—	1/1
Mr. AU-YEUNG Tai Hong Rorce *(Co-Chief Executive Officer)*	4/4	—	—	—	1/1
Mr. LO Siu Yuen *(Chief Operation Officer)*	4/4	—	—	—	1/1
Non-Executive Directors					
Ms. CHAN Mei Wan *(Vice Chairwoman)*	4/4	3/3	1/1	—	1/1
Mr. KWOK Man Leung	4/4	—	—	—	1/1
Independent Non-Executive Directors					
Mr. David TSOI	4/4	3/3	—	1/1	1/1
Mr. YEUNG Wai Fai Andrew	4/4	3/3	1/1	—	1/1
Mr. SUEN Wai Yu	4/4	—	1/1	1/1	0/1

Board Tenure

As stipulated by the Company's Articles of Association, all Directors (including Non-Executive Directors) are required to retire by rotation at least once every three years and seek for re-election at annual general meeting. At each annual general meeting, one-third of the Directors for the time being shall retire from office. Any new directors appointed either to fill a casual vacancy or as an addition to the Board during the year by the Board following the recommendation of the Nomination Committee are subject to re-election by shareholders of the Company at the next following general meeting after their appointment.

Every Executive Director has entered into a director's service agreement with the Company for a term commencing from 24 November 2019 to 31 December 2021 and subject to termination in accordance with their respective terms.

Every Non-Executive Director (including Independent Non-Executive Directors) has signed a letter of appointment with the Company for a term either from 24 November 2019 or 11 April 2020 until 31 December 2021 and subject to termination in accordance with their respective terms.

Directors' Commitments

All Directors are committed to devoting sufficient time and attention to the affairs of the Group. They have disclosed to the Company the identity of public companies or organisations in which they have held offices, and the number and nature of the offices, as well as other significant commitments and are required to notify the Company of any changes of such information in a timely manner. Every Director ensures that he or she gives sufficient time to the Company affairs.

Training and Professional Development

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company also organizes and arranges seminars for and/or provides relevant training materials to Directors to help ensure they are apprised of the roles, functions and duties of being a director of a listed company and the development of their knowledge on the regulatory updates whenever necessary or appropriate.

During the year ended 31 December 2019, the Company provided training materials for all the then Directors to keep them abreast of the latest development of legal and other regulatory requirements and corporate governance. The Company has received the records of training from all those Directors.

BOARD COMMITTEES

Constantly striving to achieve greater transparency and accountability to the Company's shareholders, the Board has established three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee; each having specific roles, authority and functions as detailed in the respective written terms of reference which are available on the Company's website (*www.vpower.com*).

Audit Committee

Composition	**Independent Non-Executive Directors** Mr. David TSOI *(Chairman)* Mr. YEUNG Wai Fai Andrew	**+**	**Non-Executive Director** Ms. CHAN Mei Wan

Role & functions*

(a) Consider the appointment of external auditor and any questions of resignation or dismissal
(b) Discuss with the external auditor before the audit commences, the nature and scope of the audit
(c) Review half-year and annual financial statements before submission to the Board
(d) Discuss matters arising from the audit, and any matters the external auditor may wish to discuss
(e) Consider and review the Group's risk management and internal controls systems

Summary of work performed in 2019

(a) Reviewed unaudited interim consolidated financial statements and audited annual consolidated financial statements of the Group with a recommendation to the Board for approval
(b) Reviewed internal control and risk management framework of the Group
(c) Received and reviewed progress reports on internal control, risk management and internal audit actions implemented/planned by the Group
(d) Met with external auditors in the absence of Executive Directors of the Company

* Please refer to the terms of reference of the Audit Committee on the Company's website (*www.vpower.com*) for further details.

Remuneration Committee

Composition	**Independent Non-Executive Directors** Mr. YEUNG Wai Fai Andrew *(Chairman)* Mr. SUEN Wai Yu	**+**	**Non-Executive Director** Ms. CHAN Mei Wan

Role & functions*

(a) Consider the Group's policy and structure of remuneration of the Directors and senior management
(b) Determine specific remuneration packages of all Directors and senior management
(c) Make recommendation to the Board on the remuneration packages of individual Executive Directors and senior management
(d) Review and approve the managements' remuneration with reference to the Group's goals and objectives resolved by the Board periodically
(e) Review compensation payable to Directors and senior management relating to any loss or termination of their office or appointment
(f) Review compensation arrangements relating to dismissal or removal of Directors for misconduct

Summary of work performed in 2019

(a) Reviewed the remuneration packages of Directors for the year ended 31 December 2019
(b) Reviewed the remuneration packages of senior management for the year ended 31 December 2019

* Please refer to the terms of reference of the Remuneration Committee on the Company's website (*www.vpower.com*) for further details.

Nomination Committee

Composition	**Independent Non-Executive Directors** Mr. SUEN Wai Yu *(Chairman)* Mr. David TSOI	+ **Executive Director** Mr. LAM Yee Chun
Role & functions*	(a) Review the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Group's corporate strategy (b) Identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships (c) Assess the independence of Independent Non-Executive Directors and review the Independent Non-Executive Directors' confirmations on their independence (d) Make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors (e) Consider other topics and review other documents as may be reasonably requested by the Board periodically (f) Review the Board Diversity Policy	
Summary of work performed in 2019	(a) Nominated the retiring Directors for re-election by Shareholders at 2019 AGM (b) Reviewed and assessed individual Independent Non-executive Director's annual confirmation of independence declared pursuant to Rule 3.13 of the Listing Rules (c) Reviewed the structure, size and composition of the Board (d) Reviewed the Board Diversity Policy	

* Please refer to the terms of reference of the Nomination Committee on the Company's website (*www.vpower.com*) for further details.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the Group's system of corporate governance and has performed and reviewed the corporate governance functions timely as required under the Corporate Governance Code of Appendix 14 of the Listing Rules. During the year ended 31 December 2019, the Board reviewed and monitored the Company's policies and practices on corporate governance through various meetings with senior management.

The Board has applied the principles of the Corporate Governance Code to its corporate governance structure and practices.

EXTERNAL AUDITOR

Ernst & Young ("**EY**") was re-appointed as the Company's external auditor at 2019 annual general meeting until the conclusion of the next annual general meeting. In order to maintain independence, EY is primarily responsible for providing audit services in connection with the Group's consolidated financial statements, and only provides non-audit services that do not impair their independence or objectivity and are approved by the Audit Committee.

Remuneration paid or payable to EY for audit and non-audit services for the year ended 31 December 2019 are set out below:

	HK$'000
Audit services	6,707
Non-audit services	
Tax compliance and advisory services	958
Total	7,665

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Group's internal control system and risk management procedures and reviewing the effectiveness of the Company's internal control system. The Board conducts regular review and evaluation of the Group's internal control system and monitors the internal control systems through the Internal Audit Department of the Group.

The Internal Audit Department reviews the material controls of the Group continually and aims to cover all major operations of the Group on a cyclical basis. Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective. The Board also reviews regularly the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training program and budget.

The Group is committed to the identification, monitoring and management of risks associated with its business activities. The Group's internal control system is designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective.

Details of our key risks and our risk management measures are disclosed under the section headed "Risk Management" on pages 53 to 56 in this annual report.

DISCLOSURE OF INSIDE INFORMATION

The Company's management assesses the likely impact of any unexpected and significant event that may impact the price of the Shares or their trading volume and decides whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

SHAREHOLDERS

Communication with Shareholders

As part of corporate governance, the Company is committed to safeguarding shareholders' interests. To achieve this, the Company has established a Shareholders' Communication Policy (which can be viewed on the Company's website (*www.vpower.com*) setting out various channels of communication with shareholders of the Company (the "**Shareholders**") and investor community for ensuring effective disclosure of the Company's performance and business activities.

The Company regards its Shareholder's meetings as valuable forum for the Shareholders to raise comments and exchange views with the Board face to face. All our Directors and senior management and representative from external auditor will make effort to attend Shareholders' meetings and address queries from Shareholders.

During the year ended 31 December 2019, the Company held a general meeting. Voting on resolutions put forward at the general meeting has been taken by way of poll and the poll results have been published and posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("**HKEx**").

Apart from holding Shareholders' meeting, the Company also endeavours to maintain effective communication with all shareholders through other channels such as publication of annual and interim reports, announcements, circulars as well as news releases (all in bilingual) so as to provide extensive information on the Group's activities, financial position, business strategies and developments to enable them to make informed decision on matters relating to their investment and exercise of their rights as Shareholders. Such information is also available on the Company's website (*www.vpower.com*) and HKEx's website.

Our website is an effective means of communication with shareholders. Any Shareholders who have questions or comments on what we are doing are most welcomed to contact us at any time through our website. We will try our best to answer the questions in a short time.

Shareholders' Rights

The Company recognises the importance of ensuring that Shareholders' rights are protected. In accordance with the Company's Articles of Association, all Shareholders are entitled to attend or be represented by proxy and vote at general meetings. Shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings have the right to require an extraordinary general meeting to be convened and propose transaction of business.

Shareholders have the right to propose person for election as Director. The relevant procedure for proposing a person for election as Director is set out in the "PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR OF THE COMPANY", which can be viewed on the Company's website (*www.vpower.com*).

DIVIDEND POLICY

Setting out the approach to declare and distribute dividends was adopted in December 2018. Under the policy:

- the Board may declare and distribute dividends to the Shareholders.
- the Company in general meetings may declare dividends in any currency, which must not exceed the amount recommended by the Board.
- the Board may, subject to, among other things, the Company's Articles of Association then in effect, make recommendation to the Shareholders on the distribution of final dividends and may from time to time pay to the Shareholders interim dividends based on the financial position of the Company. Despite the aforesaid, there is no guarantee that any particular amounts of dividends will be distributed for any specific periods.
- the Company's ability to declare dividends will depend on, among others, the operating results and earnings, capital requirements, general financial condition, prevailing economic environment and other factors of the Company which the Board then considers relevant.
- the Company's declaration and payment of dividends shall also comply with, among other things, the Company's Articles of Association of the Company as well as other applicable laws, rules and regulations in effect on the declaration and distribution of or otherwise in relation to dividends.
- this Dividend Policy will be reviewed by the Company from time to time.

CONSTITUTIONAL DOCUMENTS

The Company's Memorandum of Association and Articles of Association (in both English and Chinese) are available on the websites of the Company (*www.vpower.com*) and HKEx.

No amendments were made to the Memorandum of Association and Articles of Association of the Company during the year ended 31 December 2019.

DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements of VPower Group International Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 1 to the audited consolidated financial statements for the year ended 31 December 2019 on pages 71 to 72 of this annual report. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out under the section headed "Management Discussion and Analysis" on pages 8 to 17 of this annual report. The discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the financial position of the Group as at 31 December 2019 are set out in the audited consolidated financial statements on pages 64 to 67.

The Board resolved to recommend the payment of a final dividend of HK2.20 cents per share for the year ended 31 December 2019 to shareholders whose name appear on the Register of Members of the Company on Wednesday, 8 July 2020, subject to the approval of shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Monday, 29 June 2020 (the "**2020 AGM**"). Subject to shareholders' approval at the 2020 AGM, the proposed dividend will be paid on or about Tuesday, 28 July 2020.

An interim cash dividend for the year ended 31 December 2019 of HK0.55 cent per share amounting to HK$14,092,000 was paid to the shareholders of the Company during the year.

Details of the distribution are set out in note 11 to the audited consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend the 2020 AGM, the register of members of the Company will be closed during the period from Tuesday, 23 June 2020 to Monday, 29 June 2020, both days inclusive, during which period no transfer of share(s) of the Company will be effected. In order to qualify for attending and voting at the 2020 AGM, all transfer document(s), accompanied by the relevant share certificate(s), must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 22 June 2020.

For the purpose of determining the entitlement to the proposed final dividend, the register of members of the Company will be closed during the period from Monday, 6 July 2020 to Wednesday, 8 July 2020, both days inclusive, during which period no transfer of share(s) of the Company will be effected. In order to qualify for the proposed final dividend, all transfer document(s), accompanied by the relevant share certificate(s), must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 3 July 2020.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Group for the last five financial years, is set out on page 170. The summary does not form part of the audited consolidated financial statements for the year ended 31 December 2019.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 34 and 35 to the audited consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Associations, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders although there are no restrictions against such rights under the laws of Cayman Islands.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution amounted to HK$1,826.6 million, HK$56.4 million of which has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$41,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the aggregate percentage of sales attributable to the Group's five largest customers was approximately 74.4% of the Group's total revenue and the percentage of sales attributable to the Group's largest customer was approximately 26.9%.

For the year ended 31 December 2019, the aggregate percentage of purchases attributable to the Group's five largest suppliers was approximately 89.5% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier was approximately 34.1%.

None of the Directors, any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year ended 31 December 2019 or subsisted at the end of the year.

ARRANGEMENTS TO PURCHASE SHARES

Save as disclosed under the sections headed "Share Option Schemes" and "Share Award Scheme", at no time during the year or at the end of the year was the Company or any of its subsidiaries a party to any arrangements which enabled the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS

The directors of the Company (the "**Directors**") who held office during the year ended 31 December 2019 were:

Executive Directors

Mr. LAM Yee Chun *(Executive Chairman)*
Mr. LEE Chong Man Jason *(Co-Chief Executive Officer)*
Mr. AU-YEUNG Tai Hong Rorce *(Co-Chief Executive Officer)*
Mr. LO Siu Yuen *(Chief Operation Officer)*

Non-Executive Directors

Ms. CHAN Mei Wan *(Vice Chairwoman)*
Mr. KWOK Man Leung

Independent Non-Executive Directors

Mr. David TSOI
Mr. YEUNG Wai Fai Andrew
Mr. SUEN Wai Yu

Pursuant to Article 84 of the Company's Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company and retiring directors shall be eligible for re-election at that meeting. The Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment and as between persons who became or were last re-elected Directors on the same day shall (unless they otherwise agree among themselves) be determined by lot. Accordingly, Mr. LEE Chong Man Jason, Mr. AU-YEUNG Tai Hong Rorce and Mr. KWOK Man Leung shall retire by rotation at the 2020 AGM and, being eligible, offer themselves for re-election.

Details of the Directors standing for re-election at the 2020 AGM are set out in the circular of the Company sent to the shareholders together with this annual report.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") and considers each of the Independent Non-Executive Directors is independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 22 to 28 of this annual report.

DIRECTORS' SERVICE CONTRACTS

On 24 November 2019, each of the Executive Directors entered into a director's service agreement with the Company. The principal particulars of the service agreement are: (a) for a term commencing from 24 November 2019 to 31 December 2021, and (b) subject to termination in accordance with their respective terms. The service agreement may be renewed in accordance with the Articles of Association and the applicable laws and regulations.

On 24 November 2019, Ms. CHAN Mei Wan, a Non-Executive Director signed a letter of appointment with the Company for a term commencing from 24 November 2019 to 31 December 2021. The letter of appointment is subject to termination in accordance with her term.

On 9 April 2020, Mr. KWOK Man Leung, a Non-Executive Director signed a letter of appointment with the Company for a term commencing from 11 April 2020 to 31 December 2021. The letter of appointment is subject to termination in accordance with his term.

On 24 November 2019, each of the Independent Non-Executive Directors signed a letter of appointment with the Company for a term commencing from 24 November 2019 to 31 December 2021. The letters of appointment are subject to termination in accordance with their respective terms.

None of the Directors of the Company proposed for re-election at the 2020 AGM has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation (other than the statutory compensation).

DIRECTORS' REMUNERATION

Remuneration of directors are determined by the Company's Board with reference to their respective duties, responsibilities and performance and the results of the Group.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance between the Company or its subsidiaries and the controlling shareholder of the Company or its subsidiaries subsisted at the end of the year ended 31 December 2019 or at any time during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

As permitted by the Company's Articles of Association, the Directors and other officers shall be indemnified out of the Company's assets against any liability incurred by such Directors or officers by reasons of act done or omitted in the execution of their duty, provided that such indemnity shall not extend to any matter in respect of fraud or dishonesty which may attach to any of such Directors. Such permitted indemnity provision has been in force throughout the financial year and is currently in force at the time of approval of this report. The Company has arranged appropriate directors' and officers' liability coverage for the Directors and officers of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company (the "**Model Code**") were as follows:

(i) Interest in the Company

Name of Director	Capacity	Number of ordinary shares	Number of underlying shares *(Note 5)*	Total	Approximate percentage of issued share capital *(Note 2)*
LAM Yee Chun ("**Mr. LAM**") *(Note 3)*	Interest of a controlled corporation	1,806,633,881	—	1,806,633,881	70.51%
	Beneficial owner	1,283,000	265,000	1,548,000	0.06%
	Interest of spouse	130,000	260,000	390,000	0.02%
LEE Chong Man Jason ("**Mr. LEE**")	Beneficial owner	132,000	263,000	395,000	0.02%
AU-YEUNG Tai Hong Rorce	Beneficial owner	22,426,947	263,000	22,689,947	0.89%
LO Siu Yuen	Beneficial owner	15,736,463	260,000	15,996,463	0.62%
CHAN Mei Wan ("**Ms. CHAN**") *(Note 4)*	Beneficial owner	130,000	260,000	390,000	0.02%
	Interest of spouse	1,807,916,881	265,000	1,808,181,881	70.57%

Notes:

1. All the above interests in the shares and underlying shares of the Company were long positions. None of the Directors and the chief executive of the Company held any short positions in the shares and underlying shares of the Company as at 31 December 2019.

2. Based on 2,562,284,000 shares of the Company in issue as at 31 December 2019.

3. Mr. LAM directly holds the entire issued share capital of Sunpower Global Limited which holds 58.87% of the total issued share capital of Konwell Developments Limited. Konwell Developments Limited holds the entire issued share capital of Energy Garden Limited. Therefore, Mr. LAM is deemed to have interest in the 1,806,633,881 shares of the Company held by Energy Garden Limited.

