VPower Group International Holdings Limited
偉能集團國際控股有限公司

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

Stock Code: 1608

ANNUAL REPORT 2020


VPOWER

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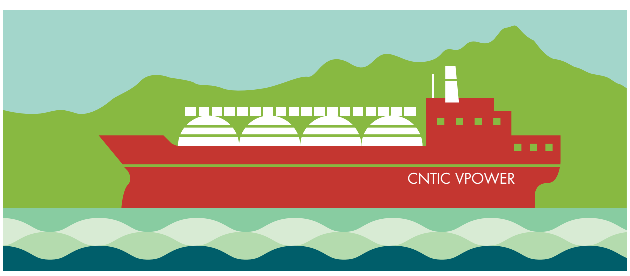

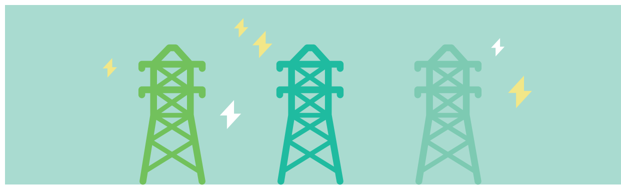

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COMPANY PROFILE

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 in emerging markets to improve the living standards of people; as well as provide flexible and efficient electricity 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; develop combined cooling, heat and power technology and power generation projects 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, partners and customers.

We power the world, and light up possibilities.

BOCHK Corporate Environmental Leadership Awards

Our commitment and efforts in environmental protection brought us the honour of being awarded with the Bronze Award of Manufacturing Sector.

AWARDS AND RECOGNITION

6th Investor Relations Awards

Under the “Small Cap” category, we garnered six awards including the Best IR Company, the Best IRO (Investor Relations Officer) and the Best IR Team.

ESG Leading Enterprise Awards 2020

We received the ESG Leading Enterprise Award from the Chinese Edition of Bloomberg Businessweek and Deloitte for the second year in a row.

YEAR AT A GLANCE

COVID-19 Precautionary Measures

A comprehensive range of measures to safeguard the wellbeing of our employees and contractors were introduced immediately after the outbreak of COVID-19. Special work arrangements including work-from-home and flexible working hours were also implemented.

Community Supports

In fight of the COVID-19 pandemic and as part of our corporate social responsibility campaigns, we donated supplies including food and masks to the local communities and hospitals in regions where we operate.

YEAR AT A GLANCE

Strong Project Operations throughout the Year

Being responsive to the changes in supply chain and labour mobility, we managed to execute several power projects in different regions.

Strengthened Business Partnership

We strengthened the business relationship with our strategic partner, Rolls-Royce Power Systems AG, in developing the commercial marine sector in China.

CHAIRMAN'S STATEMENT

"As a responsible corporation, we are committed to playing our part in the fight against climate change with our expertise in offering highly-efficient decentralised power solutions."

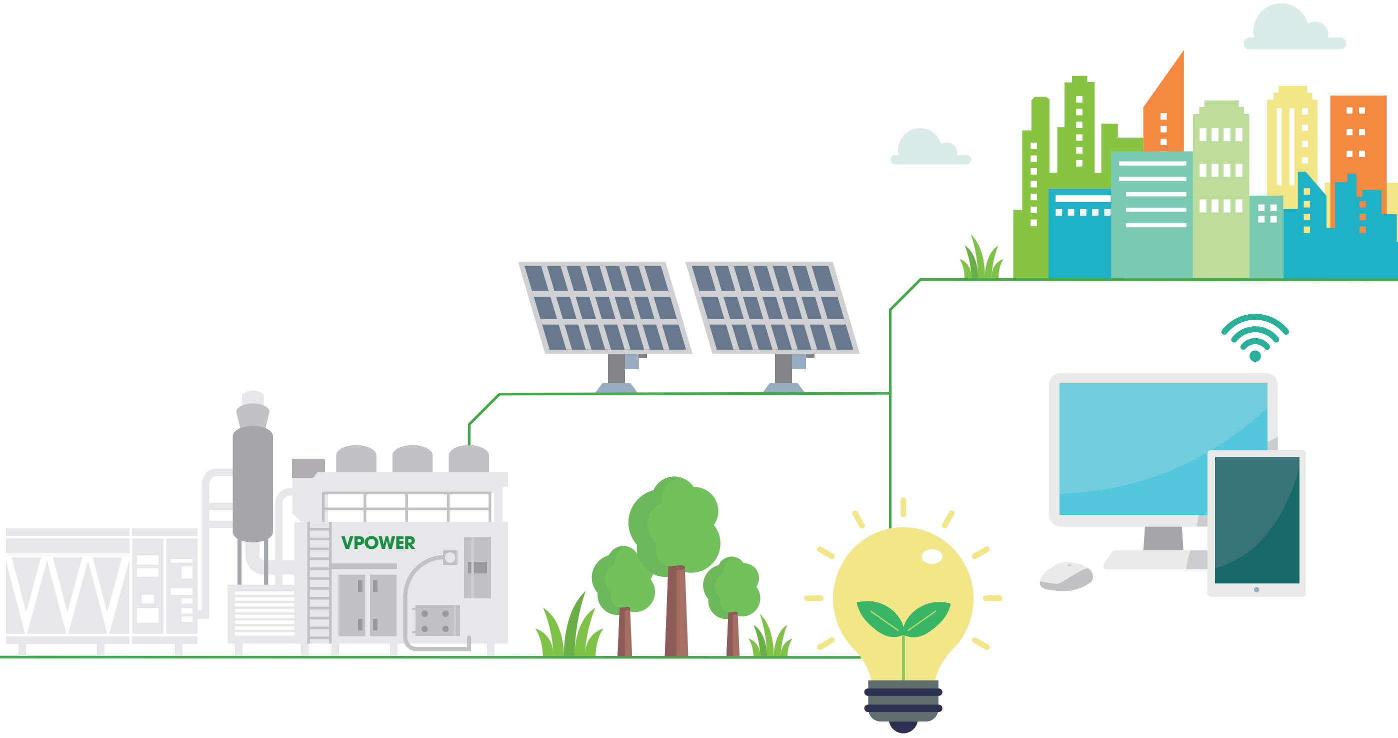
Mr. Samson Lam
Executive Chairman

Dear Shareholders,

2020 was one of the most extraordinary years in living memory. While the COVID-19 pandemic has presented severe disruptions to the global supply chain and labour mobility, we remain deeply committed to the continued delivery of safe and reliable electricity to our customers. The remarkable efforts of our people, our operational flexibility and robust response system enabled us to promptly adapt to the changes and maintain normal operations during the challenging year.

Facing the unprecedented COVID-19 crisis, our business continued to demonstrate resilience and deliver a solid growth. We recorded a revenue of HK$3,386.9 million, representing a year-on-year growth of 21.2%. Our gross profit increased 10.0% to HK$811.1 million with an overall gross profit margin of 23.9%. Our EBITDA grew 32.7% to HK$1,131.9 million; and our profit attributable to owners of the Company jumped 82.1% to HK$516.3 million.

The world appears to be recovering in 2021 with the rollout of vaccine and enactment of economic stimulus measures by different governments. However, prospects for the global economy remain uncertain due to constraints in vaccine procurement and distribution, and the reintroduced restrictive measures resulted from the continuous spreading of COVID-19 around the world. Against this backdrop, business sustainability has been brought into sharp focus.



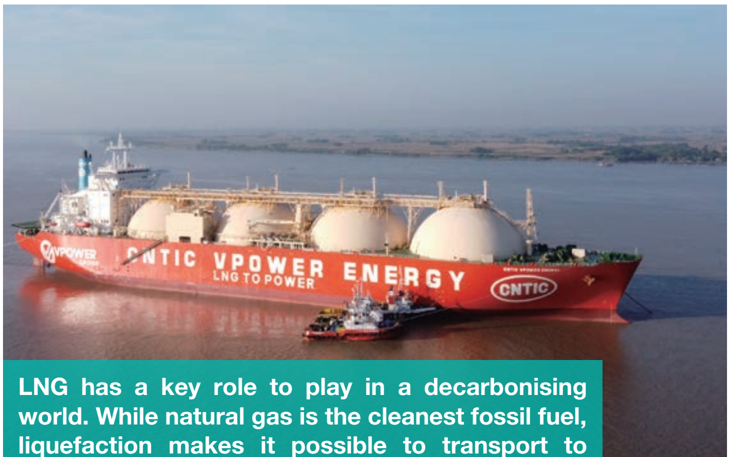
UNLOCKING OPPORTUNITIES EMERGED FROM WORLDWIDE CARBON NEUTRALITY TARGETS

More and more countries are adopting net-zero emissions targets and seeking to create lower-carbon energy eco-systems. Together with China's carbon-neutral target by 2060 announced last year, nearly 50% of the world's gross domestic product, and about 50% of global carbon dioxide emissions, are now covered by net-zero commitments. Natural gas, liquefied natural gas ("**LNG**"), renewables, and enhancement of energy efficiency would all inevitably have a central role to play in delivering to the world a net-zero eco-system for bringing power from its generation to the end-users.

While the world is moving faster towards intermittent renewable sources for power generation, grids are facing increasing volatility. The adoption of decentralised energy becomes more important to stabilise the grid because of its flexible nature. In support of global energy transition to low carbon and net-zero eventually, and leveraging on our experience and network in Southeast Asia, China, the United Kingdom and the Middle East, we will continue to invest in decentralisation as an investor and operator of distributed power stations in these regions.

In addition to the diversified project portfolio we have built over the years that uses a wide range of fuels from natural gas, biogas, diesel and biodiesel, we have expanded into LNG-to-power projects through the joint venture with China National Technical Import & Export Corporation ("**CNTIC**"). Independent of existing pipeline infrastructure, LNG enables the provision of clean, reliable and cost-efficient electricity to every corner of the world. The joint venture embraces the whole value chain in bringing LNG-to-power to the ultimate power off-takers from procurement, logistics, storage, regasification and power generation. Its successful project execution and operation have brought us new technical and integration capabilities and an additional distributed power solution offering which would in turn open up a huge market for us. We continue to have a positive view on our business prospects in the LNG-to-power market and the peripheral business prospects associated with its vertical supply chain in Southeast Asia.

CHAIRMAN'S STATEMENT



LNG has a key role to play in a decarbonising world. While natural gas is the cleanest fossil fuel, liquefaction makes it possible to transport to every corner of the world safely and economically. It is regarded as a reliable partner to renewable power and provides flexibility to meet seasonal heating demand.

The ongoing investment in decentralisation and expansion into LNG-to-power are in line with our decarbonisation commitment and strategy. As a responsible energy provider, we will also enhance our investment in clean technologies of which their adoption for use would reduce the overall carbon footprint, such as combined cooling, heat and power generation, hybrid power, battery and storage, and renewables. We believe that supported by our track record in decentralised power and newly developed capabilities in clean technologies, we are well prepared to offer cost-effective integrated energy solutions to our customers.

MAINTAINING BUSINESS SUSTAINABILITY

With numerous attractive investment opportunities in mind, a strong financial position with sustainable and diversified funding plays a key role. As a result of our first equity placement completed in July 2020 combing our strong cash flows from operation in the year, we have successfully lowered our net gearing level. Notwithstanding our healthy cash flow position, we will remain vigilant and continue to optimise our capital structure, strengthen our financing and treasury policies, tighten our investment review and enhance risk management and internal control.

Running business in a changing world and increasingly complex energy sector, we will continue our focus on operational excellence and resilience. The health and safety of our employees will always remain at the heart of our operation.

The recent political development and social conditions in Myanmar, one of our markets with power generation operations, have become our focus of market monitoring. We are closely following the situation, and more particularly working with our best efforts to safeguard the safety of our employees and contractors as well as assessing the potential impact on us. While we endeavour to ensure stable electricity supply which is important to the wellbeing of the people of Myanmar, we look forward to a peaceful resolution of the current situation for the people to develop a prosperous nation.

CONTINUING DECARBONISATION JOURNEY WITH YOUR SUPPORT

Despite a profoundly challenging start of the year, we will continue our efforts in maintaining business resilience and pursuing more diversified opportunities on the journey to a carbon free future. The world around us changes, but there is nothing to stop us from honouring our commitment to provide reliable and cost-effective electricity to people in need. The creation of sustainable value to our shareholders, employees, customers and other stakeholders continues to be our key corporate operation principle and belief.

Our staff have devoted themselves to keeping uninterrupted power supply to the people in need. Their professionalism and commitment are the key of our success amid COVID-19.

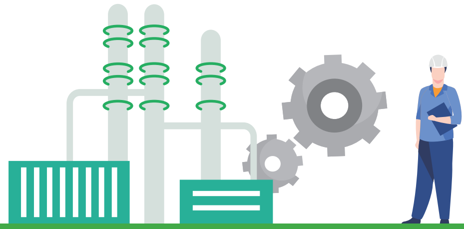
Our ongoing efforts in strengthening corporate sustainability on top of upholding our commitment to stakeholders have been recognised and we are delighted to receive multiple awards in different aspects. Thanks to the friends in the investment community, we were voted to win six awards at the 6th Investor Relations Awards organised by the Hong Kong Investor Relations Association, including Best IR Company, Best IRO (Investor Relations Officer), Best IR Team, Best ESG (E), Best ESG (S) and Best Annual Report.

In addition, we received prestigious awards and recognition in promoting environmental, social and governance developments, including the Bronze Award of Manufacturing Sector at the BOCHK Corporate Environmental Leadership Awards presented by the Federation of Hong Kong Industries and Bank of China (Hong Kong); and the ESG Leading Enterprise Award presented by Bloomberg Businessweek/Chinese Edition and Deloitte.

Each member of our team has worked incredibly hard to bring us the fruitful 2020 results and awards. On behalf of the Board, I sincerely thank them for their commitment and professionalism. I would also like to extend my gratitude to our contractors, suppliers, customers, shareholders, investors and business partners for their unwavering trust. With your support, we are ready to pursue more opportunities on the decarbonisation journey and contribute to build a sustainable future.

Samson Lam
Executive Chairman

25 March 2021



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

2020 was a tumultuous year during which the COVID-19 pandemic brought massive disruptions to the global economy, business, mobility and our everyday life. The COVID-19 pandemic and resulting economic crisis had a comparatively less severe impact on the utilities industry sectors than many other industries, but it called for a global alert of the industry in reshaping how energy was produced, supplied, and consumed around the world.

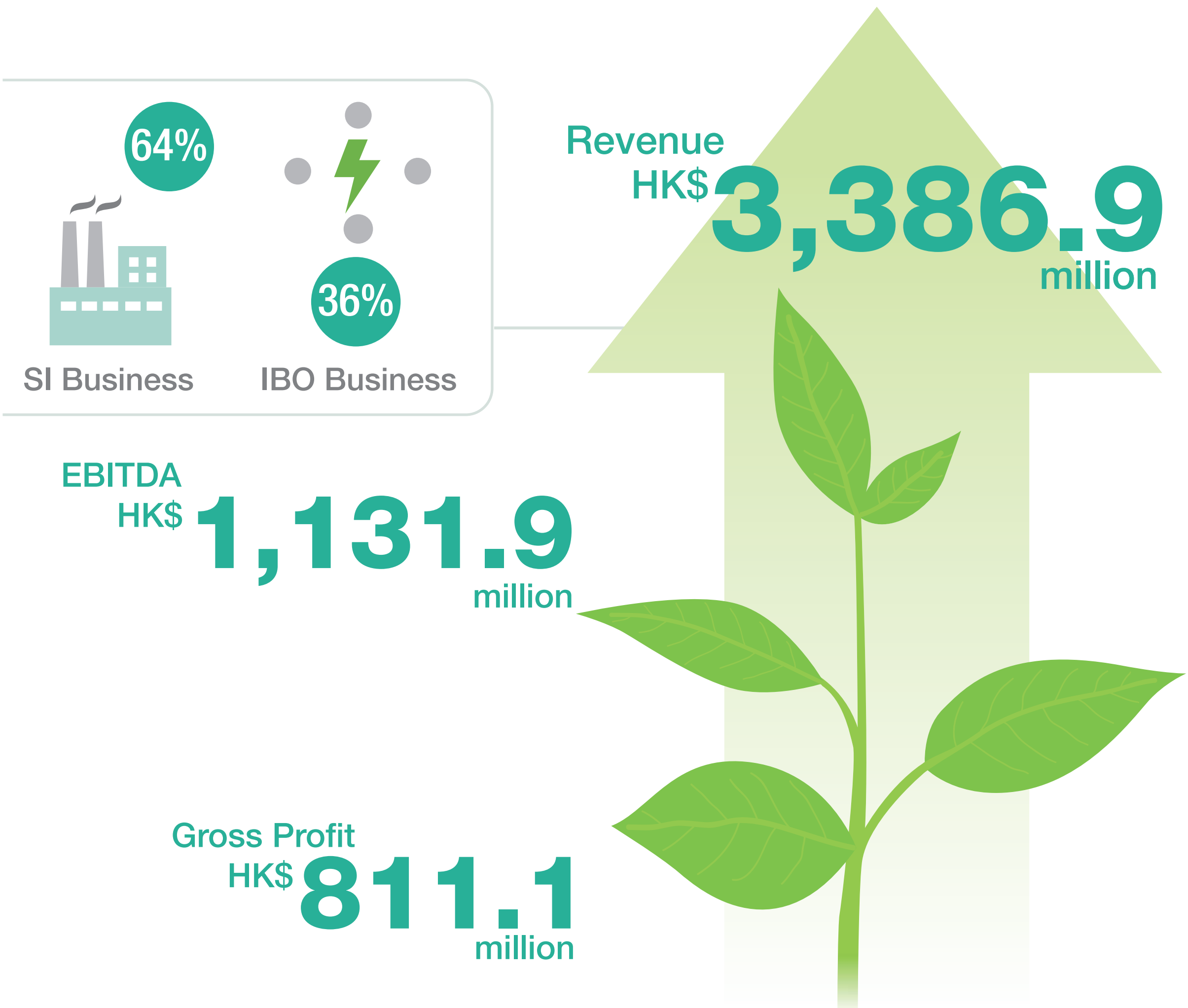
With the world being locked down and industries suspended for purpose of containing the spread of virus, demand for electricity was correspondingly dropped in 2020 which drove down fossil fuel consumption and hence carbon emissions. Nevertheless, global heating continued unabated making 2020 one of the warmest years on record. The rebound in global carbon emissions towards the end of the year called for more tangible climate actions and more ambitious targets on decarbonisation.

Business Review

Over the years, we have seen operational flexibility and adaptive management approach as key assets in times of crisis. Our perseverance enabled us to make prompt response and tackle the disruptions brought by the unprecedented crisis of COVID-19.

In fight of COVID-19 pandemic, we have always placed the health and safety of our employees and other stakeholders at top priority in every move of our operation and business development. A comprehensive range of precautionary measures to protect their wellbeing were in place in 2020 and beyond as needed. At the same time with a proper balance, we are also mindful and acknowledged the importance of our capacities in providing reliable electricity in safeguarding public health and economic recovery, and therefore used our best endeavour to continue to satisfy the electricity need of our clients despite the challenges posed by the pandemic.

While the world had experienced unprecedented negative impacts from the pandemic, we managed to record a satisfactory growth in both business segments for the year ended 31 December 2020 with revenue totalling approximately HK$3,386.9 million (2019: approximately HK$2,794.0 million), thanks to the remarkable efforts of our people, contractors, suppliers, and business partners.



System Integration ("SI") Business

In 2020, we, being the leader in the distributed power system integration industry in Asia, continued to capture the market growth driven by the increasing number of data centres across the globe, accelerated development of telecommunications infrastructure, and the demand for mission critical power supply and flexible power to supplement renewable generation. Professional sale and post-sale services are instrumental to the success of our SI business, and our Global Service Support Unit also played an important role in our business by offering 24x7 specialised field technical service and supply chain management to our valuable customers.

During the year, we further strengthened our strategic relationship with the world's leading engine manufacturer Rolls-Royce Power Systems AG. Besides being one of its largest clients in the powergen segment, we became its distributor in China in early 2020. Our distribution agreement covers the sales and maintenance of MTU engines and gensets for commercial marine and gas power generation in China.

For the year ended 31 December 2020, revenue from SI business was approximately HK$2,169.9 million (2019: approximately HK$1,756.5 million), representing a growth of 23.5%.

Invest, Build and Operate ("IBO") Business

During this challenging year, we remained focused on and committed to maintaining a reliable power supply to our off-takers as well as the general public, being the ultimate users. To cope with the pandemic, beside and beyond our extra efforts in optimising our supply chain management to ensure smooth operations of our power stations, we paid particular emphasis in ensuring proper and adequate personal protective equipment were provided to our people to ensure a safe working environment for them. Overall, our IBO business demonstrated resilience and continued to deliver solid operating performance. For the year ended 31 December 2020, revenue from IBO business was approximately HK$1,217.0 million (2019: approximately HK$1,037.5 million), representing a growth of 17.3%.