   Mr. LAM had outstanding options granted under the Pre-IPO Share Option Scheme to subscribe for 265,000 shares in the Company. Mr. LAM is the spouse of Ms. CHAN. Under Divisions 2 and 3 of Part XV of the SFO, Mr. LAM is deemed to have interest in the same number of shares in the Company in which his spouse has interest.

4. Ms. CHAN had outstanding options granted under the Pre-IPO Share Option Scheme to subscribe for 260,000 shares in the Company. Ms. CHAN is the spouse of Mr. LAM. Under Divisions 2 and 3 of Part XV of the SFO, Ms. CHAN is deemed to have interest in the same number of shares in the Company in which her spouse has interest. Ms. CHAN is a director of Energy Garden Limited.

5. All these interests held by such Directors were underlying shares in respect of share options granted to them on 1 November 2016 pursuant to the Pre-IPO Share Option Scheme, further details of which are set out under the section headed "**Share Option Schemes**" below.

(ii) Interest in Associated Corporation

Name of Director	Name of associated corporation	Number of shares	Approximate percentage of shareholding interest
Mr. LAM	Sunpower Global Limited	1	100%
Mr. LAM	Konwell Developments Limited	5,724	58.87%[(1)]
Mr. LAM	Energy Garden Limited	100	58.87%[(2)]
Ms. CHAN	Konwell Developments Limited	2,000	20.57%[(3)]
Mr. LEE	Konwell Developments Limited	1,000	10.28%[(4)]

Notes:

1. through his controlling interests in Sunpower Global Limited
2. through his controlling interests in Konwell Developments Limited
3. through her interests in Classic Legend Holdings Limited
4. through his interests in Jet Lion Holdings Limited

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

1. PRE-IPO SHARE OPTION SCHEME

The Company adopted a pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") on 24 October 2016 for the purpose of providing incentives and rewards to the directors, employees, advisers, consultants and business partners of the Group (the "**Eligible Participants**") for their contribution, and to align the corporate objectives and interests between the Group and its key talents.

Other than the options under the Pre-IPO Share Option Scheme granted to grantees (the "**Grantees**") on or before 1 November 2016, no further options have been or will be granted under the Pre-IPO Share Option Scheme since then. The exercise price per share is HK$2.016, an amount equal to 70% of the offer price per share for the global offering of the Company in November 2016.

As at 31 December 2019, the Company had outstanding options under the Pre-IPO Share Option Scheme to subscribe for 4,180,000 shares of HK$0.1 each of the Company, representing approximately 0.16% of the share capital of the Company in issue as at 31 December 2019.

Details of the movements in the share options, which were granted under the Pre-IPO Share Option Scheme, during the year ended 31 December 2019 are as follows:

Grantee	Date of grant (dd.mm.yyyy)	Exercise price per share HK$	Number of shares to be issued upon exercise of the share options: Outstanding as at 01.01.2019	Cancelled or forfeited during the year	Exercised during the year	Outstanding as at 31.12.2019	Exercise period (dd.mm.yyyy)
Directors							
LAM Yee Chun	01.11.2016	2.016	133,000	–	–	133,000	24.11.2018–23.11.2021
	01.11.2016	2.016	132,000	–	–	132,000	24.11.2019–23.11.2022
LEE Chong Man Jason	01.11.2016	2.016	132,000	–	–	132,000	24.11.2018–23.11.2021
	01.11.2016	2.016	131,000	–	–	131,000	24.11.2019–23.11.2022
AU-YEUNG Tai Hong Rorce	01.11.2016	2.016	132,000	–	–	132,000	24.11.2018–23.11.2021
	01.11.2016	2.016	131,000	–	–	131,000	24.11.2019–23.11.2022
LO Siu Yuen	01.11.2016	2.016	130,000	–	–	130,000	24.11.2018–23.11.2021
	01.11.2016	2.016	130,000	–	–	130,000	24.11.2019–23.11.2022
CHAN Mei Wan	01.11.2016	2.016	130,000	–	–	130,000	24.11.2018–23.11.2021
	01.11.2016	2.016	130,000	–	–	130,000	24.11.2019–23.11.2022
Sub-total			1,311,000	–	–	1,311,000	
Consultants	01.11.2016	2.016	17,000	–	–	17,000	24.11.2017–23.11.2020
	01.11.2016	2.016	57,000	–	(7,000)	50,000	24.11.2018–23.11.2021
	01.11.2016	2.016	55,000	–	–	55,000	24.11.2019–23.11.2022
Employees	01.11.2016	2.016	332,000	–	(102,000)	230,000	24.11.2017–23.11.2020
	01.11.2016	2.016	1,234,000	(20,000)	(72,000)	1,142,000	24.11.2018–23.11.2021
	01.11.2016	2.016	1,426,000	(22,000)	(29,000)	1,375,000	24.11.2019–23.11.2022
Sub-total			3,121,000	(42,000)	(210,000)	2,869,000	
Grand-total			4,432,000	(42,000)	(210,000)	4,180,000	

2. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "**Share Option Scheme**") on 24 October 2016 for the purpose of providing incentives and rewards to Eligible Participants for their contribution, and to align the corporate objectives and interests between the Group and its key talents.

Subject to refreshment of general mandate limit approved by the shareholders of the Company and the maximum number of shares issuable upon exercise of all outstanding options granted under the Share Option Scheme and other share option scheme representing no more than 30% of the issued share capital of the Company from time to time, total number of shares of the Company ("**Shares**") which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company shall not exceed 256,000,000 Shares, representing approximately 10% of the Company's issued share capital as at 24 November 2016, the date of listing of the shares of the Company on the Stock Exchange. The maximum number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to any one person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised in general. However, at the time of granting any option, the Board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations including (without limitation) those in relation to the minimum period of the options to be held and/or the performance targets to be achieved as the Board may determine in its absolute discretion. A grantee is required to pay HK$1 upon acceptance of the offer of options. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(i) the closing price of a share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option;
(ii) an amount equivalent to the average closing price of a share of the Company as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the date of grant of the relevant option; and
(iii) the nominal value of a share of the Company on the date of grant of the relevant option.

The Share Option Scheme shall be valid and effective for a period of 10 years from 24 November 2016, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to the termination of the Share Option Scheme and not then exercised shall continue to valid and exercisable subject to and in accordance with the Share Option Scheme.

As at 31 December 2019, no option had been granted by the Board under the Share Option Scheme.

SHARE AWARD SCHEME

The Company has adopted the share award scheme on 18 July 2017 (the "**Share Award Scheme**") to recognise the contributions by any individual being an employee (including without limitation any executive director) or consultant of any member of the Group. Subject to any early termination as may be determined by the Board, pursuant to the rules relating to the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date. The Board shall not make any further award of awarded shares which will result in number of the Shares awarded by the Board under the Share Award Scheme exceeding 5% of the issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

As at 31 December 2019, no shares of the Company had been awarded by the Board under the Share Award Scheme.

DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B (1) OF THE LISTING RULES

Changes in the information of Directors required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of the 2019 Interim Report of the Company are set out as below:

Shares of Huijing Holdings Company Limited, in which Mr. YEUNG Wai Fai, Andrew serves as the vice president, were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 16 January 2020.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted as at 31 December 2019 or at any time during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of the date of this report, so far as the Directors were aware, none of the Directors, and their respective close associates had interest in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS

As at 31 December 2019, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the substantial shareholders/other persons, other than Directors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name of Shareholder	Capacity	Number of underlying shares held *(Note 1)*	Approximate percentage of the issued share capital *(Note 2)*
Energy Garden Limited ("**Energy Garden**")	Beneficial owner	1,806,633,881	70.51%
Konwell Developments Limited ("**Konwell**")	Interest of a controlled corporation	1,806,633,881 *(Note 3)*	70.51%
Sunpower Global Limited ("**Sunpower**")	Interest of a controlled corporation	1,806,633,881 *(Note 4)*	70.51%
CITIC Group Corporation ("**CITIC Group**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.99%
CITIC Polaris Limited ("**CITIC Polaris**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.99%
CITIC Glory Limited ("**CITIC Glory**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.99%
CITIC Limited ("**CITIC**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.99%
CITIC Pacific Limited ("**CITIC Pacific**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.99%
Master Wise Holdings Corp. ("**Master Wise**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.99%
Next Admiral Limited ("**Next Admiral**")	Beneficial owner	204,800,000 *(Note 5)*	7.99%

Notes:

1. All the above interests in the shares and underlying shares of the Company were long positions.

2. Based on 2,562,284,000 shares of the Company in issue as at 31 December 2019.

3. Konwell holds 100% of the total issued share capital of Energy Garden and therefore Konwell is deemed to have interest in the 1,806,633,881 shares held by Energy Garden.

4. Sunpower directly holds 58.87% of the total issued share capital of Konwell and therefore Sunpower is deemed to have interest in the 1,806,633,881 shares held by Energy Garden.

   Mr. LAM directly holds the entire issued share capital of Sunpower and therefore, is deemed to have interest in the 1,806,633,881 shares held by Energy Garden. Mr. LAM had outstanding options granted under the Pre-IPO Share Option Scheme to subscribe for 265,000 shares in the Company. Mr. LAM is the spouse of Ms. CHAN. Under the SFO, Mr. LAM is deemed to be interested in the same number of shares in the Company in which his spouse is interested. Mr. LAM is the sole director of Konwell and Sunpower. Both of Mr. LAM and Ms. CHAN are the directors of Energy Garden.

5. CITIC Group holds 100% of CITIC Polaris and CITIC Glory, which in turn controls 32.53% and 25.60% of CITIC, respectively. CITIC holds 100% of CITIC Pacific, which in turn holds 100% of Master Wise. Master Wise holds 100% of Next Admiral. Accordingly, CITIC Group, CITIC Polaris, CITIC Glory, CITIC, CITIC Pacific and Master Wise are interested in the 204,800,000 shares in the Company held by Next Admiral.

Save as disclosed above, as at 31 December 2019, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO.

CONNECTED TRANSACTIONS

The Group had entered into a number of transactions with connected persons of the Company under the Listing Rules during the year. Details of such connected transaction is as follows:

1. On 1 January 2019, VPower Holdings Limited ("**VH**") as lessee entered into a tenancy agreement ("**Tenancy Agreement**") with Orient Profit Investment Limited ("**Orient Profit**") as lessor to rent a residential property located at G/F, Silver Crest, 75 Nga Tsin Wai Road, Kowloon Tong, Hong Kong for a monthly rent of HK$80,000 with a fixed term for two years.

   Orient Profit is wholly-owned by Ms. CHAN Mei Wan, who is a Director and therefore a connected person of the Company.

   The Tenancy Agreement constitutes a continuing connected transaction of the Company which is exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under Rule 14A.76(1) of the Listing Rules.

2. On 11 April 2019, VPower Latam I S.À R.L. as purchaser, entered into a quota purchase agreement ("**Quota Purchase Agreement**") with Telemenia Limited as seller, to acquire 11,939,825 quota of VPower Telemenia Spe Ltda (now known as "VP Flexgen (Brazil) Spe Ltda"), representing 49% of its capital stock at a consideration of USD1,125,378 and repayment of the total outstanding principal amount of USD578,700 under certain loan agreements executed by Telemenia Limited and VP Flexgen (Brazil) Spe Ltda.

   Telemenia Limited is a substantial shareholder of VP Flexgen (Brazil) Spe Ltda and therefore a connected person of the Company at the subsidiary level.

   The Quota Purchase Agreement constitutes a connected transaction of the Company exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under Rule 14A.76(1) of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of significant related party transactions undertaken in the normal course of business of the Group are provided under note 44 to the financial statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules that is required to be disclosed, except for those described above in the paragraph headed "Connected Transactions" which is exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under Rule 14.76(1) of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% (that is, the prescribed public float applicable to the Company as required under the Listing Rules) of the issued shares in the Company were held by the public as at the date of this report.

DEED OF NON-COMPETITION

On 24 October 2016, a deed of non-competition entered into among Mr. LAM Yee Chun, Ms. CHAN Mei Wan, Sunpower Global Limited, Classic Legend Holdings Limited, Konwell Developments Limited and Energy Garden Limited (the "**Controlling Shareholders**"), Sharkteeth Investments Limited and the Company in favor of the Company (for itself and as trustee for other members of the Group), under which the Controlling Shareholders have undertaken to the Company that they will not, and will use their best endeavors to procure that none of their respective associates (other than members of the Group) will, directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement) or as principal or agent, either on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any members of the Group),

- carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with the Business (as defined below) (the "**Restricted Business**"), whether as a shareholder, director, officer, partner, agent, lender, employee, consultant or otherwise; and

- take any action which interferes with or disrupts or may interfere with or disrupt the Business of the Group including, but not limited to, solicitation of any of the then current customers, suppliers or employees from any members of the Group.

For the purpose of the deed of non-competition, our "Business" is defined to cover:

(a) the design, integration and sale of gas-fired and diesel-fired gen-sets and power generation systems; and

(b) the design, investment in, building and operation of DPG stations.

The deed of non-competition does not apply to:

(a) the carrying on, engagement or participation in the Excluded Business as set out in the paragraph of "**Excluded Business**" under the section headed "RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS" in the prospectus of the Company dated 14 November 2016 by Sharkteeth Investments Limited whether directly or indirectly through VPower Technology Chad;

(b) the relevant Controlling Shareholder's holding in the shares of a company where:

  - the total number of shares held by the Controlling Shareholders does not exceed 10% of the issued shares of such company which is or whose holding company is listed on a stock exchange; or

  - any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of its consolidated turnover or consolidated assets, as shown in its latest audited accounts; and

(c) the Business Opportunity which the Company has confirmed that it does not intend to pursue in accordance with the terms of the non-competition deed the ("**Forgone Business Opportunity**").

The Controlling Shareholders have further undertaken to procure that any new business investment or other business opportunity relating to the Business (the "**Business Opportunity**") identified by or made available to them or any of their associates, they shall and shall procure that their associates shall refer such Business Opportunity to the Company on a timely basis in accordance with the terms of the non-competition deed.

To eliminate any potential competition, the Controlling Shareholders have also granted the Company a right, which is exercisable during the term of the deed of non-competition, to acquire the Excluded Business and/or any Forgone Business Opportunity owned by the Controlling Shareholders.

The respective obligations of each of the Controlling Shareholders under the deed of non-competition shall terminate on the earliest of (i) the Shares cease to be listed on the Stock Exchange; and (ii) the Controlling Shareholders and their associates (other than members of the Group), individually or jointly, cease to hold or control, directly or indirectly, 30% or more of the entire issued share capital of the Company.

SUSTAINABILITY REPORT

The Company is preparing its Sustainability Report 2019 in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Main Board Listing Rules of the Stock Exchange. The full report, in Chinese and English versions, will be issued within three months after the publication of our Annual Report 2019.

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the 2020 AGM and being eligible to offer themselves for re-appointment. A resolution to re-appoint Ernst & Young as auditor of the Company and to authorize the Directors to fix its' remuneration will be proposed at the 2020 AGM.

By Order of the Board
LAM Yee Chun
Executive Chairman

Hong Kong, 30 March 2020

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

An Enterprise Risk Management framework is in place to assess, mitigate and monitor strategic, investment, financial, operational and key business risks effectively. The framework enables us to adopt a systematic approach to identifying and managing risks across the organisation, and evaluating risk severity and likelihood of occurrence.

STRUCTURE

Management is committed to fostering a risk aware and control conscious environment. Responsibility for risk management resides at all levels within the Group. The Board oversees the overall management of risks. Internal Audit assists the Board and Audit Committee to review and monitor key risks. Operating units are responsible for the identification and management of risks in their operations and a comprehensive approach is adopted for enterprise wide risk.

RISK MANAGEMENT PROCESS

The risk management process is embedded into our day-to-day activities and is an ongoing process that flows through the organisation.

When performing risk identification, we consider political, economic, social, technological, environmental, regulations and our stakeholders' expectations. Risks are grouped into different categories and each risk identified is analyzed on the basis of probability and impact. Action plans are in place to manage risks. The risk assessment process also includes a review of the control mechanisms for each risk. A group risk register is compiled, updated and monitored on an ongoing basis.

A risk management report that highlights key risks and action plans is presented to the Audit Committee and the Board on a half-yearly basis. Significant changes in key risks are handled and reported to the management.

Fundamental to the achievement of our business goals is how we can effectively manage existing and emerging risks in different political, economic and social environments. The Company manage risks arising from its ever-changing business environment. These risk factors shown below are not exhaustive or comprehensive, and there may be other risks which may not be material now but could become material in future.

RISK MANAGEMENT

Key risks currently being managed include:

RISK CATEGORY: STRATEGIC RISK

RISK AREA	EXAMPLES OF MITIGATING MEASURES
The contracts of our IBO projects are relatively concentrated in short to medium term. There is no guarantee that all IBO contracts can be renewed successfully.	• Manage our IBO business as a portfolio by securing contracts with both shorter term and long term contracts.

RISK CATEGORY: OPERATIONAL & HUMAN RESOURCES RISKS

RISK AREA	EXAMPLES OF MITIGATING MEASURES
Potential loss of physical power plant assets due to natural disaster or political unrest. Our operations in Indonesia, Myanmar and Peru are at risk for natural disasters or political unrest.	• Arrange insurance coverage over natural disaster and political unrest, where appropriate.
Any loss of key staff may potentially affect the operation of the Company which in turn jeopardizes the profit of the Company.	• Succession planning for key positions; • Review our compensation policy regularly for employee retention.
Our operation may come across different emergency situations (such as outbreak of highly contagious disease, fire and unexpected machine failure), which may lead to power production curtailments or shutdowns, personal injuries or damage to the environment.	• Implement proper Power Plant Emergency Reaction System; • Perform regular safety and maintenance check; • Implement policies to ensure timely reporting and monitoring of hazards and potential problems; • Provide staff and contractors with systematic, professional, technical and safety training; • Ensure ongoing compliance with the local government directions and guidelines.