Although COVID-19 pandemic hampered global logistics and economic activities in general, we managed to commission a number of projects in Myanmar, Sri Lanka and Brazil respectively. In our gas-fueled dominated project portfolio, we strived to lower the carbon footprint of our power generation; as such, we use biodiesel as a hybrid fuel source at our 70.3MW Amazonas State Project in Brazil. Biodiesel is produced from renewable organic sources, such as vegetable oils, animal fats and waste cooking oil. Compared with petroleum derived diesel, biodiesel produces less sulfur and carbon monoxide in the emissions.

The most notable strategic move we made last year was the entry into LNG-to-power market with our long-lasting business partner CNTIC (a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited which is under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China). We have been mindful and are on top of the global energy transition trend and believe that LNG will play a key role in the global decarbonisation initiatives. Through the 50% owned joint venture CNTIC VPower Group Holdings Limited ("**CNTIC VPower**") which engages in LNG-to-power business in Myanmar, we expanded our capability in providing a one-stop solution in using LNG in fast-track power generation enabling us to further pursue LNG-to-power opportunities and the peripheral business opportunities associated with its entire supply chain in other jurisdictions.

Significant Investments

(i) CNTIC VPower

CNTIC VPower was established for the development and operation of three power generation projects in Myanmar, namely 477.1MW Thaketa Project, 410.2MW Thanlyin Project and 172.2MW Kyauk Phyu III Project (collectively the "**Joint Venture Projects**").

Since its establishment, CNTIC VPower has developed a comprehensive setup and platform to support LNG sourcing, imports, logistics, storage and regasification which form part of the first LNG-to-power project of Myanmar. The Joint Venture Projects started generating electricity in June 2020 in phases and made a contribution of approximately HK$223.1 million to the Group's profit in 2020. As at 31 December 2020, the total investment cost we invested in CNTIC VPower was approximately HK$700.4 million; the carrying value of the Group's investment in CNTIC VPower was approximately HK$916.2 million, representing approximately 10.0% of the Group's total assets.

*(ii) Tamar VPower Energy Fund I, L.P. (the "**Fund**")*

We joined hands with CITIC Pacific Limited to explore the opportunities in the energy sector in countries along the Belt and Road Initiative through the Fund in 2018. The investment portfolio of the Fund remained the same as disclosed in the annual report of 2019. For the year ended 31 December 2020, the Group received distribution of approximately HK$64.3 million from the Fund and recorded a share of profit of approximately HK$40.6 million. As at 31 December 2020, the total investment cost we invested in the Fund was approximately HK$787.7 million; and the carrying value of our investment in the Fund was approximately HK$838.8 million, representing around 9.2% of the Group's total assets. The Fund is already fully invested and we do not expect to make further investment in the Fund.

Power Project Portfolio

The following table shows the total generation capacity of the power projects of the Group[1] as of 25 March 2021, the date on which the Company published its annual results for the year ended 31 December 2020:

	Our equity interest	Gross capacity (MW)[2]	Contract length (months)[3]
Indonesia			
Teluk Lembu I	100%	20.3	12
Teluk Lembu II	100%	65.8	12
Rengat	100%	20.3	36
Muko	100%	6.5	24
Dumai[4]	100%	18.7	180
Myanmar			
Kyauk Phyu I	100%	49.9	60
Kyauk Phyu II	100%	49.9	60
Myingyan I[5]	100%	149.8	60
Myingyan II	100%	109.7	60
Yangon	100%	4.7	48
Kyun Chaung	100%	23.2	24
Thaketa	50%	477.1	60
Thanlyin	50%	410.2	60
Kyauk Phyu III	50%	172.2	60
China			
Shandong	100%	14.4	180
Latin America			
Iquitos	51%	79.8	240
Amazonas State	100%	70.3	60–180
Sri Lanka			
Project I	100%	25.8	6
Project II	100%	26.4	6
Project III	100%	27.7	6
Project IV	100%	27.9	6
United Kingdom			
Doncaster	100%	20.3	180
Other projects	100%	132.0	180
Total capacity		2,002.9	

Notes:

(1) It includes the capacity of projects in operation, in trial operation, under contract renewal and under construction. The Group and Electric Power Generation Enterprise of Ministry of Electricity and Energy in Myanmar had not reached an agreement on renewal of the power purchase agreement for the project Kyauk Phyu II in Myanmar prior to the finalisation of the annual report of the Company of which this section forms part.

(2) Gross capacity refers to the maximum power generating capacity of the distributed power station based on an aggregate capacity of power generation systems.

(3) Contract length refers to the term of the contract in respect of the distributed power projects.

(4) 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.

(5) It includes the installed capacity of a distributed power station located in Magway, Myanmar.

Financial Review

Revenue

The revenue of the Group was mainly derived from: (i) SI business by providing gensets 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	
	2020	2019
	HK$'000	HK$'000
SI	**2,169,865**	1,756,502
IBO	**1,217,071**	1,037,534
Total	**3,386,936**	2,794,036

In 2020, the Group recorded a revenue of approximately HK$3,386.9 million, representing an increase of 21.2% as compared with approximately HK$2,794.0 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			
	2020		2019	
	HK$'000	**% of total revenue**	HK$'000	% of total revenue
Hong Kong, Macau and Mainland China	**969,473**	**28.6**	551,854	19.8
Other Asian countries[1]	**1,001,401**	**29.6**	1,002,476	35.9
Other countries	**198,991**	**5.9**	202,172	7.2
Total	**2,169,865**	**64.1**	1,756,502	62.9

Note:

(1) Other Asian countries mainly include Singapore, Myanmar, United Arab Emirates and Indonesia.

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			
	2020		2019	
	HK$'000	**% of total revenue**	HK$'000	% of total revenue
Myanmar	**461,788**	**13.5**	412,586	14.8
Peru	**452,319**	**13.4**	449,592	16.1
Brazil	**154,391**	**4.6**	—	—
Indonesia	**75,586**	**2.2**	138,144	4.9
Sri Lanka	**46,416**	**1.4**	21,618	0.8
Mainland China	**26,571**	**0.8**	15,594	0.5
Total	**1,217,071**	**35.9**	1,037,534	37.1

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 gensets 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 2020 and 2019, our cost of sales were HK$2,575.8 million and HK$2,056.8 million, respectively. The increase was due to the growth of both SI and IBO businesses, in particular, the pass-through fuel cost in the IBO project in Brazil.

Gross profit and gross profit margin

	Year ended 31 December			
	2020		2019	
	HK$'000	**gross profit margin %**	HK$'000	gross profit margin %
SI	**403,218**	**18.6**	356,703	20.3
IBO	**407,908**	**33.5**	380,539	36.7
Total	**811,126**	**23.9**	737,242	26.4

Gross profit of the Group was approximately HK$811.1 million, representing an increase of 10.0% as compared with approximately HK$737.2 million of the previous year. Gross profit margin for this year decreased to 23.9% from 26.4% in 2019 which was mainly attributable to the growth of SI business with sales of lower gross profit margin and the increase in pass-through fuel cost in IBO business.

Profit before tax

Profit before tax for the year ended 31 December 2020 was approximately HK$582.4 million, representing an increase of 80.3% as compared with HK$323.1 million of the previous year. The increase was mainly due to growth of businesses and an increase in share of profits of joint ventures.

Other income and gains

In 2020, other income and gains of the Group amounted to approximately HK$175.5 million, representing an increase of 22.3% as compared with approximately HK$143.5 million of the previous year. The increase was mainly attributable to consultancy income recognised and gain on disposal of items of assets held for sale.

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 2020, selling and distribution expenses of the Group increased by 6.8% from approximately HK$31.0 million in 2019 to HK$33.1 million.

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 2020, administrative expenses of the Group were approximately HK$344.8 million, representing an increase of 1.7% over the previous year of approximately HK$339.0 million. The increase was mainly due to the increase in depreciation charge, increase in headcounts as well as addition of new facilities.

Other expenses, net

Other expenses, net of the Group mainly consist of foreign exchange loss, impairment of trade and bills receivables, loss on disposal of items of property, plant and equipment and write-down of inventories to net realisable value.

In 2020, other expenses, net were approximately HK$69.3 million, which represented an increase of 1,232.7% over the previous year of approximately HK$5.2 million. The increase was mainly attributable to the increase in foreign exchange loss emerged from operation in China and Peru, expenses for developing new markets and write-down of inventories to net realisable value.

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 2020, finance costs was approximately HK$220.5 million, which represented a decrease of 11.6% as compared with the previous year of approximately HK$249.3 million. The decrease was primarily due to the decrease in the interest-bearing bank and other borrowings amount and the decrease in average borrowing interest rate.

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 2020, income tax expense was approximately HK$56.9 million, representing an increase of 39.1% over the previous year of approximately HK$40.9 million, and our effective tax rate was 9.8% and 12.7% for 2020 and 2019, respectively.

Profit attributable to owners and earnings per share

In 2020, profit attributable to owners of the Company was approximately HK$516.3 million, representing an increase of approximately HK$232.7 million or approximately 82.1% as compared with approximately HK$283.6 million of the previous year.

Basic earnings per share for the year ended 31 December 2020 were HK19.97 cents as compared with HK11.12 cents of the previous year.

Liquidity, financial and capital resources

As at 31 December 2020, total current assets to the Group amounted to HK$3,348.1 million (2019: HK$3,956.0 million). In terms of financial resources as at 31 December 2020, cash and cash equivalents of the Group were HK$978.2 million (2019: HK$772.4 million).

As at 31 December 2020, total bank and other borrowings and senior notes of the Group amounted to approximately HK$3,188.9 million (2019: HK$4,014.4 million), representing a decrease of approximately 20.6% as compared to that of 31 December 2019. 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 2020, the Group's bank and other borrowings and senior notes denominated in U.S. dollars, HK dollars, Euro, and Peruvian Sol ("**PEN**") were approximately HK$2,790.7 million (2019: HK$3,656.7 million), approximately HK$277.7 million (2019: HK$287.5 million), approximately HK$101.7 million (2019: HK$66.0 million), and approximately HK$18.8 million (2019: Nil), respectively. As at 31 December 2019, the Group also had bank and other borrowings denominated in United Kingdom Pound ("**GBP**") of approximately HK$4.2 million.

During the year, the Group had drawn a new unsecured US$40 million thirty-month term loan facility and two new unsecured totalling HK$190 million three-year term loan facilities to refinance bank loans maturing in 2020 and 2021. The increase in cash and cash equivalents was mainly due to the Group's internally generated cash flows from operation.

As at 31 December 2020, the Group's current ratio was 1.0 (2019: 1.1). The Group's liabilities to assets ratio, which is calculated as a percentage of total liabilities to total assets, was 61.9% (2019: 68.1%). The liabilities to assets 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 57.9% (2019: 64.4%). 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 60.5% (2019: 108.4%). The net gearing ratio, adjusted by excluding the senior notes issued by Genrent del Peru S.A.C., a 51% owned subsidiary, which are non-recourse to the Company and/or other subsidiaries, and restricted cash held under that non-wholly owned subsidiary, was 40.4% (2019: 83.9%).

Charge of assets

As at 31 December 2020, the Group's senior notes, and interest-bearing bank and other borrowings were secured by charges on (i) certain of the Group's property, plant and equipment with a net book value of approximately HK$824.0 million (2019: HK$873.9 million); (ii) our equity interest in Genrent del Peru S.A.C., a 51%-owned subsidiary and the issuer of the Group's senior notes; (iii) restricted cash of HK$66.6 million (2019: HK$81.6 million); and (iv) pledged deposit of HK$37.1 million (2019: HK$62.2 million).

Exposure on foreign exchange fluctuations

The Group's revenue and payments are mainly denominated in U.S. dollars, Euro, RMB, GBP, PEN, Myanmar Kyat ("**MMK**"), Brazilian Real ("**BRL**"), Indonesian Rupiah ("**IDR**") and Sri Lankan Rupee ("**LKR**"). 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 purchases that are denominated in currencies other than the functional currency of the respective operations, which are primarily Euro, BRL, IDR, RMB, MMK, PEN and GBP. A majority of the Group's purchases are either in Euro or U.S. dollar. During the year ended 31 December 2020, 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 reduce the exposure of currency risks.

Contingent liabilities

As at 31 December 2020, the Group had no contingent liabilities.

Capital expenditures

For the year ended 31 December 2020, the Group invested approximately HK$272.0 million (2019: HK$1,487.8 million) in property, plant and equipment of which HK$270.9 million (2019: HK$1,483.8 million) relate to IBO projects in Myanmar, Brazil, Sri Lanka and Indonesia.

MATERIAL ACQUISITION AND DISPOSAL

The Group and CNTIC partnered to bid for three power projects in Myanmar and won the bids in the second half of 2019. CNTIC VPower, held as to 50% by each party, was then set up for the projects in early 2020. On 18 May 2020, members of the Group and the CNTIC group entered into a shareholders' agreement pursuant to which the Group agreed to, among other things, make capital contribution of up to US$90 million (approximately HK$702 million) in aggregate to CNTIC VPower by way of equity and/or loan capital. For details of the shareholders' agreement and CNTIC VPower, please refer to the announcement of the Company published on 18 May 2020 and the paragraph headed "Business Review" in this section.

ISSUANCE OF EQUITY SECURITIES FOR CASH

On 14 July 2020, the Company, Energy Garden Limited, a controlling shareholder of the Company, and two placing agents entered into a placing and subscription agreement, pursuant to which (i) Energy Garden Limited agreed to appoint the placing agents, and the placing agents agreed to procure not less than six placees who are selected professional, institutional and/or other investors to purchase up to 83,000,000 placing shares of HK$0.1 each of the Company (the "**Share**") at the placing price of HK$3.75 per Share, representing a discount of approximately 12.99% to the closing price per Share of HK$4.31 quoted on The Stock Exchange of Hong Kong Limited on 14 July 2020, on a best effort basis (the "**Placing**"); and (ii) Energy Garden Limited agreed to subscribe for the same number of new Shares as the placing shares that had been placed under the Placing at the placing price (the "**Subscription**", together with the Placing, the "**Top-up Placing**"). The net subscription price, after deducting related fees and expenses, was approximately HK$3.53 per subscription Share. Completion of the Placing and the Subscription in respect of 83,000,000 Shares took place on 17 July 2020 and 23 July 2020, respectively.

The Company had received net proceeds of approximately HK$293.3 million from the Top-up Placing; and such proceeds were utilised to fund the Group's investment in CNTIC VPower and other new IBO projects in the pipeline, debt repayment and as general working capital of the Group, in line with the intended use of proceeds as disclosed in the announcement of the Company on the Top-up Placing published on 14 July 2020.

EMPLOYEES

As at 31 December 2020, the Group had 628 employees (2019: 466). The Group remunerates its employees based on their performance, experience and prevailing industry practice; and grants bonus in cash and shares of the Company through share option schemes and a share award scheme to motivate valued employees. In 2020, 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.

BIOGRAPHY OF DIRECTORS AND MANAGEMENT TEAM

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.

DIRECTORS

Mr. Lam Yee Chun

Alias Samson Lam, aged 49, 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 Company. 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, providing 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 24 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. He has years of experiences in designing power generation systems for various applications, including backup power, data centre, flexible power, prime use in emergency situations such as disasters and 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 the 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 an executive committee member and an international affairs committee member of Hong Kong Young Industrialists Council in the year of 2020–2021.

Mr. Lam is the spouse of Ms. Chan Mei Wan, the Vice Chairwoman of the Group and a Non-Executive Director of the Company.

Mr. Lee Chong Man Jason

Aged 51, was appointed as an Executive Director of the Company on 26 April 2016. He is a Co-founder and a Co-Chief Executive Officer of the Group and a director of various subsidiaries of the Company. Mr. Lee is responsible for formulating overall corporate strategies and policies, general management and day-to-day operation of the Group.

Mr. Lee has more than 19 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 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 64, 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 of the Group and a director of various subsidiaries of the Company. Mr. Au-Yeung is responsible for formulating overall corporate strategies and policies, general management and day-to-day operation of the Group.

Mr. Au-Yeung has over 24 years of multinational corporate executive experience in the environmental infrastructure and energy industry. Mr. Au-Yeung was the chief executive officer of Dongjiang Environmental (HK) Co., Limited, a subsidiary of Dongjiang Environmental Company Limited (listed on the 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. Mr. Au-Yeung had been an independent non-executive director of CL Group (Holdings) Limited (listed on the Hong Kong Stock Exchange, stock code: 8098) from February 2011 to October 2018.

Mr. Lo Siu Yuen

Aged 50, 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 and a director of various subsidiaries of the Company. Mr. Lo is responsible for human resources planning of the Group, formulating overall corporate strategies and policies in relation to project functional operation and overseeing ongoing project functional business operations including procurement and logistics.

Mr. Lo has been a certified public accountant since July 1998 with over 24 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 consulting 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 48, 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, and a director of certain subsidiaries of the Company. 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 19 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 52, 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 24 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 known as 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 (the listing of its shares (stock code: 1828) on the Hong Kong Stock Exchange was withdrawn on 10 January 2020). Mr. Kwok was a non-executive director of Dah Chong Hong Holdings Limited prior to its delisting.

Mr. David Tsoi

Aged 73, 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 has been a director of Alloitt, Tsoi CPA Limited since January 2006. He has been a certified public accountant since September 1981 with over 34 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; and has been 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 the University of East Asia Macau (currently known as University of Macau).

Mr. Tsoi was 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 (the listing of its shares on the Hong Kong Stock Exchange (stock code: 1149) was withdrawn on 20 December 2018) from February 2017 to May 2017. He has been an independent non-executive director of 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.

BIOGRAPHY OF DIRECTORS AND MANAGEMENT TEAM

Mr. Yeung Wai Fai Andrew

Aged 48, 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 20 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 a 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 an 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 an 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 had 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 a 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 43, was appointed as an 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 17 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.

MANAGEMENT TEAM

Mr. Earnest Cheung

Aged 47, 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 deal origination and 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 joining the Group.

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

Mr. Lee Siu Ming

Aged 45, 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 the overall strategic planning and strategic partnership of the Group and in charge of the overall capital markets, financing, corporate finance, investor relations and sustainability activities of the Group.

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, BNP Paribas Peregrine Capital Limited, etc in Hong Kong, where he led and 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 Hong Kong Stock Exchange, stock code: 1286) since April 2019. Mr. Lee has been the Event Sub-Committee member of the Hong Kong Investor Relations Association since January 2021.

Mr. Lee obtained a master of business administration and a bachelor of business administration from the University of Wisconsin — Madison, the United States in December 1997 and in May 1997 respectively. In addition, he has been a CFA® charterholder since May 2001.

BIOGRAPHY OF DIRECTORS AND MANAGEMENT TEAM

Mr. Boyang Liu

Aged 50, 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, and mergers and acquisitions of the Group.

Mr. Liu has over 20 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 J.P. 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 the 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 49, 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 since April 1998 with more than 24 years of professional experience in accounting, auditing, financial management, and corporate operation and productivity enhancement.

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

CORPORATE GOVERNANCE REPORT

The board of directors (the "**Board**") of VPower Group International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") is committed to maintaining a high standard 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 of the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the year ended 31 December 2020, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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**") 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 the directors of the Company (the "**Directors**"), the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by directors during the year ended 31 December 2020.

BOARD OF DIRECTORS

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 of the Company (the "**Shareholders**"), appointment of board members, remuneration of Directors and other key senior management members, 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 and operation teams. To enhance efficiency, the Board has delegated to the Co-Chief Executive Officers the day-to-day leadership and management of the Group. The management team of the Group, on the other hand, is responsible for leading and managing 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 the annual report, of which this corporate governance report forms part (the "**Annual Report**").

Board Composition

The composition of the Board during the year ended 31 December 2020 is as follows:

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

Save as Mr. Lam Yee Chun and Ms. Chan Mei Wan who have spousal relationship, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

There was no change of Directors and Board committee members during the year ended 31 December 2020. 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 "Biography of Directors and Management Team" on pages 22 to 28 of the Annual Report.

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. The Company has received a written confirmation on independence from each independent non-executive director and considers all of the independent non-executive directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

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 team to implement strategies and to achieve objectives of the Board.