RISK MANAGEMENT

RISK CATEGORY: FINANCE, REGULATORY & COMPLIANCE RISKS

RISK AREA	EXAMPLES OF MITIGATING MEASURES
The Group's revenue streams and cost components are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. As such, we are also exposed to translation risk primarily due to the receivables, payables and cash balances denominated in foreign currencies. In particular, currency fluctuations in Euro may adversely affect our results.	• Investment committee adopts the hedging policy and regularly reviews the macroeconomic environment which affects the currency fluctuation; • Manage currency exposures in line with the Group's treasury and capital management policy; • Natural hedge by matching currency of revenue, cost and debt; • Enter into currency forward contracts to manage the exposure, when appropriate.
Tax risks relating to multinational operations, including policies to ensure compliance with overseas tax laws by the local partner.	• Engage external consultants to perform tax planning review in new markets; • Finance department performs ongoing assessment and monitoring.
Any failure by our key customers to make payment to us or any occurrence of payment disputes or delays may adversely affect our business and financial position.	• Strengthen the process of billing and collection; • Review the credit profile of key off-takers and customers and assess trade receivables on an individual basis for impairment.

RISK CATEGORY: BUSINESS & MARKET RISKS

RISK AREA	EXAMPLES OF MITIGATING MEASURES
Volatility and fluctuations of gas and diesel supplies and prices may adversely affect the demand for gen-sets, power generation systems and DPG stations. Significant increase in gas and diesel prices may render gen-sets, power generation systems and DPG stations less attractive, which may affect our revenue.	• Explore fuel types, such as LNG, biogas, HFO and renewable fuel source; • Introduce more efficient system (such as combined heat and power and ORC) to reduce the fuel consumption of our gen-sets, power generation systems and DPG stations.
We face significant competition in gas-fired DPG industry and broader power generation industry. For SI business, our competitors include manufacturers of engines or gen-sets. For IBO business, our competitors include utilities or DPG stations generating power from fossil fuels and renewable energy. Failure to maintain our competitive edges may lead to a loss of market share to competitors.	• Continuously upgrade our power solutions to enhance energy efficiency; • Expand our product lines to cater the different needs of our customers; • Penetrate existing and new markets and working with new partners.

RISK CATEGORY: INVESTMENT RISK

RISK AREA	EXAMPLES OF MITIGATING MEASURES
Acquisitions and new project investments may not bring in expected return. Acquisitions are subject to post-deal integration risk that may adversely affect its contribution to the Group.	• Carry out sufficient due diligence and devise detailed integration plan before closing the transaction.

The Internal Audit Department reports to the Audit Committee, and provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the operations of the Group. Half-yearly follow-up review is performed by internal audit and remediation status for risks identified are communicated to the senior management and reported to the Audit Committee. A review of the effectiveness of the risk management and internal control systems has been conducted and the Company considers them effective and adequate.

INDEPENDENT AUDITOR'S REPORT

EY 安永

TO THE SHAREHOLDERS OF VPOWER GROUP INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of VPower Group International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 169, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS (CONTINUED)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of engine-based electricity generation units and spare parts	
During the year, the Group recognised revenue of approximately HK$270.1 million, representing 9.7% of the total revenue of the Group, for the sale of engine-based electricity generation units (the "Inventory Sale Transactions") to an independent third party, which was an engineering, procurement and construction contractor (the "EPC Contractor") of the Group for the construction of power stations. Upon completion of the construction of the power stations, the EPC Contractor would transfer the power stations (including the power generation assets) (the "PPE Purchase Transactions") to the Group and the Group would recognise such power stations in accordance with the accounting policy for property, plant and equipment and depreciation. The determination of revenue recognition for the Inventory Sale Transactions is significant to our audit due to (i) the significance of the amount of the transactions; and (ii) the significant judgement made by management to determine that the above transactions were not linked transactions and control of the engine-based electricity generation units was transferred to the EPC Contractor and hence the recognition criteria for the related revenue were met. The Group's accounting policies and disclosures of accounting judgement on revenue recognition of engine-based electricity generation units are included in notes 2.4 and 3 to the consolidated financial statements, respectively.	We assessed the revenue recognition for the Inventory Sale Transactions by (i) examining the terms of the Inventory Sale Transactions and the PPE Purchase Transactions (e.g. payment terms, rights of return, etc.); and (ii) evaluating whether the Group has transferred to the EPC Contractor control of the inventories by sample checking the delivery documents and referencing to the terms of the contracts.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit losses of trade and bills receivables	
As at 31 December 2019, the aggregate carrying amount of trade and bills receivables was HK$1,225.6 million and represented 13.7% of the Group's total assets. Assessment of expected credit losses ("ECLs") of trade and bills receivables is performed by management based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The Group uses a provision matrix and probability of default to calculate ECLs for trade and bills receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The assessment is significant to our audit due to (i) the significance of the carrying amounts; and (ii) significant estimates involved in determining the future cash flows that the Group expects to receive from such receivables based on, among others, the correlation among historical observed default rates, forecast economic conditions (i.e. gross domestic product) and ECLs. The Group's accounting policies and disclosures of accounting estimates on provision for ECLs on trade and bills receivables and information about the ECLs on trade and bills receivables are included in notes 2.4, 3 and 20 to the consolidated financial statements, respectively.	We assessed management's assessment by (i) sample checking ageing of the receivable balances, past repayment history and historical credit loss experience; (ii) benchmarking the forecast economic conditions (i.e. gross domestic product) against market data; and (iii) reviewing the arithmetic accuracy of the calculation of the ECLs.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Assessment of net realisable value of inventories	
The Group holds significant amount of inventories for its system integration and investment, building and operating segments. As at 31 December 2019, the carrying amount of inventories was HK$885.9 million and represented 9.9% of the Group's total assets. Assessment of net realisable value of inventories is performed by management with reference to aged analysis of the Group's inventories, projections of expected future saleability/usability of inventories and management experience and judgement. The impairment assessment is significant to our audit due to (i) the significance of the carrying amount; and (ii) significant judgements and estimates involved in determining the net realisable values with reference to, among others, expectation of future saleability/usability and estimated future cash flows from the sales/utilisation of inventories. The Group's accounting policies, disclosures of assessment of net realisable value of inventories and write-down of inventories to net realisable value are included in notes 2.4, 3 and 7 to the consolidated financial statements, respectively.	We assessed management's assessment of net realisable value of inventories by (i) test checking the ageing of its inventories balances and past sales/utilisation history; (ii) comparing the estimated selling prices and estimated selling costs to the historical data; and (iii) reviewing subsequent sales/utilisation of inventories.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Tsz Tat.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**2,794,036**	2,420,749
Cost of sales		**(2,056,794)**	(1,714,007)
Gross profit		**737,242**	706,742
Other income and gains	5	**143,505**	40,164
Selling and distribution expenses		**(30,981)**	(25,794)
Administrative expenses		**(338,986)**	(272,561)
Other expenses, net		**(5,210)**	(32,489)
Finance costs	6	**(249,296)**	(191,359)
Share of profits and losses of joint ventures		**66,873**	6,298
PROFIT BEFORE TAX	7	**323,147**	231,001
Income tax expense	10	**(40,889)**	(30,096)
PROFIT FOR THE YEAR		**282,258**	200,905
Attributable to:			
Owners of the Company		**283,551**	213,288
Non-controlling interests		**(1,293)**	(12,383)
		282,258	200,905
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK11.12 cents**	HK8.36 cents
Diluted		**HK11.12 cents**	HK8.36 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
PROFIT FOR THE YEAR	282,258	200,905
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Changes in fair value of hedging instruments arising during the year	781	—
Reclassification adjustments included in the consolidated statement of profit or loss	(975)	—
	(194)	—
Exchange differences on translation of foreign operations	(5,490)	(12,604)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(5,684)	(12,604)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	—	1,063
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(5,684)	(11,541)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	276,574	189,364
Attributable to:		
Owners of the Company	277,920	187,194
Non-controlling interests	(1,346)	2,170
	276,574	189,364

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,761,021**	1,811,786
Investment property	14	**24,600**	25,000
Right-of-use assets	15(a)	**18,290**	—
Goodwill	16	**81,489**	81,489
Other intangible assets	17	**94,151**	86,296
Interests in joint ventures	18	**853,047**	762,918
Deposits and other receivables	21	**147,347**	164,292
Deferred tax assets	33	**15,333**	15,465
Total non-current assets		**4,995,278**	2,947,246
CURRENT ASSETS			
Inventories	19	**885,860**	1,249,430
Trade and bills receivables	20	**1,225,632**	1,071,077
Prepayments, deposits, other receivables and other assets	21	**639,129**	445,939
Due from related companies	22	**96**	579
Derivative financial instruments	23	**589**	—
Tax recoverable		**19,734**	52,022
Restricted cash	24	**81,635**	81,209
Pledged deposits	25	**62,200**	48,443
Cash and cash equivalents	25	**772,439**	541,353
		3,687,314	3,490,052
Assets held for sale	38	**268,680**	956,929
Total current assets		**3,955,994**	4,446,981
CURRENT LIABILITIES			
Trade and bills payables	26	**739,105**	394,801
Other payables and accruals	27	**805,306**	419,000
Contract liabilities	28	**122,868**	73,884
Derivative financial instruments	23	**194**	—
Senior notes	29	**17,724**	6,268
Interest-bearing bank and other borrowings	30	**1,782,557**	2,384,499
Lease liabilities	15(b)	**10,434**	—
Tax payable		**18,219**	6,024
Provision for restoration	32	**4,174**	3,249
Total current liabilities		**3,500,581**	3,287,725
NET CURRENT ASSETS		**455,413**	1,159,256
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,450,691**	4,106,502

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables	27	**329,235**	73,491
Senior notes	29	**764,395**	779,622
Interest-bearing bank and other borrowings	30	**1,449,704**	585,434
Lease liabilities	15(b)	**7,148**	—
Provision for restoration	32	**22,826**	31,480
Deferred tax liabilities	33	**18,747**	20,121
Total non-current liabilities		**2,592,055**	1,490,148
Net assets		**2,858,636**	2,616,354
EQUITY			
Equity attributable to owners of the Company			
Share capital	34	**256,228**	256,207
Reserves	37	**2,565,615**	2,313,993
		2,821,843	2,570,200
Non-controlling interests		**36,793**	46,154
Total equity		**2,858,636**	2,616,354

Lam Yee Chun
Director

Au-Yeung Tai Hong Rorce
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Notes	Attributable to owners of the Company													
		Share capital HK$'000	Share premium account HK$'000	Merger reserve HK$'000 *(note 37(a))*	Capital reserve HK$'000 *(note 37(b))*	Share option reserve HK$'000 *(note 37(c))*	Shares held under the share award scheme HK$'000 *(note 36)*	Asset revaluation reserve HK$'000	Cash flow hedge reserve HK$'000	Statutory reserve funds HK$'000 *(note 37(d))*	Exchange fluctuation reserve HK$'000 *(note 37(e))*	Retained profits HK$'000	Total K$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		256,159	1,510,042	(15,458)	147,749	3,395	(54,171)	15,999	–	16,592	9,984	575,974	2,466,265	(594)	2,465,671
Profit for the year		–	–	–	–	–	–	–	–	–	–	213,288	213,288	(12,383)	200,905
Other comprehensive income/(loss) for the year:															
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	(27,157)	–	(27,157)	14,553	(12,604)
Gain on property revaluation	13	–	–	–	–	–	–	1,063	–	–	–	–	1,063	–	1,063
Total comprehensive income for the year		–	–	–	–	–	–	1,063	–	–	(27,157)	213,288	187,194	2,170	189,364
Acquisition of subsidiaries	40	–	–	–	–	–	–	–	–	–	–	–	–	44,578	44,578
Issue of shares upon exercise of share options	34	48	1,506	–	–	(586)	–	–	–	–	–	–	968	–	968
Equity-settled share option arrangement	35	–	–	–	–	2,086	–	–	–	–	–	–	2,086	–	2,086
Purchases of shares for the share award scheme	36	–	–	–	–	–	(3,951)	–	–	–	–	–	(3,951)	–	(3,951)
Transfer to statutory reserve funds		–	–	–	–	–	–	–	–	4,496	–	(4,496)	–	–	–
Final 2017 dividend	11	–	–	–	–	–	–	–	–	–	–	(44,887)	(44,887)	–	(44,887)
Interim 2018 dividend	11	–	–	–	–	–	–	–	–	–	–	(37,475)	(37,475)	–	(37,475)
At 31 December 2018		256,207	1,511,548	(15,458)	147,749	4,895	(58,122)	17,062	–	21,088	(17,173)	702,404	2,570,200	46,154	2,616,354
Effect of adoption of HKFRS 16	2.2	–	–	–	–	–	–	–	–	–	–	(448)	(448)	–	(448)
At 1 January 2019 (restated)		256,207	1,511,548	(15,458)	147,749	4,895	(58,122)	17,062	–	21,088	(17,173)	701,956	2,569,752	46,154	2,615,906
Profit for the year		–	–	–	–	–	–	–	–	–	–	283,551	283,551	(1,293)	282,258
Other comprehensive income/(loss) for the year:															
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	(5,437)	–	(5,437)	(53)	(5,490)
Cash flow hedges:															
Changes in fair value of hedging instruments arising during the year	23	–	–	–	–	–	–	–	781	–	–	–	781	–	781
Reclassification adjustments included in the consolidated statement of profit or loss	23	–	–	–	–	–	–	–	(975)	–	–	–	(975)	–	(975)
Total comprehensive income for the year		–	–	–	–	–	–	–	(194)	–	(5,437)	283,551	277,920	(1,346)	276,574
Acquisition of additional interests in a subsidiary	37(b)	–	–	–	(764)	–	–	–	–	–	–	–	(764)	(8,015)	(8,779)
Issue of shares upon exercise of share options	34	21	661	–	–	(259)	–	–	–	–	–	–	423	–	423
Equity-settled share option arrangement	35	–	–	–	–	775	–	–	–	–	–	–	775	–	775
Transfer to statutory reserve funds		–	–	–	–	–	–	–	–	4,874	–	(4,874)	–	–	–
Final 2018 dividend	11	–	–	–	–	–	–	–	–	–	–	(12,239)	(12,239)	–	(12,239)
Interim 2019 dividend	11	–	–	–	–	–	–	–	–	–	–	(14,024)	(14,024)	–	(14,024)
At 31 December 2019		256,228	1,512,209*	(15,458)*	146,985*	5,411*	(58,122)*	17,062*	(194)*	25,962*	(22,610)*	954,370*	2,821,843	36,793	2,858,636

* These reserve accounts comprise the consolidated reserves of HK$2,565,615,000 (2018: HK$2,313,993,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		323,147	231,001
Adjustments for:			
Finance costs	6	249,296	191,359
Share of profits and losses of joint ventures		(66,873)	(6,298)
Bank interest income	5	(2,242)	(2,828)
Loan interest income	5	(175)	(3,914)
Sales deposits forfeited	5	—	(11,050)
Fair value gains on derivative financial instruments	5	(589)	—
Gain on debt extinguishment	5	—	(12,847)
Loss on disposal of items of property, plant and equipment, net	7	501	361
Depreciation of property, plant and equipment	7	267,526	196,516
Depreciation of right-of-use assets	7	10,398	—
Amortisation of intangible assets	7	2,879	2,700
Fair value loss/(gain) on an investment property	7	400	(1,000)
Impairment/(reversal of impairment) of contract assets, net	7	(697)	2
Impairment/(reversal of impairment) of trade receivables, net	7	1,602	(1,303)
Write-down/(reversal of write-down) of inventories to net realisable value	7	2,926	(9,025)
Equity-settled share option expense	7, 35	775	2,086
		788,874	575,760
Decrease/(increase) in inventories		141,315	(308,918)
Increase in trade and bills receivables		(156,534)	(241,375)
Decrease/(increase) in prepayments, deposits, other receivables and other assets		(145,254)	187,976
Increase/(decrease) in trade and bills payables		377,095	(526,049)
Increase/(decrease) in other payables and accruals		(10,966)	137,386
Increase in contract liabilities		49,074	27,274
Decrease in provision of restoration		(817)	(810)
Cash generated from/(used in) operations		1,042,787	(148,756)
Interest element of lease payments	41	(1,042)	—
Interest element of finance lease rental payments	41	—	(12)
Hong Kong profits tax refunded/(paid)		632	(5,921)
Overseas taxes paid		(30,490)	(48,096)
Net cash flows from/(used in) operating activities		1,011,887	(202,785)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**3,217**	3,149
Purchases of items of property, plant and equipment		**(585,966)**	(1,019,361)
Acquisition of subsidiaries	40	**—**	58,049
Additions to other intangible assets		**(9,309)**	(24,229)
Decrease/(increase) in deposits paid for purchases of property, plant and equipment		**(82,292)**	77,181
Proceeds from disposal of items of property, plant and equipment		**42**	10
Advance of loans to joint ventures		**(45,595)**	—
Repayment of loans from business partners		**22,620**	32,760
Advance of loan to a business partner		**(6,077)**	—
Advance of loan to a director		**—**	(41,500)
Repayment of loan from a director		**—**	41,500
Decrease/(increase) in amounts due from related companies		**483**	(483)
Decrease/(increase) in pledged deposits		**(14,813)**	116,858
Increase in restricted cash		**(426)**	(81,209)
Investments in joint ventures		**(23,255)**	(756,620)
Net cash flows used in investing activities		**(741,371)**	(1,593,895)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	34	**423**	968
Purchases of shares for the share award scheme	36	**—**	(3,951)
New bank borrowings, net of debt establishment costs	41	**4,333,903**	3,298,003
Repayment of bank borrowings	41	**(4,092,194)**	(1,680,214)
Repayment of other borrowings	41	**—**	(36,660)
Repayment of senior notes	41	**(7,754)**	(78)
Repayment of loans to business partners	41	**(11,846)**	—
Acquisition of additional interests in a subsidiary		**(8,779)**	—
Principal portion of lease payments/finance lease rental payments	41	**(11,913)**	(234)
Dividends paid		**(26,263)**	(82,362)
Interest paid		**(210,976)**	(163,591)
Net cash flows from/(used in) financing activities		**(35,399)**	1,331,881
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**235,117**	(464,799)
Cash and cash equivalents at beginning of year		**541,353**	1,033,502
Effect of foreign exchange rate changes, net		**(8,268)**	(27,350)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**768,202**	541,353
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**772,439**	541,353
Bank overdrafts	30	**(4,237)**	—
		768,202	541,353

1. CORPORATE AND GROUP INFORMATION

VPower Group International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Units 2701–05, 27/F, Officer Tower 1, The Harbourfront, 18–22 Tak Fung Street, Hung Hom, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the design, integration, sale and installation of engine-based electricity generation units and the provision of distributed power solutions, including the design, investment in, building and operation of distributed power generation stations.

In the opinion of the directors, the immediate holding company of the Company is Energy Garden Limited, a company incorporated in the British Virgin Islands, and the ultimate holding company of the Company is Sunpower Global Limited, a company also incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2019	2018	Principal activities
Crest Pacific Investments Limited ("Crest Pacific")*	British Virgin Islands/Hong Kong	US$1,076	100	100	Investment holding
VPower Engineering (China) Limited	Hong Kong	HK$10,000,000	100	100	Investment holding and trading of engines and components
VPower Technology Limited	Hong Kong	HK$400,000	100	100	Trading of engines and components, and sale and installation of power generation systems
VPower Holdings Limited	Hong Kong	HK$1,000,000	100	100	Trading of engines and components, and sale and installation of power generation systems
偉能機電設備(深圳)有限公司*#	People's Republic of China ("PRC")/ Mainland China	HK$70,000,000	100	100	Manufacture of power generation systems

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2019	2018	Principal activities
VPower Group Holdings Limited	Hong Kong	HK$10,000	100	100	Investment holding and provision of distributed power solutions
VPower Holdings (Singapore) Pte. Limited	Singapore	Singapore Dollar 10,000	100	100	Trading of engines and components, and sale and installation of power generation systems
VPower Myanmar Limited	Hong Kong	HK$1	100	100	Provision of distributed power solutions
VPower Operation and Services Limited	Hong Kong	HK$1	100	100	Provision of technical services
Genrent del Peru S.A.C. ("Genrent Peru")	Peru	Peruvian Soles ("S/") 57,318,175	51	51	Provision of distributed power solutions
VPTM Iquitos S.A.C. ("VPTM Iquitos")	Peru	S/1,000	51	51	Provision of operation and maintenance services
偉能新能源科技(臨沂)有限公司*#	PRC/Mainland China	US$5,000,000	100	100	Provision of distributed power solutions

* The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

Except for Crest Pacific, the above subsidiaries are indirectly held by the Company.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property and derivative financial instruments which have been measured at fair value. Non-current assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4 below. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties, motor vehicles and office equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019. For the other leases, the right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK$49,000 that were reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

As a lessee — Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK$'000
Assets	
Increase in right-of-use assets	19,439
Decrease in property, plant and equipment	(481)
Decrease in prepayment, deposits, other receivables and other assets	(129)
Increase in total assets	18,829
Liabilities	
Increase in lease liabilities	20,431
Decrease in other payables and accruals	(1,104)
Decrease in interest-bearing bank and other borrowings	(50)
Increase in total liabilities	19,277
Decrease in retained profits	(448)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

Financial impact at 1 January 2019 (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	22,740
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(3,320)
Add: Payments for optional extension periods not recognised as at 31 December 2018	1,922
	21,342
Weighted average incremental borrowing rate as at 1 January 2019	5%
Discounted operating lease commitments as at 1 January 2019	20,381
Add: Finance lease liabilities recognised as at 31 December 2018	50
Lease liabilities as at 1 January 2019	20,431

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

If an investment in a joint venture becomes an investment in an associate or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment property and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment property and non-current assets held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

(b) (Continued)

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	Over the shorter of lease term and 50 years
Leasehold improvements	Over the shorter of lease term and 20%
Mobilisation and installation	Over the service periods of the power generation agreements
Machinery and equipment	4% to $33^1/_3$%
Furniture, fixtures and office equipment	10% to $33^1/_3$%
Motor vehicles	$12^1/_2$% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents power generation assets under mobilisation and installation at power generation sites, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs incurred and capitalised borrowing costs on related borrowed funds during the period of mobilisation and installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset up to the date of change in use and any difference at that date between the carrying amount and the fair value of property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Concession right

Concession right is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful economic life of 19.5 years.

Grid and related development rights

Grid and related development rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their respective useful economic lives commencing from the date when the respective power station is put into operation.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components as a single lease component.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leased properties	2 to 20 years
Office equipment	3 to 5 years
Motor vehicle	3 years

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows. Financial assets which are not held within the aforementioned business model are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and bills receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	—	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	—	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	—	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade and bills receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designed as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Subsequent measurement (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is recognised in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss. All forward currency contracts entered into by the Group do not qualify for hedge accounting.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is “an economic relationship” between the hedged item and the hedging instrument.
- The effect of credit risk does not “dominate the value changes” that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (Continued)

Initial recognition and subsequent measurement (Continued)

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Shares held under the share award scheme

Where shares of the Company are purchased from the open market for the share award scheme, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held under the share award scheme" and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to be that which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) *Sale of engine-based electricity generation units*

Revenue from the sale of engine-based electricity generation units is recognised at the point in time when control of the asset is transferred to the customer, generally upon completion of installation of the engine-based electricity generation units.

(b) *Construction services*

The Group provides certain construction services that are bundled together with the sale of engine-based electricity generation units to a customer. The construction services can be obtained from other providers and do not significantly customise or modify the engine-based electricity generation units.

Contracts for bundled sales of engine-based electricity generation units and construction services are comprised of two performance obligations because the promises to transfer the engine-based electricity generation units and provide such construction services are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of the engine-based electricity generation units and such construction services.

Revenue from such construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue on the basis of the costs incurred relative to the total expected costs to complete the service.

(c) *Distributed power solutions*

The Group derives revenue from contracts that provide customers with distributed power solutions, including the development, system integration, technical servicing, operation and maintenance of self-owned power generation assets.

The Group earns revenue on contracts by providing capacity based on a specified number of megawatts (MWs) to the customer. The revenue is calculated based on the actual amount of energy that the Group delivers to the customer, as measured in kilowatt hours (kWhs). As the Group has a right to consideration from the customer in an amount that corresponds directly with the value to the customer of the Group's performance completed to date, the revenue of the contract is recognised over time in the amount to which the Group has a right to invoice, using the practical expedient in HKFRS 15.

Revenue from other sources

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customers).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates share option schemes and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) and consultants of the Group receive remuneration in the form of share-based payments, whereby employees and consultants render services as consideration for equity instruments ("equity-settled transactions").

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

The cost of equity-settled transactions with employees and others providing similar services is measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost of equity-settled transactions with parties other than employees is measured directly at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value is measured indirectly by reference to the fair value of the equity instruments granted.

The fair value of the share options granted is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The employees of the Group's subsidiary which operates in Singapore are required to participate in a Central Provident Fund ("CPF") scheme, a defined contribution pension scheme. Contributions to the CPF scheme are recognised as an expense in the period in which the related service is performed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and joint ventures are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(i) Identifying performance obligations in a bundled sale of engine-based electricity generation units together with installation and certain construction services

The Group provides installation services that are bundled together with the sale of engine-based electricity generation units to a customer. The engine-based electricity generation units and such installation services are highly interrelated because the Group would not be able to fulfill its promise by transferring each of the engine-based electricity generation units or installation services independently. Accordingly, they are considered a single performance obligation.

The Group also provides certain construction services that are bundled together with the sale of engine-based electricity generation units to a customer. The construction services are a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer.

The Group determined that both engine-based electricity generation units and such construction services are each capable of being distinct. The fact that the Group regularly sells engine-based electricity generation units on a standalone basis indicates that the customer can benefit from the electricity generation units on their own. The Group also determined that the promises to transfer the engine-based electricity generation units and to provide such construction services are distinct within the context of the contract. The engine-based electricity generation units and such construction services are not inputs to a combined item in the contract. The Group is not providing a significant integration service because the presence of the engine-based electricity generation units and such construction services together in the contract does not result in any additional or combined functionality and neither the electricity generation units nor the construction modifies or customises the other. In addition, the engine-based electricity generation units and such construction services are not highly interdependent or highly interrelated, because the Group would be able to transfer the engine-based electricity generation units even if the customer declined construction and would be able to provide construction services in relation to electricity generation units sold by other distributors. Consequently, the Group has allocated a portion of the transaction price to the engine-based electricity generation units and the construction services based on relative standalone selling prices.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (Continued)

Revenue from contracts with customers (Continued)

(ii) Determining the timing of satisfaction of certain construction services

As the construction is performed at the customer's site and the customer controls any work in progress arising from the Group's performance, the Group concluded that revenue for such construction services is to be recognised over time because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

The Group determined that the input method is the best method in measuring the progress of the construction services because there is a direct relationship between the Group's effort (i.e., costs incurred) and the transfer of services to the customer. The Group recognises revenue on the basis of the costs incurred relative to the total expected costs to complete the services.

(iii) Determining the transfer of control of certain engine-based electricity generation units

During the year ended 31 December 2019, the Group recognised revenue of approximately HK$270,091,000 (2018: HK$153,152,000) for the sale of engine-based electricity generation units to an independent third party, which was an engineering, procurement and construction contractor (the "EPC Contractor") of the Group for the construction of certain power stations. Upon completion of the construction of the power stations, the EPC Contractor would transfer the power stations (including the power generation assets) to the Group and the Group would recognise such power stations in accordance with the accounting policy for property, plant and equipment and depreciation in note 2.4 to the financial statements. Significant judgement is involved by management to determine that the above transactions were not linked transactions and control of the engine-based electricity generation units have been transferred to the EPC Contractor and hence the recognition criteria for the related revenue are met. The estimated gross profit in respect of the related sale of engine-based electricity generation units amounted to approximately HK$47,294,000 (2018: HK$27,571,000) for the year ended 31 December 2019.

Classification between property, plant and equipment and inventories

The Group acquired engine-based electricity generation units for the provision of distributed power solutions under the power generation agreements with its customers in the investment, building and operating ("IBO") segment. The purchase prices of these electricity generation units are included in property, plant and equipment. Upon expiry of the terms of the power generation agreements, the Group either (i) negotiates with its customers for renewal of the power generation agreements; or (ii) redeploys the electricity generation units to other power stations for the provision of distributed power solutions. When such power generation agreements are not renewed or such electricity generation units are not redeployed to other projects after a certain period of time as determined by the Group's internal policy, the Group will arrange the electricity generation units to release from the IBO segment and then sell in the course of the Group's ordinary activities. Management considered that it is appropriate to transfer such electricity generation units from property, plant and equipment to inventories when they cease to be held for the provision of distributed power solutions and become held for sale in the course of the Group's ordinary activities. Judgement is made on an individual asset basis to determine whether the electricity generation units qualify as held for sale in the course of the Group's ordinary activities.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (Continued)

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was HK$81,489,000 (2018: HK$81,489,000). Further details are given in note 16.

Provision for expected credit losses on trade and bills receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade and bills receivables and contract assets of the system integration ("SI") segment. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates.

The Group also performs impairment analysis on trade receivables of the IBO Segment at each reporting date by considering the probability of default of counterparty. The Group takes into account the forward-looking information to reflect the debtors' probability of default under the current conditions and forecasts of future economic conditions, as appropriate.

The Group will calibrate the provision matrix, probability of default and loss given default to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the power and utilities sector, the historical default rates, probability of default and loss given default are adjusted. At each reporting date, the historical observed default rates, probability of default and loss given default are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables and contract assets is disclosed in notes 20 and 21 to the financial statements, respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Net realisable value of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged analyses of the Group's inventories, projections of expected future saleability/usability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the estimated net realisable value of inventories declines below their carrying amounts. Due to changes in technological, market and economic environment and customers' preference, actual saleability/usability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. As at 31 December 2019, the carrying amount of inventories was HK$885,860,000 (2018: HK$1,249,430,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the SI segment designs, integrates, sells and installs engine-based electricity generation units; and

(b) the IBO segment designs, invests in, builds and operates distributed power generation stations to provide distributed power solutions.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, fair value gains/losses from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, amounts due from related companies, derivative financial instruments, tax recoverable, restricted cash, pledged deposits, cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, senior notes, interest-bearing bank and other borrowings, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2019

	SI HK$'000	IBO HK$'000	Total HK$'000
Segment revenue *(note 5)*			
Sales to external customers	1,756,502	1,037,534	2,794,036
Intersegment sales	16,810	—	16,810
	1,773,312	1,037,534	2,810,846
Reconciliation:			
Elimination of intersegment sales			(16,810)
Revenue			2,794,036
Segment results	246,734	339,686	586,420
Reconciliation:			
Elimination of intersegment results			(543)
Bank interest income			2,242
Corporate and unallocated expenses, net			(15,676)
Finance costs			(249,296)
Profit before tax			323,147
Segment assets	1,884,140	5,171,750	7,055,890
Reconciliation:			
Corporate and unallocated assets			1,895,382
Total assets			8,951,272
Segment liabilities	1,042,067	991,843	2,033,910
Reconciliation:			
Corporate and unallocated liabilities			4,058,726
Total liabilities			6,092,636
Other segment information:			
Reversal of impairment of contract assets, net	(697)	—	(697)
Impairment of trade receivables, net	762	840	1,602
Write-down of inventories to net realisable value	2,926	—	2,926
Loss/(gain) on disposal of items of property, plant and equipment, net	(42)	543	501
Depreciation of property, plant and equipment*	6,904	258,985	265,889
Depreciation of right-of-use assets	8,936	1,462	10,398
Amortisation of intangible assets	—	2,879	2,879
Capital expenditure	3,962	1,359,945	1,363,907

* Depreciation excludes depreciation charges of HK$1,637,000 for corporate assets.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018

	SI HK$'000	IBO HK$'000	Total HK$'000
Segment revenue *(note 5)*			
Sales to external customers	1,579,038	841,711	2,420,749
Intersegment sales	24,785	—	24,785
	1,603,823	841,711	2,445,534
Reconciliation:			
Elimination of intersegment sales			(24,785)
Revenue			2,420,749
Segment results	227,902	268,411	496,313
Reconciliation:			
Elimination of intersegment results			(1,408)
Bank interest income			2,828
Corporate and unallocated expenses, net			(75,373)
Finance costs			(191,359)
Profit before tax			231,001
Segment assets	1,920,177	3,912,193	5,832,370
Reconciliation:			
Corporate and unallocated assets			1,561,857
Total assets			7,394,227
Segment liabilities	655,134	331,611	986,745
Reconciliation:			
Corporate and unallocated liabilities			3,791,128
Total liabilities			4,777,873
Other segment information:			
Impairment of contract assets	2	—	2
Impairment/(reversal of impairment) of trade receivables, net	280	(1,583)	(1,303)
Reversal of write-down of inventories to net realisable value	(9,025)	—	(9,025)
Loss on disposal of items of property, plant and equipment, net	313	48	361
Depreciation*	5,606	189,273	194,879
Amortisation of intangible assets	—	2,700	2,700
Capital expenditure#	13,757	998,306	1,012,063

* Depreciation excludes depreciation charges of HK$1,637,000 for corporate assets.

Capital expenditure includes additions to property, plant and equipment of HK$897,016,000 arising from acquisition of a subsidiary.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2019 HK$'000	2018 HK$'000
Hong Kong and Mainland China	567,448	474,965
Asian countries	1,574,824	1,456,701
Latin America	449,592	486,526
Other countries	202,172	2,557
	2,794,036	2,420,749

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019 HK$'000	2018 HK$'000
Hong Kong and Mainland China	1,040,228	993,915
Asian countries	2,445,391	823,340
Latin America	1,344,251	1,021,570
Other countries	147,800	90,748
	4,977,670	2,929,573

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and financial assets.

Information about major customers

Revenue from external customers contributing over 10% of the total revenue of the Group is as follows:

	2019 HK$'000	2018 HK$'000
Customer A^	751,014	560,324
Customer B#	449,592	333,374
Customer C^	N/A*	269,323
Customer D#	407,170	256,764
	1,607,776	1,419,785

* Nil or less than 10% of revenue

^ Revenue from the sale of engine-based electricity generation units under the SI segment

\# Revenue from the provision of distributed power solutions under the IBO segment

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers	2,794,036	2,420,749

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2019

Segments	SI HK$'000	IBO HK$'000	Total HK$'000
Type of goods or services			
Sale of engine-based electricity generation units	1,754,666	—	1,754,666
Construction services	1,836	—	1,836
Provision of distributed power solutions	—	1,037,534	1,037,534
Total revenue from contracts with customers	1,756,502	1,037,534	2,794,036
Geographical markets			
Hong Kong and Mainland China	551,854	15,594	567,448
Asian countries	1,002,476	572,348	1,574,824
Latin America	—	449,592	449,592
Other countries	202,172	—	202,172
Total revenue from contracts with customers	1,756,502	1,037,534	2,794,036
Timing of revenue recognition			
Goods transferred at a point in time	1,754,666	—	1,754,666
Services transferred over time	1,836	1,037,534	1,039,370
Total revenue from contracts with customers	1,756,502	1,037,534	2,794,036

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2018

Segments	SI HK$'000	IBO HK$'000	Total HK$'000
Type of goods or services			
Sale of engine-based electricity generation units	1,577,190	—	1,577,190
Construction services	1,848	—	1,848
Provision of distributed power solutions	—	841,711	841,711
Total revenue from contracts with customers	1,579,038	841,711	2,420,749
Geographical markets			
Hong Kong and Mainland China	461,733	13,232	474,965
Asian countries	961,596	495,105	1,456,701
Latin America	153,152	333,374	486,526
Other countries	2,557	—	2,557
Total revenue from contracts with customers	1,579,038	841,711	2,420,749
Timing of revenue recognition			
Goods transferred at a point in time	1,577,190	—	1,577,190
Services transferred over time	1,848	841,711	843,559
Total revenue from contracts with customers	1,579,038	841,711	2,420,749

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 **HK$'000**	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of engine-based electricity generation units	**29,013**	43,374

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of engine-based electricity generation units

The performance obligation is satisfied upon completion of installation of the engine-based electricity generation units and payment is due within 30 to 360 days from delivery, except for new customers, where payment in advance is normally required.