Board Meetings and Process

The Board held 4 meetings during the year ended 31 December 2020. Management team 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 Board meetings and a Shareholders' meeting held during the year ended 31 December 2020 is as follows:

		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	3/4	—	—	—	1/1
Independent Non-Executive Directors					
Mr. David Tsoi	3/4	3/3	—	1/1	1/1
Mr. Yeung Wai Fai Andrew	4/4	3/3	1/1	—	0/1
Mr. Suen Wai Yu	4/4	—	1/1	1/1	1/1

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 director appointed to fill a casual vacancy is subject to re-election by Shareholders at the next following general meeting and any new director appointed as an addition to the Board is subject to re-election by Shareholders at the next following annual general meeting after the 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, subject to re-election by Shareholders and 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, subject to re-election by Shareholders and 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 affairs of the Group.

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 2020, the Company provided training materials for the Directors to keep them abreast of the latest development of, among other things, legal and other regulatory requirements and corporate governance. The Company has received the records of training from all the Directors.

BOARD COMMITTEES

The Board has established three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee; each having specific roles, authorities 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 its 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) Review the Group's risk management and internal controls systems	
Summary of work performed in 2020	(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) Reviewed progress reports on internal control, risk management and internal audit actions implemented/planned by the Group (d) Discussed with auditors the audit planning of the Group (e) 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) Make recommendation to the Board on the remuneration packages of individual executive directors and senior management (c) Review and approve the managements' remuneration with reference to the Group's goals and objectives resolved by the Board periodically (d) Review compensation payable to Directors and members of the senior management relating to any loss or termination of their office or appointment (e) Review compensation arrangements relating to dismissal or removal of Directors for misconduct	
Summary of work performed in 2020	(a) Reviewed the remuneration packages of Directors for the year ended 31 December 2020 (b) Reviewed the remuneration packages of members of the senior management for the year ended 31 December 2020	

The remuneration of the directors was determined with reference to the prevailing market and employment conditions, directors' fees of comparable companies, the duties and responsibilities of the Directors and the time commitment of the individual Director.

* 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 2020

(a) Nominated the retiring Directors for re-election by Shareholders at 2020 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.

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 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; and
(b) 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, cultural and educational background, regional and industry experience, talents and skills.

The Nomination Committee monitors the implementation of the policy and reviews the policy annually.

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 set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2020, the Board reviewed and monitored the Company's policies and practices on corporate governance with management team members.

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 2020 annual general meeting of the Company until the conclusion of the next annual general meeting. In order to maintain independence, EY primarily provides 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 which are approved by the Audit Committee.

Remuneration paid or payable to EY for audit and non-audit services for the year ended 31 December 2020 is set out below:

	HK$'000
Audit services	7,172
Non-audit services	
Tax compliance and advisory services	1,637
Total	8,809

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Internal Audit Department 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 risk management and 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 and not absolute assurance against material misstatement or loss to manage rather than eliminate risks of failure in operational systems and fulfillment of business objective.

The Internal Audit Department reviewed the material controls of the Group during the year ended 31 December 2020. Details of our key risks and our risk management measures are disclosed under the section headed "Risk Management" on pages 53 to 56 in the 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 the Shareholders and investment community for ensuring effective disclosure of the Company's performance and business activities.

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

During the year ended 31 December 2020, the Company held one general meeting. Voting on resolutions put forward at the general meeting was taken by way of poll and the poll results have been published on the websites of the Company (*www.vpower.com)* and the Stock Exchange.

Apart from holding Shareholders' meeting, the Company also endeavours to maintain effective communication with the 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 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 websites of the Company (*www.vpower.com*) and the Stock Exchange.

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 under "Contact" on our website (*www.vpower.com*). 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. Under the Company's Articles of Association, all Shareholders are entitled to attend or be represented by proxy and vote at general meetings; and 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 by written requisition to the Board or the Company Secretary.

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

A 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 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.
- the Company reviews this dividend policy 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 the Stock Exchange.

No amendments were made to the Memorandum of Association and Articles of Association of the Company during the year ended 31 December 2020.

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 2020.

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 2020 (the "**Financial Statements**") on pages 71 to 72 of the annual report, of which this directors' report forms part (the "**Annual Report**"). There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

Business Review and Future Development

The discussion on future development and business review of the Group for the year ended 31 December 2020 are set out under the section headed "Chairman's Statement" on pages 6 to 9 of the Annual Report and "Management Discussion and Analysis" on pages 10 to 21 of the Annual Report respectively.

Key Risks

The discussion on key risks of the Group and mitigating measures taken is set out under the section headed "Risk Management" on pages 53 to 56 of the Annual Report.

Discussion on Environmental Policies and Performance and Legal and Compliance

Environmental Policies and Performance

To actively manage the Group's environmental performance, the Environmental Management Policy, Environmental Factor Evaluation Control Procedure and Environmental Monitoring and Measurement Control Procedure are established. In addition, the Group has adopted various international standards for environmental and quality management in daily operations. The factory in Shenzhen and several project sites in Indonesia of the Group have been accredited with the certification of ISO 14001 Environmental Management System and ISO 9001 Quality Management System.

Legal and Compliance

Environment

The Group is required to comply with the laws and regulations on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous waste, etc. It is imperative to meet these statutory obligations as violation of any of applicable environmental laws and regulations may result in penalties, operation suspension, or legal action against the Group. During the year ended 31 December 2020, the Group did not identify any confirmed non-compliance incident in relation to environmental protection that would have a significant impact on the Group.

Employment

The Group is required to comply with the legal obligations and responsibilities of employers to provide employment protection and benefits covering compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare, etc. During the year ended 31 December 2020, the Group did not identify any confirmed non-compliance incident in relation to our employment practices that would have a significant impact on the Group.

Health and Safety

The Group is required to comply with laws and regulations which provide requirements to safeguard labour safety and sanitation, prevent accidents in the process of labour, and reduce occupational hazards. During the year ended 31 December 2020, we did not identify any confirmed non-compliance incident in relation to health and safety that would have a significant impact on the Group.

Relationship with Stakeholders

The stakeholders of the Group include internal and external interest groups and individuals who have a significant impact on the business of the Group or are significantly affected by the operations of the Group. During the year ended 31 December 2020, the Group had active dialogues with the stakeholders in learning their viewpoints, let them understand the business and enhance transparency. These dialogues not only helped formulate better sustainable strategies of the Group, but also assisted in creating long-term value for all parties.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 and the financial position of the Group as at 31 December 2020 are set out in the Financial Statements on pages 64 to 67 at the Annual Report.

The board of directors of the Company (the "**Board**") resolved to recommend the payment of a final dividend of HK3.45 cents per share for the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company on Tuesday, 22 June 2021, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Friday, 11 June 2021 (the "**2021 AGM**").

The proposed final dividend will be payable in cash, with an option granted to shareholders to receive new and fully paid shares of the Company in lieu of cash in whole or in part under a scrip dividend scheme (the "**Scrip Dividend Scheme**"). The circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Monday, 28 June 2021.

The Scrip Dividend Scheme is conditional upon the Company having passed the resolution relating to the payment of the final dividend at the 2021 AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") having granted the listing of, and permission to deal in, the new shares to be issued under the Scrip Dividend Scheme.

It is expected that the cheques for cash dividends and the share certificates to be issued under the Scrip Dividend Scheme will be sent by ordinary mail to shareholders at their own risk on or about Wednesday, 28 July 2021.

An interim cash dividend for the year ended 31 December 2020 of HK1.51 cents per share, totalling HK$39,967,000, was paid to the shareholders of the Company during the year.

Details of the dividend are set out in note 11 to the Financial Statements.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend the 2021 AGM, the register of members of the Company will be closed during the period from Tuesday, 8 June 2021 to Friday, 11 June 2021 (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 2021 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, 7 June 2021.

For the purpose of determining the entitlement to the proposed final dividend and the Scrip Dividend Scheme, the register of members of the Company will be closed during the period from Friday, 18 June 2021 to Tuesday, 22 June 2021 (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 and the Scrip Dividend Scheme, 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 Thursday, 17 June 2021.

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 of the Annual Report. The summary does not form part of the audited consolidated financial statements for the year ended 31 December 2020.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2020 are set out in notes 33 and 34 to the Financial Statements.

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

During the year ended 31 December 2020, 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 2020, the Company's reserves available for distribution amounted to HK$2,152.2 million, HK$91.3 million out of which has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$175,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the aggregate percentage of sales attributable to the Group's five largest customers was approximately 74.7% of the Group's total revenue and the percentage of sales attributable to the Group's largest customer was approximately 24.0%.

For the year ended 31 December 2020, the aggregate percentage of purchases attributable to the Group's five largest suppliers was approximately 68.4% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier was approximately 21.7%.

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

On 14 July 2020, the Company, Energy Garden Limited, a controlling shareholder of the Company, and two placing agents entered into the placing and subscription agreement (the "**Placing and Subscription Agreement**"). Details of the Placing and Subscription Agreement are set out in the section headed "Issuance of Equity Securities for Cash" on page 21 of the Annual Report.

The Company has (i) pre-IPO share option scheme; (ii) share option scheme; and (iii) share award scheme, details of which are set out in the following sections headed "Share Option Schemes" and "Share Award Scheme" of this directors' report.

Save as disclosed above, no equity-linked agreements were entered into during the year ended 31 December 2020 or subsisted at the end of the year.

ARRANGEMENTS TO PURCHASE SHARES

Save as disclosed under the following sections headed "Share Option Schemes" and "Share Award Scheme", at no time during the year ended 31 December 2020 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 who held office during the year ended 31 December 2020 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. Lo Siu Yuen, Ms. Chan Mei Wan and Mr. David Tsoi shall retire by rotation at the 2021 AGM and, being eligible, offer themselves for re-election.

Details of the Directors standing for re-election at the 2021 AGM are set out in the circular sent to the shareholders of the Company together with the 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 (the "**Listing Rules**") on the Stock Exchange and considers that each of the Independent Non-Executive Directors is independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 22 to 26 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2021 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 Board with reference to the prevailing market and employment conditions, directors' fees of comparable companies, the duties and responsibilities of the Directors and the time commitment of the individual Director.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save for the Placing and Subscription Agreement, 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 2020 or at any time during the year.