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of construction and customer acceptance. Retention receivables, which ranges from one to two years from the date of the completion of the construction, are classified as contract assets.

Provision of distributed power solutions

The performance obligation is satisfied over time when the energy is produced and delivered to the customer in accordance with the contractual arrangements and payment is due within 300 days after the issuance of invoice.

The Group elected to apply the practical expedient under HKFRS 15 and does not disclose the amount of the transaction price allocated to the remaining obligations for contracts with an original expected duration for one year or less as well as contracts for distributed power solutions for which the Group issues invoices for actual amount of energy delivered each month and recognises revenue in the amount to which the Group has right to invoice.

An analysis of other income and gains is as follows:

	2019 **HK$'000**	2018 HK$'000
Other income		
Bank interest income	**2,242**	2,828
Loan interest income	**175**	3,914
Consultancy income	**134,870**	—
Government grants*	**1,529**	271
Sales deposits forfeited	**—**	11,050
Others	**4,100**	8,254
	142,916	26,317
Gains		
Fair value gains on derivative financial instruments	**589**	—
Fair value gain on an investment property	**—**	1,000
Gain on debt extinguishment	**—**	12,847
	589	13,847
	143,505	40,164

* A subsidiary was qualified as a high-and-new technology enterprise in Mainland China and it received various related government grants. There were no unfulfilled conditions or contingencies relating to these grants received during the year.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 **HK$'000**	2018 HK$'000
Interest on senior notes	**48,625**	44,463
Interest and other finance costs on letters of credit, bank loans and overdrafts	**140,622**	108,670
Interest on finance leases	**—**	12
Interest on other borrowings	**22,683**	11,785
Net realised gains on cash flow hedges	**(975)**	—
	210,955	164,930
Amortisation of debt establishment costs	**21,285**	10,511
Notional interest on other payables	**16,014**	15,918
Notional interest on lease liabilities	**1,042**	—
	249,296	191,359

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold		**1,369,295**	1,229,800
Cost of services provided		**678,644**	472,411
Auditor's remuneration		**6,707**	6,163
Depreciation of property, plant and equipment*	13	**267,526**	196,516
Depreciation of right-of-use assets	15	**10,398**	—
Amortisation of intangible assets@	17	**2,879**	2,700
Minimum lease payments under operating leases in respect of land and buildings		**—**	16,138
Lease payments not included in the measurement of lease liabilities	15	**5,032**	—
Employee benefit expense (including directors' and chief executives' remuneration *(note 8)*):			
Wages, salaries, bonuses, allowances and benefits in kind		**154,251**	124,923
Equity-settled share option expense	35	**775**	2,086
Pension scheme contributions (defined contribution schemes)		**7,559**	5,758
		162,585	132,767
Net loss on settlement of derivative financial instruments#		**—**	4,504
Fair value loss/(gain) on an investment property	14	**400**	(1,000)
Foreign exchange differences, net#		**478**	28,827
Impairment/(reversal of impairment) of trade receivables, net#	20	**1,602**	(1,303)
Impairment/(reversal of impairment) of contract assets, net#	21	**(697)**	2
Loss on disposal of items of property, plant and equipment, net#		**501**	361
Write-down/(reversal of write-down) of inventories to net realisable value		**2,926#**	(9,025)*

* The cost of sales for the year included depreciation charges of HK$225,393,000 (2018: HK$175,533,000). In the prior year, the cost of sales included reversal of write-down of inventories to net realisable value of HK$9,025,000.

@ The amortisation of intangible assets is included in "Administrative expenses" in the consolidated statement of profit or loss.

\# Included in "Other expenses, net" in the consolidated statement of profit or loss.

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 **HK$'000**	2018 HK$'000
Fees	**1,728**	1,728
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**14,752**	14,322
Equity-settled share option expense	**256**	652
Pension scheme contributions	**90**	90
	15,098	15,064
	16,826	16,792

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executives' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 **HK$'000**	2018 HK$'000
Mr. Tsoi David	**216**	216
Mr. Yeung Wai Fai Andrew	**216**	216
Mr. Suen Wai Yu	**216**	216
	648	648

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, bonuses, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2019					
Executive directors:					
Mr. Lam Yee Chun	**216**	**2,562**	**52**	**18**	**2,848**
Mr. Lee Chong Man Jason	**216**	**2,612**	**51**	**18**	**2,897**
Mr. Au-Yeung Tai Hong Rorce	**216**	**5,704**	**51**	**18**	**5,989**
Mr. Lo Siu Yuen	**216**	**2,340**	**51**	**18**	**2,625**
Non-executive directors:					
Ms. Chan Mei Wan	**216**	**1,534**	**51**	**18**	**1,819**
Mr. Kwok Man Leung	**—**	**—**	**—**	**—**	**—**
	1,080	**14,752**	**256**	**90**	**16,178**
2018					
Executive directors:					
Mr. Lam Yee Chun	216	3,528	132	18	3,894
Mr. Lee Chong Man Jason	216	2,716	131	18	3,081
Mr. Au-Yeung Tai Hong Rorce	216	4,204	131	18	4,569
Mr. Lo Siu Yuen	216	2,340	129	18	2,703
Non-executive directors:					
Ms. Chan Mei Wan	216	1,534	129	18	1,897
Mr. Kwok Man Leung	—	—	—	—	—
	1,080	14,322	652	90	16,144

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

During the year, no remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the year (2018: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2018: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: one) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019	2018
	HK$'000	HK$'000
Salaries, bonuses, allowances and benefits in kind	**6,000**	2,600
Equity-settled share option expense	**49**	125
Pension scheme contributions (defined contribution scheme)	**36**	18
	6,085	2,743

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	—
	2	1

In prior years, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: HK$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2019 HK$'000	2018 HK$'000
Current — Hong Kong		
Charge for the year	10,266	6,686
Overprovision in prior years	—	(126)
Current — Elsewhere		
Charge for the year	35,192	24,415
Overprovision in prior years	(3,338)	(1,127)
Deferred	(1,231)	248
Total tax charge for the year	40,889	30,096

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory tax rate to the tax charge at the Group's effective tax rate is as follows:

	2019 HK$'000	2018 HK$'000
Profit before tax	323,147	231,001
Tax at the Hong Kong statutory tax rate of 16.5% (2018: 16.5%)	53,319	38,115
Different tax rates enacted by specific countries/jurisdictions	2,140	(1,041)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiary	(330)	2,491
Withholding taxes	19,257	13,609
Adjustments in respect of current tax of previous periods	(3,338)	(1,253)
Profits and losses attributable to joint ventures	(11,034)	(1,039)
Income derived from the IBO segment which was claimed offshore and not subject to tax in Hong Kong	(91,749)	(84,817)
Other income not subject to tax	(11,804)	(645)
Expenses not deductible for tax	86,376	68,408
Tax losses utilised from previous periods	(641)	(3,311)
Tax losses not recognised	264	559
Others	(1,571)	(980)
Tax charge at the Group's effective tax rate	40,889	30,096

11. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Dividends recognised as distribution during the year:		
Final 2018 — HK0.48 cent (2017: HK1.76 cents) per ordinary share	**12,298**	45,089
Less: Dividend for shares held under the share award scheme	**(59)**	(202)
	12,239	44,887
Interim 2019 — HK0.55 cent (2018: HK1.47 cents) per ordinary share	**14,092**	37,659
Less: Dividend for shares held under the share award scheme	**(68)**	(184)
	14,024	37,475
	26,263	82,362
Final dividend proposed after the end of the reporting period:		
Proposed final 2019 — HK2.20 cents (2018: HK0.48 cent) per ordinary share	**56,370**	12,298

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$283,551,000 (2018: HK$213,288,000), and the weighted average number of ordinary shares of 2,549,837,000 (2018: 2,549,977,000) in issue during the year, as adjusted to exclude the shares held under the share award scheme.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$283,551,000 (2018: HK$213,288,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 2,549,837,000 (2018: 2,549,977,000) in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 1,085,000 (2018: 1,452,000) assumed to have been issued at no consideration on the deemed exercise of all share options into ordinary shares.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Mobilisation and installation HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2019								
At 1 January 2019 (restated):								
Cost	74,262	5,970	62,180	1,914,082	20,495	22,299	48,388	2,147,676
Accumulated depreciation	(1,343)	(1,676)	(35,564)	(276,747)	(10,404)	(10,637)	–	(336,371)
Net carrying amount	72,919	4,294	26,616	1,637,335	10,091	11,662	48,388	1,811,305
At 31 December 2018, net of accumulated depreciation	72,919	4,726	26,616	1,637,335	10,140	11,662	48,388	1,811,786
Effect of adoption of HKFRS 16	–	(432)	–	–	(49)	–	–	(481)
At 1 January 2019 (restated)	72,919	4,294	26,616	1,637,335	10,091	11,662	48,388	1,811,305
Additions	3,638	3,816	53,451	1,149,768	2,197	1,773	149,264	1,363,907
Transfer from assets held for sale, net *(note 38)*	–	–	19,825	668,424	–	–	–	688,249
Transfer from inventories	–	–	–	328,181	–	–	–	328,181
Transfer to inventories	–	–	–	(108,873)	–	–	–	(108,873)
Depreciation provided during the year	(1,075)	(2,783)	(31,119)	(225,876)	(3,353)	(3,320)	–	(267,526)
Disposals	–	–	–	(9,742)	(10)	–	(32,812)	(42,564)
Transfers	1,025	–	(2,165)	21,632	(840)	–	(19,652)	–
Exchange realignment	(620)	(10)	(73)	(7,914)	(47)	7	(3,001)	(11,658)
At 31 December 2019, net of accumulated depreciation	75,887	5,317	66,535	3,452,935	8,038	10,122	142,187	3,761,021
At 31 December 2019:								
Cost	78,306	9,790	185,448	4,078,257	21,720	22,153	142,187	4,537,861
Accumulated depreciation	(2,419)	(4,473)	(118,913)	(625,322)	(13,682)	(12,031)	–	(776,840)
Net carrying amount	75,887	5,317	66,535	3,452,935	8,038	10,122	142,187	3,761,021

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings HK$'000	Leasehold improvements HK$'000	Mobilisation and installation HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018								
At 1 January 2018:								
Cost	77,158	6,588	115,219	2,323,221	14,360	15,141	30,848	2,582,535
Accumulated depreciation	(335)	(4,533)	(61,184)	(311,098)	(8,431)	(7,872)	–	(393,453)
Net carrying amount	76,823	2,055	54,035	2,012,123	5,929	7,269	30,848	2,189,082
At 1 January 2018, net of accumulated depreciation	76,823	2,055	54,035	2,012,123	5,929	7,269	30,848	2,189,082
Acquisition of subsidiaries *(note 40)*	9,557	–	–	885,945	104	1,410	–	897,016
Additions	11,725	4,543	15,502	50,170	6,986	6,143	19,978	115,047
Transfer to investment property	(24,000)	–	–	–	–	–	–	(24,000)
Transfer to assets held for sale *(note 38)*	–	–	(19,825)	(937,104)	–	–	–	(956,929)
Transfer to inventories	–	–	–	(207,107)	–	–	–	(207,107)
Depreciation provided during the year	(1,472)	(1,537)	(23,143)	(164,674)	(2,607)	(3,083)	–	(196,516)
Disposals	–	(322)	–	(6)	(43)	–	–	(371)
Surplus on revaluation	1,063	–	–	–	–	–	–	1,063
Transfers	–	–	309	354	–	–	(663)	–
Exchange realignment	(777)	(13)	(262)	(2,366)	(229)	(77)	(1,775)	(5,499)
At 31 December 2018, net of accumulated depreciation	72,919	4,726	26,616	1,637,335	10,140	11,662	48,388	1,811,786
At 31 December 2018:								
Cost	74,262	6,472	62,180	1,914,082	20,579	22,299	48,388	2,148,262
Accumulated depreciation	(1,343)	(1,746)	(35,564)	(276,747)	(10,439)	(10,637)	–	(336,476)
Net carrying amount	72,919	4,726	26,616	1,637,335	10,140	11,662	48,388	1,811,786

As at 31 December 2018, the net carrying amount of the Group's furniture, fixtures and office equipment held under finance lease was HK$49,000.

As at 31 December 2019, certain of the Group's property, plant and equipment with a net carrying amount of HK$873,870,000 (2018: HK$1,427,753,000) were pledged to secure senior notes (note 29) and banking facilities and other borrowings granted to the Group (note 30).

14. INVESTMENT PROPERTY

	2019 **HK$'000**	2018 HK$'000
Carrying amount at 1 January	**25,000**	—
Transfer from owner-occupied property	**—**	24,000
Net gain/(loss) from a fair value adjustment	**(400)**	1,000
Carrying amount at 31 December	**24,600**	25,000

The Group's investment property is a commercial property in Hong Kong. The Group's investment property was revalued on 31 December 2019 based on a valuation performed by Vigers Appraisal and Consulting (International) Limited, an independent firm of professionally qualified valuers, at HK$24,600,000 (2018: HK$25,000,000). Each year, the Company's management decides to appoint which external valuer to be responsible for the external valuation of the Group's property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company's management has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment property:

	Fair value measurement as at 31 December 2019 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Recurring fair value measurement for a commercial property	**—**	**—**	**24,600**	**24,600**

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for a commercial property	—	—	25,000	25,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

14. INVESTMENT PROPERTY (CONTINUED)

Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial property
	HK$'000
Carrying amount at 1 January 2018	—
Transfer from owner-occupied property	24,000
Net gain from a fair value adjustment	1,000
Carrying amount at 31 December 2018 and at 1 January 2019	25,000
Net loss from a fair value adjustment	(400)
Carrying amount at 31 December 2019	24,600

Below is a summary of the valuation technique used and the key input to the valuation of investment property:

	Valuation technique	**Significant unobservable inputs**	**Range**	
			2019	2018
Commercial property	Direct comparison method	Estimated price per sq. ft.	**HK$13,249 to HK$19,476**	HK$13,249 to HK$19,476

A significant increase (decrease) in the estimated price per square foot in isolation would result in a significant increase (decrease) in the fair value of the investment property. The investment property was valued by the direct comparison method having regard to comparable sales transactions as available in the relevant market. The valuation takes into account the characteristics of the property which included the location, size, floor level, year of completion and other factors collectively.

15. LEASES

The Group as a lessee

The Group has lease contracts for its office premises, staff quarters, motor vehicle and office equipment. The leases are negotiated for terms ranging from two to twenty years.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leased properties HK$'000	**Office equipment** HK$'000	**Motor vehicle** HK$'000	**Total** HK$'000
As at 1 January 2019	19,335	104	—	19,439
Additions	8,683	—	672	9,355
Depreciation charge	(10,309)	(33)	(56)	(10,398)
Exchange realignment	(111)	—	5	(106)
As at 31 December 2019	17,598	71	621	18,290

(b) *Lease liabilities*

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities HK$'000	2018 Finance lease payables HK$'000
Carrying amount at 1 January	**20,431**	292
New leases	**9,175**	—
Accretion of interest recognised during the year	**1,042**	12
Payments	**(12,955)**	(246)
Exchange realignment	**(111)**	(8)
Carrying amount at 31 December	**17,582**	50
Analysed into:		
Current portion	**10,434**	27
Non-current portion	**7,148**	23

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 47 to the financial statements.

15. LEASES (CONTINUED)

The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK$'000
Notional interest on lease liabilities	1,042
Depreciation charge of right-of-use assets	10,398
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in selling and distribution expenses and administrative expenses)	5,032
Total amount recognised in profit or loss	16,472

(d) The total cash outflow for leases are disclosed in note 41 to the financial statements.

16. GOODWILL

	2019 HK$'000	2018 HK$'000
Cost and carrying amount at 1 January	81,489	—
Acquisition of subsidiaries *(note 40)*	—	81,489
Cost and carrying amount at 31 December	81,489	81,489

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to Genrent Peru and VPTM Iquitos (collectively, the "Genrent Peru Group") cash-generating unit for impairment testing:

The recoverable amount of the Genrent Peru Group cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a 18.5-year period (2018: 19.5-year period) approved by senior management. The forecast period represented the remaining lease term of the power plant of Genrent Peru Group. The discount rate applied to the cash flow projections was 16.8% (2018: 16.4%).

Assumptions were used in the value-in-use calculation of the Genrent Peru Group cash-generating unit for 31 December 2019 and 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue growth — The value assigned to the budgeted revenue growth rate is the average revenue achieved in the year immediately before the budget year, taking into account the expected growth rate.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

17. OTHER INTANGIBLE ASSETS

	Grid and related development rights HK$'000	Concession right HK$'000	Total HK$'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	**32,635**	**53,661**	**86,296**
Additions — acquired separately	**9,309**	**—**	**9,309**
Amortisation provided during the year	**—**	**(2,879)**	**(2,879)**
Exchange realignment	**1,425**	**—**	**1,425**
At 31 December 2019	**43,369**	**50,782**	**94,151**
At 31 December 2019:			
Cost	**43,369**	**56,300**	**99,669**
Accumulated amortisation	**—**	**(5,518)**	**(5,518)**
Net carrying amount	**43,369**	**50,782**	**94,151**
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	—	—	—
Additions — acquired separately	32,635	—	32,635
Acquisition of subsidiaries *(note 40)*	—	56,300	56,300
Amortisation provided during the year	—	(2,700)	(2,700)
Exchange realignment	—	61	61
At 31 December 2018	32,635	53,661	86,296
At 31 December 2018:			
Cost	32,635	56,300	88,935
Accumulated amortisation	—	(2,639)	(2,639)
Net carrying amount	32,635	53,661	86,296

18. INTERESTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Share of net assets	**853,047**	762,918

In January 2018, the Company and CITIC Pacific Limited ("CITIC Pacific"), through their respective subsidiaries, agreed to establish Tamar VPower Energy Fund I, L.P. (the "Fund"). Tamar VPower Holdings Limited, indirectly owned as to 50% by each of the Company and CITIC Pacific, has a wholly-owned subsidiary to act as the general partner, the special limited partner and the management company, respectively, of the Fund. The Company has committed an aggregate amount of US$105,000,000 (equivalent to HK$819,000,000) to subscribe for interest in the Fund through its own indirect wholly-owned subsidiary and the special limited partner of the Fund. As at 31 December 2019, the Group invested approximately HK$778,448,000 (2018: HK$756,620,000) in the Fund.