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 and profits 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 year ended 31 December 2020 and is currently in force at the time of approval of this directors' 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 2020, 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 (the "**Model Code**") were as follows:

(i) Interest in the Company

Name of Director	Capacity	Number of ordinary shares held	Number of underlying shares held *(Note 5)*	Total	Approximate percentage of issued share capital *(Note 2)*
Lam Yee Chun ("**Mr. Lam**") *(Note 3)*	Interest of a controlled corporation	1,816,111,881	—	1,816,111,881	68.61%
	Beneficial owner	1,548,000	—	1,548,000	0.06%
	Interest of spouse	390,000	—	390,000	0.01%
Lee Chong Man Jason ("**Mr. Lee**")	Beneficial owner	264,000	131,000	395,000	0.01%
Au-Yeung Tai Hong Rorce	Beneficial owner	22,426,947	263,000	22,689,947	0.86%
Lo Siu Yuen	Beneficial owner	16,736,463	260,000	16,996,463	0.64%
Chan Mei Wan ("**Ms. Chan**") *(Note 4)*	Beneficial owner	390,000	—	390,000	0.01%
	Interest of spouse	1,817,659,881	—	1,817,659,881	68.67%

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 or underlying shares of the Company as at 31 December 2020.

2. Based on 2,646,915,000 shares of the Company in issue as at 31 December 2020.

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 1,816,111,881 shares of the Company held by Energy Garden Limited.

   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 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.

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 Corporations

Name of Director	Name of associated corporation	Number of shares held	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 2020, 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 eligible participants, comprising directors, employees, advisers, consultants and business partners of the Group (the "**Eligible Participants**"), for their contribution and aligning the corporate objectives and interests between the Group and its key talents.

Other than the options granted under the Pre-IPO Share Option Scheme 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 2020, the Company had outstanding options to subscribe for 2,462,000 shares of the Company under the Pre-IPO Share Option Scheme, representing approximately 0.09% of the issued share capital of the Company as at 31 December 2020.

Details of the movements in the share options, which were granted under the Pre-IPO Share Option Scheme, during the year ended 31 December 2020 are as follows:

Grantee	Date of grant (dd.mm.yyyy)	Exercise price per share HK$	Number of options: Outstanding as at 01.01.2020	Cancelled or forfeited during the year	Expired during the year	Exercised during the year	Outstanding as at 31.12.2020	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	–	–	(657,000)	654,000	
Consultants	01.11.2016	2.016	17,000	–	–	(17,000)	–	24.11.2017–23.11.2020
	01.11.2016	2.016	50,000	–	–	(17,000)	33,000	24.11.2018–23.11.2021
	01.11.2016	2.016	55,000	–	–	(16,000)	39,000	24.11.2019–23.11.2022
Employees	01.11.2016	2.016	230,000	–	(71,000)	(159,000)	–	24.11.2017–23.11.2020
	01.11.2016	2.016	1,142,000	(8,000)	–	(416,000)	718,000	24.11.2018–23.11.2021
	01.11.2016	2.016	1,375,000	(8,000)	–	(349,000)	1,018,000	24.11.2019–23.11.2022
Sub-total			2,869,000	(16,000)	(71,000)	(974,000)	1,808,000	
Grand-total			4,180,000	(16,000)	(71,000)	(1,631,000)	2,462,000	

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 aligning the corporate objectives and interests between the Group and its key talents.

Subject to refreshment of Share Option Scheme 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 9.67% of the issued share capital of the Company as at the date of this directors' report. 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 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 as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and
(iii) the nominal value of a Share 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 2020, no option had been granted by the Board under the Share Option Scheme.

SHARE AWARD SCHEME

The Company adopted a share award scheme on 18 July 2017 (the "**Share Award Scheme**") for the purpose of providing incentives and rewards to employees (including without limitation any executive directors) or consultants of the Group to recognise their contributions. Pursuant to the Share Award Scheme, the Board may award shares of the Company ("**Awarded Shares**") to the aforesaid persons. Subject to early termination, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date. The maximum number of Awarded Shares which may be awarded under the Share Award Scheme shall not exceed 5% of the issued share capital of the Company from time to time. The maximum number of Awarded Shares which may be awarded to a selected person under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

For the year ended 31 December 2020, the Board had awarded 5,020,000 Awarded Shares, representing approximately 0.19% of the issued share capital of the Company as at 31 December 2020, to selected eligible persons under the Share Award Scheme.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow 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 2020 or at any time during the year ended 31 December 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of the date of this directors' 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 2020, 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	1,816,111,881	68.61%
Konwell Developments Limited ("**Konwell**")	Interest of a controlled corporation	1,816,111,881 *(Note 3)*	68.61%
Sunpower Global Limited ("**Sunpower**")	Interest of a controlled corporation	1,816,111,881 *(Note 4)*	68.61%
CITIC Group Corporation ("**CITIC Group**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.74%
CITIC Polaris Limited ("**CITIC Polaris**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.74%
CITIC Glory Limited ("**CITIC Glory**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.74%
CITIC Limited ("**CITIC**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.74%
CITIC Pacific Limited ("**CITIC Pacific**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.74%
Master Wise Holdings Corp. ("**Master Wise**")	Interest of a controlled corporation	204,800,000 *(Note 5)*	7.74%
Next Admiral Limited ("**Next Admiral**")	Beneficial owner	204,800,000 *(Note 5)*	7.74%

Notes:

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

2. Based on 2,646,915,000 Shares in issue as at 31 December 2020.

3. Konwell holds 100% of the total issued share capital of Energy Garden and therefore Konwell is deemed to have interest in the 1,816,111,881 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 1,816,111,881 shares held by Energy Garden.

   Mr. Lam directly holds the entire issued share capital of Sunpower and therefore Mr. Lam is deemed to have interest in the 1,816,111,881 shares held by Energy Garden. 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 204,800,000 shares in the Company held by Next Admiral.

Save as disclosed above, as at 31 December 2020, 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 TRANSACTION

On 1 January 2019, a wholly-owned subsidiary of the Company as lessee entered into a tenancy agreement ("**Tenancy Agreement**") with Orient Profit Investment Limited ("**Orient Profit**") as lessor to rent a residential property in 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 pursuant to Rule 14A.76(1) of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of material transactions with related parties of the Group during the year ended 31 December 2020 are disclosed in note 42 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 that described above in the paragraph headed "Connected Transaction" which is exempted from the reporting, annual review, announcement and independent shareholders' approval requirement pursuant to Rule 14A.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 were held by the public as at the date of this directors' report.

DEED OF NON-COMPETITION

On 24 October 2016, a deed of non-competition was 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 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, leasing and operation of distributed power generation 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 Limited;

(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 deed of non-competition ("**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 deed of non-competition.

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 in accordance with the terms of the deed of non-competition.

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 2020 in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Listing Rules. The full report, in Chinese and English versions, will be issued within three months after the publication of our Annual Report 2020.

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the 2021 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 2021 AGM.

By Order of the Board
Lam Yee Chun
Executive Chairman

Hong Kong, 25 March 2021

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 for 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 in reviewing and monitoring key risks. Operating units are responsible for the identification and management of risks in operations and a comprehensive approach is adopted for group-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 and environmental factors, regulations and our stakeholders' expectations. The identified risks are grouped into different categories and each risk is analysed individually on the basis of probability and impact. Action plans are in place to manage the key 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 manages risks arising from its ever-changing business environment. The risks 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 in 2020 included:

RISK CATEGORY: STRATEGIC RISKS

RISK AREA	EXAMPLES OF MITIGATING MEASURES
Inability to adapt to the global trends in response to climate change such as changes to major fuel sources and possible carbon taxation in certain countries in future may affect the Group's long-term development.	• Implement long-term plan by decarbonising our power project portfolio to reduce greenhouse gas emissions; • Develop climate change policy to identify potential significant risks and opportunities imposed on our business operations; • Promote the use of low carbon energies and renewable energies (such as natural gas and biogas).
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
Depending on the pandemic development and vaccine efficacy, COVID-19 crisis may bring additional challenges to our operations on issues related to supply chain and health of our staff.	• Implement contingency plans and guidelines; • Implement precautionary measures (such as social distancing and special work arrangement); • Management team remains vigilant and is closely monitoring the impacts on the business.
Our operation may come across different emergency situations (such as 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.
Potential loss of physical power plant assets due to fire, flood and other accidents.	• Arrange insurance coverage, where appropriate.
Any loss of key staff may potentially affect the operation of the Company.	• Develop succession planning for key positions; • Review our compensation policy regularly for employee retention.

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.	• Investment committee adopts a 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 sources; • Introduce more efficient system (such as combined heat and power and Organic Rankine Cycle) 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 work 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 comprehensive due diligence exercises 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 management team 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.

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 2020, 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 2020, 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	
During the year, the Group recognised revenue 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 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) (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 Inventory Sale Transactions during the year amounted to approximately HK$631.9 million, representing 18.7% of the total revenue of the Group. 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 2020, the aggregate carrying amount of trade and bills receivables was HK$618.6 million and represented 6.8% 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 of the system integration ("SI") segment and the investment, building and operating ("IBO") segment, respectively. The provision rates of the receivables of the SI segment 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 provision rates of the receivables of the IBO segment are based on the probability of default of counterparties, which 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. 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, probability of default, 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; (iii) evaluating the probability of default of counterparties with the assistance from our internal valuation specialists; and (iv) 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 SI and IBO segments. As at 31 December 2020, the carrying amount of inventories was HK$1,179.8 million and represented 12.9% 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, actions taken to eliminate threats or safeguards applied.

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
25 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	**3,386,936**	2,794,036
Cost of sales		**(2,575,810)**	(2,056,794)
Gross profit		**811,126**	737,242
Other income and gains	5	**175,461**	143,505
Selling and distribution expenses		**(33,131)**	(30,981)
Administrative expenses		**(344,813)**	(338,986)
Other expenses, net		**(69,308)**	(5,210)
Finance costs	6	**(220,544)**	(249,296)
Share of profits and losses of joint ventures		**263,574**	66,873
PROFIT BEFORE TAX	7	**582,365**	323,147
Income tax expense	10	**(56,932)**	(40,889)
PROFIT FOR THE YEAR		**525,433**	282,258
Attributable to:			
Owners of the Company		**516,294**	283,551
Non-controlling interests		**9,139**	(1,293)
		525,433	282,258
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK19.97 cents**	HK11.12 cents
Diluted		**HK19.96 cents**	HK11.12 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
PROFIT FOR THE YEAR	**525,433**	282,258
OTHER COMPREHENSIVE 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	**(15,633)**	781
Reclassification adjustments included in the consolidated statement of profit or loss	**6,631**	(975)
	(9,002)	(194)
Exchange differences on translation of foreign operations	**(68,073)**	(5,490)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(77,075)**	(5,684)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**448,358**	276,574
Attributable to:		
Owners of the Company	**439,219**	277,920
Non-controlling interests	**9,139**	(1,346)
	448,358	276,574

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,719,950**	3,761,021
Investment property	14	**23,700**	24,600
Right-of-use assets	15(a)	**61,602**	18,290
Goodwill	16	**81,489**	81,489
Other intangible assets	17	**92,362**	94,151
Interests in joint ventures	18	**1,754,748**	853,047
Deposits and other receivables	21	**44,410**	147,347
Deferred tax assets	32	**4,750**	15,333
Total non-current assets		**5,783,011**	4,995,278
CURRENT ASSETS			
Inventories	19	**1,179,771**	885,860
Trade and bills receivables	20	**618,641**	1,225,632
Prepayments, deposits, other receivables and other assets	21	**462,671**	639,225
Derivative financial instruments	23	**—**	589
Tax recoverable		**5,065**	19,734
Restricted cash	24	**66,594**	81,635
Pledged deposits	25	**37,126**	62,200
Cash and cash equivalents	25	**978,182**	772,439
		3,348,050	3,687,314
Assets held for sale	37	**—**	268,680
Total current assets		**3,348,050**	3,955,994
CURRENT LIABILITIES			
Trade and bills payables	26	**802,006**	739,105
Other payables and accruals	27	**324,122**	805,306
Contract liabilities	28	**875,322**	122,868
Derivative financial instruments	23	**9,196**	194
Senior notes	29	**21,978**	17,724
Interest-bearing bank and other borrowings	30	**1,138,282**	1,782,557
Lease liabilities	15(b)	**7,657**	10,434
Tax payable		**10,820**	18,219
Provision for restoration	31	**6,123**	4,174
Total current liabilities		**3,195,506**	3,500,581
NET CURRENT ASSETS		**152,544**	455,413
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,935,555**	5,450,691

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT LIABILITIES			
Trade payables	26	**42,733**	—
Other payables	27	**281,123**	329,235
Senior notes	29	**745,523**	764,395
Interest-bearing bank and other borrowings	30	**1,283,141**	1,449,704
Lease liabilities	15(b)	**53,246**	7,148
Provision for restoration	31	**20,187**	22,826
Deferred tax liabilities	32	**28,114**	18,747
Total non-current liabilities		**2,454,067**	2,592,055
Net assets		**3,481,488**	2,858,636
EQUITY			
Equity attributable to owners of the Company			
Share capital	33	**264,692**	256,228
Reserves	36	**3,170,864**	2,565,615
		3,435,556	2,821,843
Non-controlling interests		**45,932**	36,793
Total equity		**3,481,488**	2,858,636

Lam Yee Chun
Director

Au-Yeung Tai Hong Rorce
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

		Attributable to owners of the Company													
	Notes	Share capital HK$'000	Share premium account HK$'000	Merger reserve HK$'000 *(note 36(a))*	Capital reserve HK$'000 *(note 36(b))*	Share option reserve HK$'000 *(note 36(c))*	Shares held under the share award scheme HK$'000 *(note 35)*	Asset revaluation reserve HK$'000	Cash flow hedge reserve HK$'000	Statutory reserve funds HK$'000 *(note 36(d))*	Exchange fluctuation reserve HK$'000 *(note 36(e))*	Retained profits HK$'000	Total K$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2019		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:															
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)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	(5,437)	–	(5,437)	(53)	(5,490)
Total comprehensive income for the year		–	–	–	–	–	–	–	(194)	–	(5,437)	283,551	277,920	(1,346)	276,574
Acquisition of additional interests in a subsidiary	36(b)	–	–	–	(764)	–	–	–	–	–	–	–	(764)	(8,015)	(8,779)
Issue of shares upon exercise of share options	33	21	661	–	–	(259)	–	–	–	–	–	–	423	–	423
Equity-settled share option arrangement	34	–	–	–	–	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 and at 1 January 2020		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
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**516,294**	**516,294**	**9,139**	**525,433**
Other comprehensive income/(loss) for the year:															
Cash flow hedges:															
Changes in fair value of hedging instruments arising during the year	23	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(15,633)**	**–**	**–**	**–**	**(15,633)**	**–**	**(15,633)**
Reclassification adjustments included in the consolidated statement of profit or loss	23	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,631**	**–**	**–**	**–**	**6,631**	**–**	**6,631**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(68,073)**	**–**	**(68,073)**	**–**	**(68,073)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,002)**	**–**	**(68,073)**	**516,294**	**439,219**	**9,139**	**448,358**
Issue of subscription shares	33	**8,300**	**285,047**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**293,347**	**–**	**293,347**
Issue of shares upon exercise of share options	33	**164**	**5,223**	**–**	**–**	**(2,098)**	**–**	**–**	**–**	**–**	**–**	**–**	**3,289**	**–**	**3,289**
Transfer of share option reserve upon the forfeiture or expiry of share options		**–**	**–**	**–**	**–**	**(105)**	**–**	**–**	**–**	**–**	**–**	**105**	**–**	**–**	**–**
Equity-settled share-based payment arrangement	35	**–**	**–**	**–**	**–**	**–**	**23,618**	**–**	**–**	**–**	**–**	**(11,721)**	**11,897**	**–**	**11,897**
Purchase of shares for the share award scheme	35	**–**	**–**	**–**	**–**	**–**	**(38,064)**	**–**	**–**	**–**	**–**	**–**	**(38,064)**	**–**	**(38,064)**
Transfer to statutory reserve funds		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,243**	**–**	**(6,243)**	**–**	**–**	**–**
Final 2019 dividend	11	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(56,218)**	**(56,218)**	**–**	**(56,218)**
Interim 2020 dividend	11	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(39,757)**	**(39,757)**	**–**	**(39,757)**
At 31 December 2020		**264,692**	**1,802,479***	**(15,458)***	**146,985***	**3,208***	**(72,568)***	**17,062***	**(9,196)***	**32,205***	**(90,683)***	**1,356,830***	**3,435,556**	**45,932**	**3,481,488**

* These reserve accounts comprise the consolidated reserves of HK$3,170,864,000 (2019: HK$2,565,615,000) in the consolidated statement of financial position.

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**582,365**	323,147
Adjustments for:			
Finance costs	6	**220,544**	249,296
Share of profits and losses of joint ventures		**(263,574)**	(66,873)
Bank interest income	5	**(3,975)**	(2,242)
Loan interest income	5	**—**	(175)
Gain on disposal of assets held for sale	5	**(13,627)**	—
Gain on early termination of a lease	15	**(4)**	—
Covid-19-related rent concessions from lessors	15	**(23)**	—
Depreciation of property, plant and equipment	7	**309,943**	267,526
Depreciation of right-of-use assets	7	**16,123**	10,398
Amortisation of intangible assets	7	**2,879**	2,879
Fair value losses/(gains) on derivative financial instruments	7	**589**	(589)
Fair value loss on an investment property	7	**900**	400
Impairment of trade and bills receivables, net	7	**4,867**	1,602
Impairment/(reversal of impairment) of contract assets, net	7	**33**	(697)
Loss on disposal of items of property, plant and equipment, net	7	**4,425**	501
Write-down of inventories to net realisable value	7	**10,939**	2,926
Equity-settled share-based payment expense	7	**11,897**	775
		884,301	788,874
Decrease/(increase) in inventories		**(390,427)**	141,315
Decrease/(increase) in trade and bills receivables		**600,955**	(156,534)
Increase in prepayments, deposits, other receivables and other assets		**(40,204)**	(145,254)
Increase in trade and bills payables		**99,683**	377,095
Decrease in other payables and accruals		**(41,377)**	(10,966)
Increase in contract liabilities		**749,658**	49,074
Decrease in provision of restoration		**(2,640)**	(817)
Cash generated from operations		**1,859,949**	1,042,787
Interest element of lease payments	39	**(2,632)**	(1,042)
Hong Kong profits tax refunded		**13,231**	632
Overseas taxes paid		**(42,727)**	(30,490)
Net cash flows from operating activities		**1,827,821**	1,011,887

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**3,975**	3,217
Purchases of items of property, plant and equipment		**(301,396)**	(585,966)
Additions to right-of-use assets		**(152)**	—
Additions to other intangible assets		**—**	(9,309)
Deposits paid for purchases of property, plant and equipment		**(4,651)**	(82,292)
Proceeds from disposal of items of property, plant and equipment		**8,480**	42
Proceeds from disposal of assets held for sale		**282,307**	—
Advance of loans to joint ventures		**—**	(45,595)
Advance of loan to a business partner		**—**	(6,077)
Repayment of loans from a joint venture		**42,742**	—
Repayment of loans from business partners		**6,077**	22,620
Decrease in an amount due from a related company		**—**	483
Decrease/(increase) in pledged deposits		**27,372**	(14,813)
Decrease/(increase) in restricted cash		**15,041**	(426)
Investments in joint ventures		**(702,413)**	(23,255)
Distributions from joint ventures		**64,286**	—
Net cash flows used in investing activities		**(558,332)**	(741,371)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	33	**296,636**	423
Purchases of shares for the share award scheme	35	**(38,064)**	—
New bank borrowings, net of debt establishment costs	39(b)	**2,549,388**	4,333,903
Repayment of bank borrowings	39(b)	**(3,358,066)**	(4,092,194)
Repayment of other borrowings	39(b)	**(29,250)**	—
Repayment of senior notes	39(b)	**(17,724)**	(7,754)
Repayment of loans to business partners	39(b)	**(208,633)**	(11,846)
Acquisition of additional interests in a subsidiary		**—**	(8,779)
Principal portion of lease payments	39(b)	**(15,952)**	(11,913)
Dividends paid		**(95,975)**	(26,263)
Interest paid		**(161,965)**	(210,976)
Net cash flows used in financing activities		**(1,079,605)**	(35,399)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**189,884**	235,117
Cash and cash equivalents at beginning of year		**768,202**	541,353
Effect of foreign exchange rate changes, net		**20,096**	(8,268)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**978,182**	768,202
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**978,182**	772,439
Bank overdrafts	30	**—**	(4,237)
		978,182	768,202

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, Office 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 2020	2019	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 2020	2019	Principal activities
VPower Group Holdings Limited	Hong Kong	HK$10,000	**100**	100	Investment holding and provision of distributed power solutions
VPower Myanmar Limited	Hong Kong	HK$1	**100**	100	Provision of distributed power solutions
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
V Power Lanka (Private) Limited	Sri Lanka	Sri Lankan Rupee 10	**100**	100	Provision of distributed power solutions
VP Flexgen (Brazil) Spe Ltda.	Brazil	Brazilian Real 80,791,089	**100**	100	Provision of distributed power solutions

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 ("HKICPA"), 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 2020. 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The Group has applied the temporary reliefs to continue its existing interest rate hedging relationships. Information of the hedging relationships to which the Group applies the temporary reliefs is disclosed in note 23 to the financial statements.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's factory premises and staff quarters have been reduced by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$23,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) 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, or both. The amendments did not have any significant impact on the financial position and 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	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation *5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

The Group currently has applied a cash flow hedge to manage the cash flow interest rate risk of bank borrowings, denominated in United States dollars based on LIBOR, by using interest rate swaps. The Group will amend the formal designation of that hedging relationship upon modification of the interest rate swaps and the bank borrowings.