In September 2019, the Company and China National Technical Import & Export Corporation ("CNTIC"), through their respective subsidiaries, agreed to establish CNTIC VPower Group Holdings Limited, which is indirectly owned as to 50% by each of the Company and CNTIC.

Particulars of the Group's material joint venture are as follows:

			Percentage of			
Name	Registered capital	Place of registration and business	Ownership interest	Voting power	Profit sharing	Principal activities
Tamar VPower Energy Fund I, L.P.	US$199,602,117	Cayman Islands	50	50	50	Investment

The above investment is indirectly held by the Company.

Tamar VPower Energy Fund I, L.P., which is considered a material joint venture of the Group and is accounted for using the equity method.

18. INTERESTS IN JOINT VENTURES (CONTINUED)

The following table illustrates the summarised financial information in respect of Tamar VPower Energy Fund I, L.P. adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2019 HK$'000	2018 HK$'000
Cash and cash equivalents	93,306	37,234
Other current assets	1,613,626	1,489,652
Current assets	1,706,932	1,526,886
Current liabilities	(528)	(1,049)
Net assets	1,706,404	1,525,837
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture and carrying amount of the investment	853,202	762,918
Revenue	155,402	47,305
Interest income	1	290
Profit and total comprehensive income for the year	136,761	12,597

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2019 HK$'000	2018 HK$'000
Share of the joint ventures' losses for the year	1,508	—
Aggregate carrying amount of the Group's interests in the joint ventures	(155)	—

19. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	186,733	149,176
Work in progress	9,764	1,387
Finished goods	502,922	913,163
Spare parts and consumables	186,441	185,704
	885,860	1,249,430

20. TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	1,229,791	1,071,126
Bills receivables	—	2,510
Impairment	(4,159)	(2,559)
	1,225,632	1,071,077

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit periods range from 30 to 360 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 HK$'000	2018 HK$'000
Within 30 days	615,840	568,030
31 to 60 days	205,806	96,709
61 to 90 days	47,735	65,707
91 to 180 days	68,878	140,350
181 to 360 days	86,804	124,817
Over 360 days	200,569	75,464
	1,225,632	1,071,077

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	SI Segment HK$'000	IBO Segment HK$'000	Total HK$'000
At 1 January 2018	947	3,593	4,540
Impairment losses, net *(note 7)*	280	(1,583)	(1,303)
Exchange realignment	(87)	(591)	(678)
At 31 December 2018 and at 1 January 2019	1,140	1,419	2,559
Impairment losses, net *(note 7)*	762	840	1,602
Exchange realignment	(2)	—	(2)
At 31 December 2019	1,900	2,259	4,159

SI Segment

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and bills receivables are written off if past due for more than one year and are not subject to enforcement activity.

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

SI Segment (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables within the SI Segment using a provision matrix:

As at 31 December 2019

		Past due days			
	Current	**1 to 30**	**31 to 90**	**Over 90**	**Total**
Expected credit loss rate	**0.13%**	**0.15%**	**0.22%**	**1.45%**	**0.23%**
Gross carrying amount (HK$'000)	**751,310**	**7,216**	**16,248**	**59,695**	**834,469**
Expected credit losses (HK$'000)	**987**	**11**	**36**	**866**	**1,900**

As at 31 December 2018

		Past due days			
	Current	1 to 30	31 to 90	Over 90	Total
Expected credit loss rate	0.04%	0.04%	0.04%	7.65%	0.16%
Gross carrying amount (HK$'000)	700,670	7,042	66	11,290	719,068
Expected credit losses (HK$'000)	273	3	—	864	1,140

IBO Segment

An impairment analysis is performed at each reporting date by considering the probability of default of counterparty. The Group also takes into account the forward-looking information to reflect the debtors' probability of default under the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2019, the probability of default applied ranged from 0.01% to 1.63% (2018: 0.01% to 1.74% and the loss given default was estimated to be 100% (2018: 100%).

Bills receivables as at 31 December 2018

The Group applied a general approach in calculating ECLs for bills receivables. The Group classified such instruments as Stage 1 and measured ECLs on a 12-month basis. All of the bills receivables were not past due and the expected credit loss rate was assessed to be minimal.

21. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSETS

	31 December 2019 HK$'000	1 January 2019 HK$'000	31 December 2018 HK$'000
Prepayments	47,181	44,665	44,794
Deposits paid for purchases of property, plant and equipment	128,111	162,084	162,084
Deposits and other receivables	553,527	374,711	374,711
Loan receivables	6,077	22,620	22,620
Due from joint ventures	45,595	—	—
Contract assets *(note)*	5,985	6,022	6,022
	786,476	610,102	610,231
Current portion included in prepayments, deposits, other receivables and other assets	(639,129)	(445,939)	(445,939)
Non-current portion	147,347	164,163	164,292

The loan receivables are unsecured, bear interest at a rate of 7% per annum (2018: London Interbank Offered Rate ("LIBOR") plus 2% per annum to LIBOR plus 7.5% per annum) and are repayable based on terms stipulated in the loan agreements.

The amounts due from joint ventures are unsecured, interest-free and repayable on demand.

The financial assets included in the above balances relate to deposits, receivables and amounts due from joint ventures for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

Note:

	31 December 2019 HK$'000	31 December 2018 HK$'000	1 January 2018 HK'000
Contract assets arising from sale of engine-based electricity generation units and construction services	5,996	6,732	5,015
Impairment	(11)	(710)	(747)
	5,985	6,022	4,268

Contract assets are initially recognised for revenue earned from the sale of engine-based electricity generation units and the provision of related construction services as the receipt of consideration is conditional on successful completion of installation of engine-based electricity generation units and construction, respectively. Included in contract assets are retention receivables. The retention receivables recognised as contract assets are reclassified to trade receivables after a retention period ranging from one to two years from the date of completion of the installation or construction. During the year ended 31 December 2019, a reversal of loss allowance of HK$697,000 (2018: a loss allowance of HK$2,000) was recognised for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 20 to the financial statements.

The expected timing of recovery or settlement for contract assets is as follows:

	2019 HK$'000	2018 HK$'000
Within one year	3,029	4,341
More than one year	2,956	1,681
Total contract assets	5,985	6,022

21. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

Note: (Continued)

The movements in the loss allowance for impairment of contract assets are as follows:

	2019	2018
	HK$'000	HK$'000
At beginning of year	**710**	747
Impairment losses, net *(note 7)*	**(697)**	2
Exchange realignment	**(2)**	(39)
At end of year	**11**	710

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

As at 31 December

	2019	2018
Expected credit loss rate	**0.18%**	10.5%
Gross carrying amount (HK$'000)	**5,996**	6,732
Expected credit losses (HK$'000)	**11**	710

22. DUE FROM RELATED COMPANIES

The amounts due from related companies are non-trade related, unsecured and repayable on demand.

Particulars of the amounts due from related companies are as follows:

31 December 2019

	At 31 December 2019 HK$'000	Maximum amount outstanding during the year HK$'000	At 1 January 2019 HK$'000
Orient Profit Investment Limited*	96	96	96
VPower Technology Company Limited*	—	483	483
	96		579

31 December 2018

	At 31 December 2018 HK$'000	Maximum amount outstanding during the year HK$'000	At 1 January 2018 HK$'000
Orient Profit Investment Limited*	96	96	96
VPower Technology Company Limited*	483	2,001	—
	579		96

* These related companies are controlled by a controlling shareholder of the Company.

Since the amounts due from related companies are not past due, the expected credit losses were assessed to be minimal.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 Assets HK$'000	2019 Liabilities HK$'000	2018 Assets HK$'000	2018 Liabilities HK$'000
Forward currency contracts	**589**	**—**	—	—
Interest rate swaps	**—**	**194**	—	—
Current portion	**589**	**194**	—	—

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives amounting to HK$589,000 (2018: Nil) were credited to the consolidated statement of profit or loss during the year.

The Group has also entered into interest rate swap contracts with a notional amount of US$100 million whereby it received interest at a variable rate equal to the LIBOR on the notional amount and paid interest at a fixed rate ranging from 1.560% to 1.565%.

The swaps are designated as a hedging instrument to hedge the exposure to changes in future cash outflows of interests arising from its unsecured loan (note 30). The unsecured loan and the interest rate contracts have the same contractual terms. The hedge of the interest rate swaps was assessed to be effective, and a net gain of HK$975,000 (2018: Nil) was reclassified from other comprehensive income to profit or loss as follow:

	2019 HK$'000
Total fair value gain included in the hedging reserve	**(781)**
Reclassified from other comprehensive income and recognised in finance costs included in the statement of profit or loss *(note 6)*	**975**
Net loss on cash flow hedges	**194**

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the variable rate loan (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to that of the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in the fair value of the hedged item attributable to the hedged risk.

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of the hedged items and hedging instruments

There is no hedge ineffectiveness recognised in profit or loss. Consequently, the change in fair value used for measuring ineffectiveness for the year ended 31 December 2019 of the hedging instruments is the same with that of the hedged items, equaling the amount of the total fair value gain included in the hedging reserve of HK$781,000 above.

24. RESTRICTED CASH

The Group is required to place in designated bank accounts with the collection amounts from its business operation in Peru as secured deposits for the purpose of the repayment of principal and interest of the senior notes, the details of which are set out in note 29 to the financial statements.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	2019 HK$'000	2018 HK$'000
Cash and bank balances		**916,274**	670,891
Time deposits		**—**	114
		916,274	671,005
Less: Pledged deposits for banking facilities and bank borrowings	30	**(62,200)**	(48,443)
Less: Restricted cash	24	**(81,635)**	(81,209)
Cash and cash equivalents		**772,439**	541,353

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

The Group's cash and cash equivalents are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
Hong Kong dollars	17,914	11,783
Euro	162,043	48,901
Renminbi ("RMB")	124,316	70,736
United States dollars ("USD")	435,326	397,739
Others	32,840	12,194
	772,439	541,353

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits were made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 month	267,325	148,424
1 to 2 months	208,882	92,171
2 to 3 months	97,768	4,473
Over 3 months	165,130	149,733
	739,105	394,801

The trade and bills payables are non-interest-bearing and are normally settled on terms ranging from 30 to 180 days.

27. OTHER PAYABLES AND ACCRUALS

	31 December 2019 HK$'000	1 January 2019 HK$'000	31 December 2018 HK$'000
Due to EPC Contractors	499,959	94,354	94,354
Sundry payables	293,934	73,899	73,899
Accruals	87,127	57,767	58,871
Loan payables	253,521	265,367	265,367
	1,134,541	491,387	492,491
Current portion included in other payables and accruals	(805,306)	(419,000)	(419,000)
Non-current portion	329,235	72,387	73,491

The amounts due to EPC Contractors and sundry payables are unsecured and non-interest-bearing.

The amounts due to EPC Contractors with a carrying amount as at 31 December 2019 of HK$499,959,000 (2018: HK$94,354,000) were repayable by instalments up to January 2024 (2018: March 2020).

Sundry payables have an average term of 30 days.

As at 31 December 2019, the loan payables representing an amount due to a non-controlling shareholder which is unsecured, bears interest at a rate of 7.5% (2018: 7.5%) per annum and is repayable based on terms stipulated in the loan agreement. The loan payables also included an amount due to a subsidiary of a joint venture amounting to HK$195,000,000 (2018: HK$195,000,000) which is unsecured, bears interest at a rate of 4.3% (2018: 4.3%) per annum and is repayable based on terms stipulated in the loan agreement. As at 31 December 2018, the loan payables included payable to another non-controlling shareholder which was unsecured, bore interest at a rate of 4.7% per annum and was repaid in 2019.

28. CONTRACT LIABILITIES

	31 December 2019 HK$'000	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers			
Sale of engine-based electricity generation units	**122,868**	73,884	46,610

Contract liabilities are short-term advances received from customers for sale of engine-based electricity generation units. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from customers in relation to the sale of engine-based electricity generation units at the end of the year.

29. SENIOR NOTES

In February 2018, a subsidiary of the Group issued senior notes (the "Senior Notes") with a face value of US$106,500,000 (equivalent to HK$830,700,000) and interest at a rate of 5.88% per annum, which are repayable semi-annually in February and August each year with maturity in February 2037, unless redeemed earlier. The Senior Notes are secured by (i) the assets of the subsidiary of the Group, which must remain free of any other lien until maturity; (ii) the equity interest of Genrent Peru; and (iii) a fiduciary trust which was constituted on certain bank collection accounts of the subsidiary of the Group amounting to US$10,466,000 (equivalent to approximately HK$81,635,000) and US$10,411,000 (equivalent to approximately HK$81,209,000) as at 31 December 2019 and 31 December 2018, respectively.

	2019 HK$'000	2018 HK$'000
Amounts payable:		
Within one year	**17,724**	6,268
In the second year	**21,990**	16,725
In the third to fifth years, inclusive	**83,663**	77,166
Beyond five years	**658,742**	685,731
	782,119	785,890
Analysed into:		
Current portion	**17,724**	6,268
Non-current portion	**764,395**	779,622
	782,119	785,890

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	**Maturity**	**HK$'000**	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current							
Finance lease payables *(note 31)*	**—**	**—**	**—**	—	10.07–14.51	2019	27
Bank overdrafts — unsecured	**2.3–3.5**	**2020**	**4,237**	—	—	—	—
Portions of bank loans due for repayment within one year or on demand — secured	**—**	**—**	**—**	659,070	5.16–5.36	2019	659,070
Portions of bank loans due for repayment within one year or on demand — unsecured	**2.00–5.43**	**2020**	**1,651,028**	1,382,436	2.00–5.57	2019	1,382,436
Portions of bank loans due for repayment after one year which contain repayment on demand clause *(note)* — unsecured	**4.2–4.25**	**2021**	**98,230**	342,966	4.93–5.02	2020–2021	342,966
Other borrowings — secured	**6.2**	**2020**	**29,062**	—	—	—	—
			1,782,557	2,384,472			2,384,499
Non-current							
Finance lease payables *(note 31)*	**—**	**—**	**—**	—	10.07–14.51	2020	23
Portions of bank loans due for repayment after one year – unsecured	**4.19–4.26**	**2021–2022**	**1,299,741**	406,386	4.78–5.29	2020–2021	406,386
Other borrowings — secured	**6.2**	**2021–2022**	**149,963**	179,025	6.2	2020–2022	179,025
			1,449,704	585,411			585,434
			3,232,261	2,969,883			2,969,933

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Note:

Certain term loans of the Group containing repayment on demand clauses as at 31 December 2019 with a carrying amount of HK$218,166,000 (2018: HK$454,976,000) have been classified in total as current liabilities, including portions of the bank loans due for repayment after one year as at 31 December 2019 with a carrying amount of HK$98,230,000 (2018: HK$342,966,000). For the purpose of the above analysis, such long-term portion are included within current interest-bearing bank borrowings and analysed into bank loans repayable within one year or on demand.

Ignoring the effect of any repayment on demand clause and based on the maturity terms of these term loans, the Group's bank and other borrowings are repayable:

	2019	2018
	HK$'000	HK$'000
Within one year	**1,684,327**	2,041,533
In the second year	**684,588**	514,145
In the third to fifth years, inclusive	**863,346**	414,255
	3,232,261	2,969,933

(a) Certain of the Group's bank and other borrowings are secured by:

(i) the pledge of certain of the Group's property, plant and equipment with a net carrying amount of HK$59,761,000 (2018: HK$565,771,000) as at 31 December 2019 *(note 13)*, part of which were released during the year due to full repayment of bank borrowings;

(ii) the pledge of certain of the Group's cash deposits amounting to HK$62,200,000 (2018: HK$48,443,000) as at 31 December 2019 *(note 25)*; and

(iii) an assignment of the rights in respect of certain contracts and insurance receivables under the relevant key equipment insurance policies of the Group.

(b) The Group's bank and other borrowings are denominated in the following currencies:

	2019	2018
	HK$'000	HK$'000
Hong Kong dollars	**287,458**	409,178
Euro	**65,975**	62,559
RMB	**—**	50
USD	**2,874,593**	2,498,146
Great British Pound	**4,235**	—
	3,232,261	2,969,933

31. FINANCE LEASE PAYABLES

The Group leases certain of its photocopiers for its business. These leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019 and had remaining lease terms of two years.

At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts payable:		
Within one year	31	27
In the second year	24	23
Total minimum finance lease payments	55	50
Future finance charges	(5)	
Total net finance lease payables	50	
Portion classified as current liabilities *(note 30)*	(27)	
Non-current portion *(note 30)*	23	

32. PROVISION FOR RESTORATION

	2019 HK$'000	2018 HK$'000
At 1 January	**34,729**	6,002
Additional provision	**2,755**	29,537
Amount utilised during the year	**(817)**	(810)
Reversal of unutilised amounts	**(9,667)**	—
At 31 December	**27,000**	34,729
Portion classified as current liabilities	**(4,174)**	(3,249)
Non-current portion	**22,826**	31,480

32. PROVISION FOR RESTORATION (CONTINUED)

The provision for restoration represents management's best estimate of the Group's liabilities of the costs of dismantling and removing the leasehold improvements and facilities and restoring the sites on which they are located.

33. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax liabilities	Depreciation allowances in excess of related depreciation HK$'000	Withholding tax HK$'000	Intangible assets acquired in business combination HK$'000	Total HK$'000
At 1 January 2018	411	5,475	—	5,886
Acquisition of subsidiaries *(note 40)*	42,621	—	12,323	54,944
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	20,653	2,491	(579)	22,565
At 31 December 2018 and at 1 January 2019	**63,685**	**7,966**	**11,744**	**83,395**
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	**43,798**	**(330)**	**(632)**	**42,836**
Gross deferred tax liabilities at 31 December 2019	**107,483**	**7,636**	**11,112**	**126,231**

Deferred tax assets	Depreciation in excess of related depreciation allowances/Unrealised profits on inventories/ Others HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2018	5,329	—	5,329
Acquisition of subsidiaries *(note 40)*	9,289	41,814	51,103
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 10)*	525	21,792	22,317
Exchange realignment	(10)	—	(10)
At 31 December 2018 and at 1 January 2019	**15,133**	**63,606**	**78,739**
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year *(note 10)*	**(3,755)**	**47,822**	**44,067**
Exchange realignment	**11**	**—**	**11**
Gross deferred tax assets at 31 December 2019	**11,389**	**111,428**	**122,817**

33. DEFERRED TAX (CONTINUED)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 HK$'000	2018 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	15,333	15,465
Net deferred tax liabilities recognised in the consolidated statement of financial position	(18,747)	(20,121)
Net deferred tax liabilities	(3,414)	(4,656)

As at 31 December 2019, the Group has tax losses of HK$4,988,000 (2018: HK$3,387,000) arising in Hong Kong, subject to the agreement by the Hong Kong Inland Revenue Department, that were available indefinitely for offsetting against the future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 December 2019, the Group also has tax losses arising in Peru of S/83,286,000 (equivalent to approximately HK$194,415,000) (2018: S/93,763,000 (equivalent to approximately HK$217,787,000)) that may be offset against future profits year after year until its final extinction, applying up to 50 percent of its taxable profit. As at 31 December 2018, deferred tax assets of S/940,000 (equivalent to approximately HK$2,183,000) had not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 December 2019, the Group also has tax losses arising in Sri Lanka of Sri Lankan Rupee 4,469,063,000 (equivalent to approximately HK$191,928,000) (2018: Nil) that will be expired in six to ten years for offsetting against future taxable profits.

Pursuant to the PRC Corporate Income tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

Shares

	2019 HK$'000	2018 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.1 each	500,000	500,000
Issued and fully paid:		
2,562,284,000 (2018: 2,562,074,000) ordinary shares of HK$0.1 each	256,228	256,207

A summary of movements in the Company's issued share capital is as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
At 1 January 2018		2,561,594,000	256,159
Share options exercised	(a)	480,000	48
At 31 December 2018 and at 1 January 2019		2,562,074,000	256,207
Share options exercised	(b)	210,000	21
At 31 December 2019		2,562,284,000	256,228

(a) The subscription rights attaching to 480,000 share options were exercised at the subscription price of HK$2.016 per share, resulting in the issue of 480,000 ordinary shares of HK$0.1 each for a total cash consideration, before expenses, of HK$968,000. An amount of HK$586,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(b) The subscription rights attaching to 210,000 share options were exercised at the subscription price of HK$2.016 per share, resulting in the issue of 210,000 ordinary shares of HK$0.1 each for a total cash consideration, before expenses, of HK$423,000. An amount of HK$259,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share options and share awards

Details of the Company's share option schemes and the share options issued under the schemes and the Company's share award scheme are included in notes 35 and 36 to the financial statements, respectively.

35. SHARE OPTION SCHEMES

The Company operates a pre-initial public offering share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The principal terms of the Pre-IPO Share Option Scheme are similar to the terms of the Share Option Scheme except that (i) no further options could be granted under the Pre-IPO Share Option Scheme; and (ii) the exercise price and the exercise period of the share options are different as further detailed below.

Eligible participants of the Schemes include the Company's directors, including independent non-executive directors, other employees of the Group, consultants of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Pre-IPO Share Option Scheme and the Share Option Scheme were approved and adopted on 24 October 2016. The Share Option Scheme became effective on 24 November 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from 24 October 2016.

The maximum number of unexercised share options currently permitted to be granted under the Schemes is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 24 November 2016. The maximum number of shares issuable under share options to each eligible participant in the Schemes within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of share options under the Pre-IPO Share Option Scheme is HK$2.016 per share and the share options are exercisable after a vesting period of one to three years in the following manner:

Vesting period of the relevant percentage of the options	Maximum percentage of options exercisable
From 1 November 2016 to 23 November 2017	33.75%
From 1 November 2016 to 23 November 2018	33.30%
From 1 November 2016 to 23 November 2019	32.95%

The offer of a grant of share options under the Share Option Scheme may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period for options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme shall not be later than the sixth anniversary date of the listing date of the Company (i.e. 24 November 2016) and 10 years from the date of grant of the share options, respectively.

The exercise price of share options under the Share Option Scheme is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of the share options; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares on the date of offer.

35. SHARE OPTION SCHEMES (CONTINUED)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options under the Pre-IPO Share Option Scheme were outstanding during the year:

	2019 Weighted average exercise price per share HK$	2019 Number of options '000	2018 Weighted average exercise price per share HK$	2018 Number of options '000
At beginning of year	**2.016**	**4,432**	2.016	4,968
Forfeited during the year	**2.016**	**(42)**	2.016	(56)
Exercised during the year	**2.016**	**(210)**	2.016	(480)
At end of year	**2.016**	**4,180**	2.016	4,432

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.75 per share (2018: HK$4.15 per share).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019

Number of options '000	Exercise price per share* HK$	Exercise period
247	**2.016**	**24 November 2017 to 23 November 2020**
1,849	**2.016**	**24 November 2018 to 23 November 2021**
2,084	**2.016**	**24 November 2019 to 23 November 2022**
4,180		

2018

Number of options '000	Exercise price per share* HK$	Exercise period
349	2.016	24 November 2017 to 23 November 2020
1,948	2.016	24 November 2018 to 23 November 2021
2,135	2.016	24 November 2019 to 23 November 2022
4,432		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

35. SHARE OPTION SCHEMES (CONTINUED)

The Group recognised a share option expense of HK$775,000 (2018: HK$2,086,000) during the year ended 31 December 2019.

The 210,000 (2018: 480,000) share options exercised during the year resulted in the issue of 210,000 (2018: 480,000) ordinary shares of the Company and new share capital of HK$21,000 (2018: HK$48,000) and share premium of HK$661,000 (2018: HK$1,506,000), as further detailed in note 34 to the financial statements.

At the end of the reporting period, the Company had 4,180,000 (2018: 4,432,000) share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 4,180,000 (2018: 4,432,000) additional ordinary shares of the Company and additional share capital of HK$418,000 (2018: HK$443,000) and share premium of HK$8,009,000 (2018: HK$8,492,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 4,067,000 share options outstanding under the Schemes, which represented approximately 0.16% of the Company's shares in issue as at that date.

36. SHARE AWARD SCHEME

On 18 July 2017, the Company adopted a share award scheme (the "Share Award Scheme") for the purpose of recognising the contributions by certain eligible participants and providing them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for the growth and further development of the Group.

Eligible participants of the Share Award Scheme include the Company's directors, senior management, other employees and consultants of the Group. The Share Award Scheme will remain in force for 10 years from 18 July 2017, unless otherwise cancelled or amended.

The maximum number of shares currently permitted to be granted under the Share Award Scheme is limited to 5% of the issued share capital of the Company at any time. The maximum number of shares which may be awarded to each eligible participant in the Share Award Scheme is limited to 1% of the issued share capital of the Company from time to time.

The eligible participants for participation in the Share Award Scheme (the "Selected Participants") are selected and the number of shares to be awarded under the Share Award Scheme is determined by the board of directors. The shares to be awarded under the Share Award Scheme are purchased by a trustee (the "Trustee") from the open market out of cash contributed by the Group and be held on trust for the Selected Participant until such shares are vested with the Selected Participants in accordance with the provisions of the Share Award Scheme.

The Trustee shall not exercise the voting rights in respect of any shares held on trust for the Group or the Selected Participants.

36. SHARE AWARD SCHEME (CONTINUED)

During the year ended 31 December 2018, the Group purchased 1,173,000 of its own shares through the Trustee from open market. The total amount paid to acquire the shares was approximately HK$3,951,000 and has been deducted from equity. As at 31 December 2019 and 31 December 2018, such shares were classified as treasury shares of the Company as they were not yet awarded to any selected participants.

The movements in the Company's shares held under the Share Award Scheme during the year are as follows:

	Number of ordinary shares	**Shares held under the Share Award Scheme** HK$'000
At 1 January 2018	11,181,000	54,171
Purchases of shares for the Share Award Scheme	1,173,000	3,951
At 31 December 2018, 1 January 2019 and 31 December 2019	12,354,000	58,122

During the year, the Company did not award any shares to any eligible participant under the Share Award Scheme (2018: Nil).

37. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 68 of the financial statements.

(a) Merger reserve

The merger reserve represents the excess of the net asset value of Crest Pacific over the nominal value of the shares of Crest Pacific acquired by the Company pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company in 2016 (the "Reorganisation").

37 RESERVES (CONTINUED)

(b) Capital reserve

Capital reserve represents the deemed capital contribution from Mr. Lam Yee Chun, a controlling shareholder and an executive director of the Company, in respect of (i) the disposal of 276,000 shares of Crest Pacific to certain employees and consultants at par value in 2012 in exchange for services rendered by the employees and consultants to the Group; (ii) the transfer of 10% equity interest in Crest Pacific in 2013 in exchange for the Group's acquisition of the remaining 20% equity interest in VPower Technology Limited from the non-controlling shareholder; and (iii) the disposal of 120,000 shares of Crest Pacific to a consultant at par value in 2013 in exchange for services rendered by the consultant to the Group; and the excess of the net asset value of Crest Pacific acquired by the Company pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange therefor. During the year, the Company acquired additional 49% equity interest in a subsidiary, VP Flexgen (Brazil) SPE LTDA ("Brazil subsidiary"), from the non-controlling shareholder at a consideration of HK$8,779,000. The Company's interests in the Brazil subsidiary is accordingly increased from 51% to 100% upon the completion of the transaction. The increase of the Company's equity interest in the Brazil subsidiary from 51% to 100% do not result in any changes of the Company's control over the Brazil subsidiary and is accordingly accounted for as an equity transaction. The surplus of approximately HK$764,000, representing the difference between the consideration and the amount of non-controlling interests of approximately HK$8,015,000, is debited to the capital reserve.

(c) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited after the vesting date.

(d) Statutory reserve funds

Pursuant to the relevant laws and regulations in Mainland China, a portion of the profits of the Company's subsidiaries in Mainland China has been transferred to the statutory reserve funds which are restricted to use.

(e) Exchange fluctuation reserve

Exchange fluctuation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

38. ASSETS HELD FOR SALE

In the prior year, the Group initiated a plan to dispose of the assets relating to its distributed power generation business in Indonesia. Negotiations for the sale in an advanced stage were in progress and the sale was considered highly probable and was expected to be completed within one year from the date of reclassification. Accordingly, the related power generation assets of HK$956,929,000 included in "Property, plant and equipment" were classified as assets held for sale as at 31 December 2018.

On 18 October 2019, the Group and the independent third party ceased negotiation of the relevant possible transactions. As the original plan of sale was terminated, the relevant assets were reclassified from assets held for sale to property, plant and equipment during the year.

During the year, the Group negotiated with independent third parties to dispose of certain power generation assets subsequent to the expiry or cancellation of certain IBO contracts of the distributed power stations and purchase orders were placed by the independent third parties. In the opinion of the directors, the sales were considered highly probable and are expected to be completed within one year from the dates of reclassification. Accordingly, the related power generation assets of HK$268,680,000 were classified as assets held for sale as at 31 December 2019.

39. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that has material non-controlling interests is set out below:

	2019	2018
Percentage of equity interest held by non-controlling interests:		
Genrent Peru Group	**49%**	49%

	2019	2018
	HK$'000	HK$'000
Gain/(loss) for the year allocated to non-controlling interests:		
Genrent Peru Group	**536**	(3,440)
Accumulated balance of non-controlling interests at the reporting date:		
Genrent Peru Group	**36,793**	36,257

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Genrent Peru Group	
	2019	2018
	HK$'000	HK$'000
Revenue	**449,592**	333,374
Total expenses, net	**(448,499)**	(340,395)
Profit/(loss) for the year and total comprehensive income/(loss) for the year	**1,093**	(7,021)
Current assets	**205,213**	218,345
Non-current assets	**893,182**	923,397
Current liabilities	**(168,288)**	(181,677)
Non-current liabilities	**(855,044)**	(886,183)
Net cash flows from operating activities	**54,855**	126,486
Net cash flows used in investing activities	**(2,510)**	(86,257)
Net cash flows used in financing activities	**(46,381)**	(35,301)
Net increase in cash and cash equivalents	**5,964**	4,928

40. BUSINESS COMBINATION

In February 2018, the Group (i) exercised the option to subscribe for a 51% equity interest in Genrent Peru for an exercise consideration of US$4,600,000 (equivalent to approximately HK$35,880,000); and (ii) acquired a 51% equity interest in VPTM Iquitos for a consideration of S/510 (equivalent to approximately HK$1,000). Genrent Peru is principally engaged in the provision of distributed power solutions and VPTM Iquitos is principally engaged in the provision of operation and maintenance services. The acquisition was made as part of the Group's strategy to expand its market share of distributed power solutions in Latin America.

The Group has elected to measure the non-controlling interests at the non-controlling interests' proportionate share of identifiable net assets.

The aggregate fair values of the identifiable assets and liabilities of the Genrent Peru Group as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	13	897,016
Other intangible assets	17	56,300
Deferred tax assets		8,482
Cash and bank balance		58,050
Inventories		5,760
Trade receivables		38,397
Prepayments and other receivables		41,052
Trade payables		(12,537)
Accruals and other payables		(189,495)
Senior notes	29	(786,254)
Tax payable		(15,092)
Deferred tax liabilities	33	(12,323)
Total identifiable net assets at fair value		89,356
Non-controlling interests		(44,578)
Goodwill on acquisition	16	81,489
		126,267
Satisfied by:		
Cash consideration		1
Loan receivables due from the Genrent Peru Group		35,880
Derivative financial instrument in respect of an option contract		90,386
		126,267

40. BUSINESS COMBINATION (CONTINUED)

The fair values of the trade receivables and prepayments and other receivables as at the date of acquisition amounted to HK$38,397,000 and HK$41,052,000, respectively. The gross contractual amounts of trade receivables and prepayments and other receivables were HK$38,397,000 and HK$41,052,000, respectively, of which no trade and other receivables are expected to be uncollectible.

Goodwill arose in the acquisition of the Genrent Peru Group because the considerations paid for the acquisition effectively included amounts in relation to the benefits of expected synergies from combining the respective operations of the Genrent Peru Group and the Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition is as follows:

	HK$'000
Cash consideration	(1)
Cash and bank balances acquired	58,050
Net outflow of cash and cash equivalents included in cash flows used in investing activities	58,049

Since the acquisition, the Genrent Peru Group contributed HK$333,374,000 to the Group's revenue and loss of HK$6,696,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year ended 31 December 2018, the revenue of the Group and the profit of the Group for the year would have been HK$2,448,834,000 and HK$202,341,000, respectively.

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$9,355,000 and HK$9,175,000, respectively, in respect of lease arrangements for leased properties and motor vehicle (2018: Nil).

During the year, the Group entered into financing arrangements with EPC Contractors in respect of property, plant and equipment with a total capital value at the inception of the financing arrangements of HK$662,042,000 (2018: HK$38,836,000).

(b) The Group entered into contractual agreements in respect of its office premises and IBO agreements in respect of its power generation assets. Pursuant to the terms and conditions of the contractual agreements and IBO agreements, the Group is required to restore the office premises and the power generation sites to the conditions as stipulated in the agreements. During the year ended 31 December 2019, the Group has accrued and capitalised the estimated restoration cost of HK$2,755,000 (2018: HK$29,537,000) when such obligation has arisen.

Changes in liabilities arising from financing activities

2019

	Senior Notes HK$'000	Bank and other loans HK$'000	Finance lease payables/ Lease liabilities HK$'000	Loan payables HK$'000
At 31 December 2018	785,890	2,969,883	50	265,367
Effect of adoption of HKFRS 16	—	—	20,381	—
At 1 January 2019 (restated)	785,890	2,969,883	20,431	265,367
Changes from operating cash flows	—	—	(1,042)	—
Changes from financing cash flows	(7,754)	241,709	(11,913)	(11,846)
Bank overdrafts	—	4,237	—	—
Non-cash changes:				
Amortisation of debt establishment costs	3,983	17,302	—	—
New leases	—	—	9,175	—
Notional interest on lease liabilities	—	—	1,042	—
Foreign exchange movement	—	(870)	(111)	—
At 31 December 2019	782,119	3,232,261	17,582	253,521

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Changes in liabilities arising from financing activities (Continued)

2018

	Senior Notes HK$'000	Bank and other loans HK$'000	Finance lease payables HK$'000
At 1 January 2018	—	1,388,751	292
Changes from operating cash flows	—	—	(12)
Changes from financing cash flows	(78)	1,581,129	(234)
Non-cash changes:			
Acquisition of subsidiaries *(note 40)*	786,254	—	—
Interest on finance leases	—	—	12
Increase in debt establishment costs	(1,624)	—	—
Amortisation of debt establishment costs	1,338	9,173	—
Foreign exchange movement	—	(9,170)	(8)
At 31 December 2018	785,890	2,969,883	50

(i) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 HK$'000
Within operating activities	**1,042**
Within financing activities	**11,913**
	12,955

42. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2019 HK$'000	2018 HK$'000
Indemnities given to financial institutions for performance bonds issued in relation to power generation projects undertaken by the Group	**–**	24,110

43. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 **HK$'000**	2018 HK$'000
Contracted, but not provided for:		
Power generation assets	**527,201**	1,132,151

(b) Operating lease commitments as at 31 December 2018

The Group leased its office premises, factory premises, staff quarters, a motor vehicle, a car park space, certain office equipment and a warehouse under operating lease arrangements. The leases were negotiated for terms ranging from one to four years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Within one year	12,113
In the second to fifth years, inclusive	10,627
	22,740

44. RELATED PARTY TRANSACTIONS

(a) In addition to the balances and transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2019 HK$'000	2018 HK$'000
Related companies:		
Lease expense/rental expense paid to Orient Profit Investment Limited*	**982**	960
Sale of goods to VPower Technology Company Limited*	**—**	2,508
Purchase of goods from Orcan International Energy Technology Co., Ltd^	**82,487**	—
Interest income from a loan to a director#	**—**	287
Interest expense to Orcan International Investment Holdings Limited^	**8,385**	1,126

* These related companies are controlled by either one of the controlling shareholders of the Company. Lease expense comprised of depreciation charge of right-of-use assets and interest on lease liabilities amounting to HK$913,000 (2018: Nil) and HK$69,000 (2018: Nil), respectively. The right-of-use assets and lease liabilities as at 31 December 2019 were HK$913,000 (2018: Nil) and HK$935,000 (2018: Nil), respectively.

\# During the year ended 31 December 2018, the Group offered a loan facility of HK$41,500,000 to one of the Company's directors. The loan was secured by 22,294,947 shares of the Company beneficially owned by the director, bore interest at 6% per annum and repayable in three years from the date of drawdown. The loan was fully repaid in the prior year with an interest income of HK$287,000 charged on the loan to the director during the year ended 31 December 2018. The maximum outstanding balance due from the director was HK$41,787,000 during the year ended 31 December 2018.

^ This related company is a subsidiary of a joint venture of the Company. Interest expense to the related company was related to the loan advanced, details of the terms thereof are disclosed in note 27 to the financial statements.

The above transactions were entered into based on terms mutually agreed between the relevant parties.

(b) Commitments with a related company

On 1 April 2015, a subsidiary of the Group entered into a tenancy agreement with Orient Profit Investment Limited to rent a residential property as director's quarter for Mr. Lam Yee Chun for a fixed annual rent of HK$960,000, for a term of three years. The tenancy agreement was renewed for nine months from 1 April 2018 to 31 December 2018 at a monthly rental of HK$80,000. The tenancy agreement has been further renewed for two years from 1 January 2019 to 31 December 2020 at a monthly rental of HK$80,000.

(c) Compensation of key management personnel of the Group

Remuneration for key management personnel of the Group, including directors' and chief executives' remuneration as disclosed in note 8 to the financial statements, is as follows:

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**25,467**	24,236
Post-employment benefits	**162**	162
Equity-settled share option expense	**403**	1,029
Total compensation paid to key management personnel	**26,032**	25,427

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at fair value through profit or loss— mandatorily measured as such HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Trade and bills receivables	—	1,225,632	1,225,632
Financial assets included in prepayments, deposits, other receivables and other assets	—	572,274	572,274
Due from related companies	—	96	96
Derivative financial instruments	589	—	589
Restricted cash	—	81,635	81,635
Pledged deposits	—	62,200	62,200
Cash and cash equivalents	—	772,439	772,439
	589	2,714,276	2,714,865

Financial liabilities

	Derivatives designated as hedge instruments in hedge relationship HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	—	739,105	739,105
Financial liabilities included in other payables and accruals	—	1,113,997	1,113,997
Derivative financial instruments	194	—	194
Senior notes	—	782,119	782,119
Interest-bearing bank and other borrowings	—	3,232,261	3,232,261
Lease liabilities	—	17,582	17,582
	194	5,885,064	5,885,258

45. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2018

Financial assets

	Financial assets at amortised cost HK$'000
Trade and bills receivables	1,071,077
Financial assets included in prepayments, deposits, other receivables and other assets	385,032
Due from related companies	579
Restricted cash	81,209
Pledged deposits	48,443
Cash and cash equivalents	541,353
	2,127,693

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	394,801
Financial liabilities included in other payables and accruals	477,302
Senior notes	785,890
Interest-bearing bank and other borrowings	2,969,933
	4,627,926

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, restricted cash, pledged deposits, trade and bills receivables, amounts due from related companies, and the current portion of financial assets included in prepayments, deposits, other receivables and other assets, trade and bills payables, current portion of financial liabilities included in other payables and accruals, senior notes, interest-bearing bank and other borrowings and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial assets included in prepayments, deposits, other receivables and other assets, non-current portion of financial liabilities included in other payables and accruals, senior notes, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. In the opinion of the directors, the fair values of the non-current portion of financial assets included in prepayments, deposits, other receivables and other assets, non-current portion of financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings approximate to their carrying amounts. The fair value of senior notes is disclosed below.

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group enters into derivative financial instruments with creditworthy financial institutions. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of the counterparties, foreign exchange spot and forward rates and interest rate curves. As at 31 December 2019, the carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Derivative financial instruments	—	589	—	589

The Group did not have any financial assets measured at fair value as at 31 December 2018.

Liabilities measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Derivative financial instruments	—	194	—	194

The Group did not have any financial liabilities measured at fair value as at 31 December 2018.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Senior Notes	—	—	760,420	760,420

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Senior Notes	—	—	779,838	779,838

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, senior notes and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, financial assets included in prepayments, deposits, other receivables and other assets, restricted cash, pledged deposits, trade and bills payables, and financial liabilities included in other payables and accruals, which mainly arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts and interest rate swaps. The purpose is to manage the currency risk and interest rate risk arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees the policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2019, after taking into account the effect of the interest rate swaps, approximately 43% (2018: 26%) of the Group's interest-bearing borrowings bore interest at fixed rates.

At the end of the reporting period, if the interest rates on bank borrowings had been 25 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the profit before tax for the year would have been decreased/increased by HK$5,683,000 (2018: HK$6,977,000) as a result of higher/lower interest expenses on bank borrowings.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures mainly arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group entered into forward currency contracts with certain financial institutions to reduce its exposure to foreign currency risk. These derivative financial instruments are not accounted for under hedge accounting. The directors continue to monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro and IDR exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

	Increase/(decrease) in exchange rate %	Increase/(decrease) in profit before tax HK$'000
2019		
If the Hong Kong dollar weakens against the Euro	**5**	**(12,958)**
If the Hong Kong dollar strengthens against the Euro	**(5)**	**12,958**
If the Hong Kong dollar weakens against the IDR	**5**	**6,327**
If the Hong Kong dollar strengthens against the IDR	**(5)**	**(6,327)**
2018		
If the Hong Kong dollar weakens against the Euro	5	(9,101)
If the Hong Kong dollar strengthens against the Euro	(5)	9,101
If the Hong Kong dollar weakens against the IDR	5	6,653
If the Hong Kong dollar strengthens against the IDR	(5)	(6,653)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group mainly transacts with creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	–	–	–	1,229,791	1,229,791
Contract assets included in prepayments, deposits, other receivables and other assets*	–	–	–	5,996	5,996
Financial assets included in prepayments, deposits, other receivables and other assets					
— Normal**	572,274	–	–	–	572,274
Due from related companies					
— Not yet past due	96	–	–	–	96
Restricted cash					
— Not yet past due	81,635	–	–	–	81,635
Pledged deposits					
— Not yet past due	62,200	–	–	–	62,200
Cash and cash equivalents					
— Not yet past due	772,439	–	–	–	772,439
	1,488,644	–	–	1,235,787	2,724,431

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade and bills receivables*	2,510	—	—	1,071,126	1,073,636
Contract assets included in prepayments, deposits, other receivables and other assets*	—	—	—	6,732	6,732
Financial assets included in prepayments, deposits, other receivables and other assets					
— Normal **	385,032	—	—	—	385,032
Due from related companies					
— Not yet past due	579	—	—	—	579
Restricted cash					
— Not yet past due	81,209	—	—	—	81,209
Pledged deposits					
— Not yet past due	48,443	—	—	—	48,443
Cash and cash equivalents					
— Not yet past due	541,353	—	—	—	541,353
	1,059,126	—	—	1,077,858	2,136,984

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 20 and 21 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, deposits, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables is disclosed in note 20 to the financial statements.

At the end of the reporting period, the Group had certain concentrations of credit risk as 26% (2018: 15%) and 71% (2018: 65%) of the Group's trade receivables were due from the Group's largest debtor and the five largest debtors, respectively.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group monitors its risk to a shortage of funds by considering the maturities of both its financial liabilities and financial assets.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, lease liabilities (2018: finance leases) and other interest-bearing loans. The Group aims to maintain sufficient cash and cash equivalents to meet its liquidity requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2019			
	On demand/ less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade and bills payables	739,105	—	—	739,105
Financial liabilities included in other payables and accruals	796,749	354,636	—	1,151,385
Senior notes	65,995	296,318	979,684	1,341,997
Interest-bearing bank and other borrowings *(note)*	1,895,309	1,544,594	—	3,439,903
Lease liabilities	11,068	6,557	1,560	19,185
Derivative financial instruments				
Interest rate swaps (net settlement)				
— net inflow	(1,946)	—	—	(1,946)
Forward currency contracts (gross settlement)				
— outflow	86,873	—	—	86,873
— inflow	(87,571)	—	—	(87,571)
	3,505,582	2,202,105	981,244	6,688,931

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

	2018			
	On demand/ less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade and bills payables	394,801	—	—	394,801
Financial liabilities included in other payables and accruals	421,117	85,073	—	506,190
Senior notes	56,565	286,856	1,055,141	1,398,562
Interest-bearing bank and other borrowings *(note)*	2,524,752	639,359	—	3,164,111
	3,397,235	1,011,288	1,055,141	5,463,664

Note:

Included in the above interest-bearing bank and other borrowings of the Group as at 31 December 2019 are term loans with a carrying amount of HK$218,166,000 (2018: HK$454,976,000). The loan agreements contain a repayment on demand clause giving the banks the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months from the end of the reporting period, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the loans which contain a repayment on demand clause, the maturity profile of those loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

	Within 1 year or on demand HK$'000	**1 to 5 years** HK$'000	**Total** HK$'000
As at 31 December 2019	127,150	99,776	226,926
As at 31 December 2018	135,235	374,241	509,476

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to continue to provide returns for shareholders and benefits for other stakeholders.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

The Group actively and regularly reviews and manages its capital structure and strives to maintain a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

Capital of the Group comprises all components of shareholders' equity.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**332,758**	332,311
CURRENT ASSETS		
Prepayments and other receivables	**148**	557
Due from subsidiaries	**1,724,655**	1,588,467
Cash and cash equivalents	**2,555**	2,724
Total current assets	**1,727,358**	1,591,748
CURRENT LIABILITIES		
Other payables and accruals	**1,101**	618
Due to subsidiaries	**28,934**	—
Total current liabilities	**30,035**	618
NET CURRENT ASSETS	**1,697,323**	1,591,130
Net assets	**2,030,081**	1,923,441
EQUITY		
Share capital	**256,228**	256,207
Reserves *(note)*	**1,773,853**	1,667,234
Total equity	**2,030,081**	1,923,441

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Capital reserve HK$'000	Share option reserve HK$'000 *(note 37(c))*	Shares held under the share award scheme HK$'000 *(note 36)*	Retained profits HK$'000	Total HK$'000
At 1 January 2018	1,510,042	128,895	3,395	(54,171)	77,828	1,665,989
Profit and total comprehensive income for the year	—	—	—	—	84,552	84,552
Issue of shares upon exercise of share options	1,506	—	(586)	—	—	920
Equity-settled share option arrangement	—	—	2,086	—	—	2,086
Purchases of shares for the share award scheme	—	—	—	(3,951)	—	(3,951)
Final 2017 dividend	—	—	—	—	(44,887)	(44,887)
Interim 2018 dividend	—	—	—	—	(37,475)	(37,475)
At 31 December 2018 and at 1 January 2019	1,511,548	128,895	4,895	(58,122)	80,018	1,667,234
Profit and total comprehensive income for the year	—	—	—	—	131,705	131,705
Issue of shares upon exercise of share options	661	—	(259)	—	—	402
Equity-settled share option arrangement	—	—	775	—	—	775
Final 2018 dividend	—	—	—	—	(12,239)	(12,239)
Interim 2019 dividend	—	—	—	—	(14,024)	(14,024)
At 31 December 2019	1,512,209	128,895	5,411	(58,122)	185,460	1,773,853

Capital reserve

The Company's capital reserve represents the excess of the net asset value of Crest Pacific acquired by the Company pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange therefor.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

FIVE YEAR FINANCIAL SUMMARY

A SUMMARY OF RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**2,794,036**	2,420,749	1,746,016	1,531,011	1,212,843
Cost of sales	**(2,056,794)**	(1,714,007)	(1,169,189)	(1,033,197)	(868,855)
Gross profit	**737,242**	706,742	576,827	497,814	343,988
Other income and gains	**143,505**	40,164	190,246	53,997	45,946
Selling and distribution expenses	**(30,981)**	(25,794)	(29,091)	(23,973)	(25,061)
Administrative expenses	**(338,986)**	(272,561)	(205,031)	(201,401)	(131,402)
Other expenses, net	**(5,210)**	(32,489)	(98,620)	(4,463)	(34,359)
Finance costs	**(249,296)**	(191,359)	(76,999)	(68,836)	(34,697)
Share of profits and losses of joint ventures	**66,873**	6,298	–	–	–
PROFIT BEFORE TAX	**323,147**	231,001	357,332	253,138	164,415
Income tax expense	**(40,889)**	(30,096)	(26,014)	(31,125)	(23,192)
PROFIT FOR THE YEAR	**282,258**	200,905	331,318	222,013	141,223
Attributable to:					
Owners of the Company	**283,551**	213,288	331,924	222,013	141,223
Non-controlling interests	**(1,293)**	(12,383)	(606)	–	–
	282,258	200,905	331,318	222,013	141,223

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**8,951,272**	7,394,227	5,926,607	5,025,360	2,756,217
TOTAL LIABILITIES	**(6,092,636)**	(4,777,873)	(3,465,885)	(2,763,110)	(2,216,722)
	2,858,636	2,616,354	2,460,722	2,262,250	539,495
EQUITY					
Equity attributable to owners of the Company	**2,821,843**	2,570,200	2,461,316	2,262,250	539,495
Non-controlling interests	**36,793**	46,154	(594)	–	–
	2,858,636	2,616,354	2,460,722	2,262,250	539,495

FIVE YEAR FINANCIAL SUMMARY

KEY FINANCIAL RATIOS

	As of and for the year ended 31 December				
	2019	2018	2017	2016	2015
Profitability ratios					
Return on equity(1)	**10.3%**	7.9%	14.0%	15.8%	36.7%
Return on total assets(2)	**3.5%**	3.0%	6.1%	5.7%	6.5%
Liquidity ratios					
Current ratio(3)	**1.1**	1.4	1.4	1.8	1.1
Quick ratio(4)	**0.9**	1.0	1.1	1.5	0.8
Liabilities to assets ratio(5)	**0.7**	0.6	0.6	0.5	0.8
Capital adequacy ratios					
Net gearing ratio(6)	**108.4%**	117.9%	7.7%	(28.5)%	101.5%
Interest coverage(7)	**2.3**	2.2	5.6	4.7	5.7
EBITDA interest coverage(8)	**3.4**	3.2	7.8	6.4	7.8

Notes:

(1) Return on equity is calculated based on profit for the year divided by the arithmetic mean of the opening and closing balances of total equity in the relevant year and multiplied by 100%.

(2) Return on total assets is calculated based on profit for the year divided by the arithmetic mean of the opening and closing balances of total assets in the relevant year and multiplied by 100%.

(3) Current ratio is calculated based on total current assets divided by total current liabilities.

(4) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities.

(5) Liabilities to assets ratio is calculated based on total liabilities divided by total assets.

(6) Net gearing ratio is calculated based on the percentage of total borrowings (excluding loan from a shareholder) less cash and cash equivalents, restricted cash and pledged deposits to total equity.

(7) Interest coverage is calculated by dividing profit before tax and finance costs by finance costs.

(8) EBITDA interest coverage is calculated by dividing earnings before interest, tax, depreciation and amortisation by finance costs.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LAM Yee Chun
(Executive Chairman)
Mr. LEE Chong Man Jason
(Co-Chief Executive Officer)
Mr. AU-YEUNG Tai Hong Rorce
(Co-Chief Executive Officer)
Mr. LO Siu Yuen
(Chief Operation Officer)

Non-Executive Directors

Ms. CHAN Mei Wan
(Vice Chairwoman)
Mr. KWOK Man Leung

Independent Non-Executive Directors

Mr. David TSOI
Mr. YEUNG Wai Fai Andrew
Mr. SUEN Wai Yu

BOARD COMMITTEES

Audit Committee

Mr. David TSOI *(Chairman)*
Mr. YEUNG Wai Fai Andrew
Ms. CHAN Mei Wan

Remuneration Committee

Mr. YEUNG Wai Fai Andrew *(Chairman)*
Ms. CHAN Mei Wan
Mr. SUEN Wai Yu

Nomination Committee

Mr. SUEN Wai Yu *(Chairman)*
Mr. LAM Yee Chun
Mr. David TSOI

COMPANY SECRETARY

Mr. CHAN Kam Shing

AUTHORISED REPRESENTATIVES

Mr. AU-YEUNG Tai Hong Rorce
Mr. LO Siu Yuen

AUDITOR

Ernst & Young

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Citibank, N.A.
Hang Seng Bank Limited
Standard Chartered Bank
(Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited
United Overseas Bank Limited

REGISTERED OFFICE

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Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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COMPANY WEBSITE

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STOCK CODE

1608