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 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier 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 HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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.

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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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;
   (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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

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 the lease terms and 2%
Leasehold improvements	Over the shorter of the lease terms and 20%
Mobilisation and installation	Over the service periods of the power generation agreements
Machinery and equipment	$3^1/_3$% 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 sale 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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.

(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:

Leasehold land	20 to 40 years
Leased properties	1 to 20 years
Office equipment	3 to 5 years
Motor vehicles	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 lease. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

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.

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 for trade and bills receivables and contract assets of the system integration ("SI") segment that is based on its historical credit loss experience and assessed probability of default for trade receivables of the investment, building and operating ("IBO") segment, 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 designated 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, and 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, for 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 with 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.

(d) Technical services

Revenue from the provision of technical services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group.

(e) Consultancy income

Revenue from consultancy services is recognised over time as consultancy services are rendered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

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.

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 customer).

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 transfer to the customer of the goods or services to which the asset relates. 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. These 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 fulfil 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 stand-alone 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 the relative stand-alone 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 from such construction services is 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 2020, the Group recognised revenue of approximately HK$631,886,000 (2019: HK$270,091,000) 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. The Group determined that the control of the engine-based electricity generation units have been transferred to the EPC Contractor upon the delivery of these units as the EPC Contractor has sole discretion to determine the use of such units in the construction of its own projects or the Group's power stations. 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$60,655,000 (2019: HK$47,294,000) for the year ended 31 December 2020.

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 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 2020 was HK$81,489,000 (2019: 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 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 counterparties. 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 with forward-looking information to adjust the credit loss rates. 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, probability of default, loss given default, 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 amount. 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 2020, the carrying amount of inventories was HK$1,179,771,000 (2019: HK$885,860,000).

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 derivative financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, amount due from a related company, 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 2020

	SI HK$'000	IBO HK$'000	Total HK$'000
Segment revenue *(note 5)*			
Sales to external customers	2,169,865	1,217,071	3,386,936
Intersegment sales	185,117	—	185,117
	2,354,982	1,217,071	3,572,053
Reconciliation:			
Elimination of intersegment sales			(185,117)
Revenue			3,386,936
Segment results	295,701	577,701	873,402
Reconciliation:			
Elimination of intersegment results			(15,106)
Bank interest income			3,975
Corporate and unallocated expenses, net			(59,362)
Finance costs			(220,544)
Profit before tax			582,365
Segment assets	1,414,846	5,735,199	7,150,045
Reconciliation:			
Corporate and unallocated assets			1,981,016
Total assets			9,131,061
Segment liabilities	1,647,304	752,548	2,399,852
Reconciliation:			
Corporate and unallocated liabilities			3,249,721
Total liabilities			5,649,573
Other segment information:			
Share of profits and losses of joint ventures	—	223,038	223,038
Impairment/(reversal of impairment) of trade and bills receivables, net	(168)	5,035	4,867
Impairment of contract assets, net	33	—	33
Loss on disposal of items of property, plant and equipment, net	20	4,405	4,425
Gain on disposal of assets held for sale	—	13,627	13,627
Write-down of inventories to net realisable value	10,939	—	10,939
Depreciation of property, plant and equipment*	7,147	301,300	308,447
Depreciation of right-of-use assets	12,872	3,251	16,123
Amortisation of intangible assets	—	2,879	2,879
Interests in joint ventures	—	916,169	916,169
Capital expenditure	1,134	270,905	272,039

* Depreciation of property, plant and equipment excludes depreciation charges of HK$1,496,000 for corporate assets.

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:			
Impairment of trade receivables, net	762	840	1,602
Reversal of impairment of contract assets, net	(697)	—	(697)
Loss/(gain) on disposal of items of property, plant and equipment, net	(42)	543	501
Write-down of inventories to net realisable value	2,926	—	2,926
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 of property, plant and equipment excludes depreciation charges of HK$1,637,000 for corporate assets.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2020 HK$'000	2019 HK$'000
Hong Kong, Macau and Mainland China	**996,044**	567,448
Other Asian countries	**1,585,191**	1,574,824
Latin America	**606,710**	449,592
Other countries	**198,991**	202,172
	3,386,936	2,794,036

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

(b) Non-current assets

	2020 HK$'000	2019 HK$'000
Hong Kong and Mainland China	**1,881,427**	1,040,228
Other Asian countries	**2,463,802**	2,445,391
Latin America	**1,226,817**	1,344,251
Other countries	**205,460**	147,800
	5,777,506	4,977,670

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:

	2020 HK$'000	2019 HK$'000
Customer A^	**813,887**	751,014
Customer B^	**631,886**	N/A*
Customer C#	**456,656**	407,170
Customer D#	**452,319**	449,592
	2,354,748	1,607,776

* Less than 10% of revenue

^ Reported in the SI segment

Reported in the IBO segment

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers	**3,386,936**	2,794,036

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2020

Segments	SI HK$'000	IBO HK$'000	Total HK$'000
Types of goods or services			
Sale of engine-based electricity generation units	2,147,426	—	2,147,426
Construction services	3,627	—	3,627
Provision of technical services	18,812	—	18,812
Provision of distributed power solutions	—	1,217,071	1,217,071
Total revenue from contracts with customers	2,169,865	1,217,071	3,386,936
Geographical markets			
Hong Kong, Macau and Mainland China	969,473	26,571	996,044
Other Asian countries	1,001,401	583,790	1,585,191
Latin America	—	606,710	606,710
Other countries	198,991	—	198,991
Total revenue from contracts with customers	2,169,865	1,217,071	3,386,936
Timing of revenue recognition			
Goods transferred at a point in time	2,147,426	—	2,147,426
Services transferred over time	22,439	1,217,071	1,239,510
Total revenue from contracts with customers	2,169,865	1,217,071	3,386,936

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2019

Segments	SI HK$'000	IBO HK$'000	Total HK$'000
Types 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
Other 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

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:

	2020 **HK$'000**	2019 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of engine-based electricity generation units	**82,833**	29,013

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, with periods ranging 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 30 to 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 of one year or less as well as contracts for distributed power solutions for which the Group issues invoices for the actual amount of energy delivered each month and recognises revenue in the amount to which the Group has the right to invoice.

Provision of technical services

The performance obligation is satisfied over time as services are rendered. Technical service contracts are for periods of one year or less, and are billed based on the costs incurred.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

An analysis of other income and gains is as follows:

	2020 HK$'000	2019 HK$'000
Other income		
Bank interest income	**3,975**	2,242
Loan interest income	**—**	175
Consultancy income	**153,640**	134,870
Government grants*	**2,074**	1,529
Others	**2,145**	4,100
	161,834	142,916
Gains		
Gain on disposal of assets held for sale	**13,627**	—
Fair value gains on derivative financial instruments	**—**	589
	13,627	589
	175,461	143,505

* 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:

	2020 HK$'000	2019 HK$'000
Interest on senior notes	**47,844**	48,625
Interest and other finance costs on letters of credit, bank loans and overdrafts	**103,997**	140,622
Interest on other borrowings	**15,984**	22,683
Net realised losses/(gains) on cash flow hedges	**6,631**	(975)
	174,456	210,955
Amortisation of debt establishment costs	**28,491**	21,285
Notional interest on other payables	**14,965**	16,014
Notional interest on lease liabilities	**2,632**	1,042
	220,544	249,296

7. PROFIT BEFORE TAX

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

	Notes	2020 HK$'000	2019 HK$'000
Cost of inventories sold		**1,720,846**	1,369,295
Cost of services provided		**840,737**	678,644
Auditor's remuneration		**7,172**	6,707
Depreciation of property, plant and equipment*	13	**309,943**	267,526
Depreciation of right-of-use assets	15(b)	**16,123**	10,398
Amortisation of intangible assets	17	**2,879**	2,879
Lease payments not included in the measurement of lease liabilities	15(c)	**5,299**	5,032
Employee benefit expense (including directors' and chief executives' remuneration *(note 8)*):			
Wages, salaries, bonuses, allowances and benefits in kind		**182,309**	154,251
Equity-settled share-based payment expense	34, 35	**11,897**	775
Pension scheme contributions (defined contribution schemes)		**4,196**	7,559
Less: Government subsidies^		**(4,391)**	—
		194,011	162,585
Fair value losses/(gains) on derivative financial instruments		**589#**	(589)
Fair value loss on an investment property#	14	**900**	400
Foreign exchange differences, net#		**28,115**	478
Impairment of trade and bills receivables, net#	20	**4,867**	1,602
Impairment/(reversal of impairment) of contract assets, net#	21	**33**	(697)
Loss on disposal of items of property, plant and equipment, net#		**4,425**	501
Write-down of inventories to net realisable value#		**10,939**	2,926

* The cost of sales for the year included depreciation charges of HK$252,823,000 (2019: HK$225,393,000).

^ The subsidies were granted under the Employment Support Scheme from the Government of the Hong Kong Special Administrative Region and were deducted in "Administrative expenses" in the consolidated statement of profit or loss. There were no unfulfilled conditions or contingencies relating to the subsidies.

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:

	2020 **HK$'000**	2019 HK$'000
Fees	**1,728**	1,728
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind*	**20,329**	14,752
Equity-settled share option expense	**—**	256
Pension scheme contributions	**90**	90
	20,419	15,098
	22,147	16,826

* Included equity-settled share-based payment expense for shares awarded under the share award scheme

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 34 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 prior year was included in the above directors' and chief executives' remuneration disclosures.

During the year, a director was awarded shares, in respect of his services to the Group, under the share award scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such shares, which has been recognised in the statement of profit or loss, was determined as at the date of award 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:

	2020 **HK$'000**	2019 HK$'000
Mr. David Tsoi	**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 (2019: 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
2020					
Executive directors:					
Mr. Lam Yee Chun	**216**	**3,242**	**–**	**18**	**3,476**
Mr. Lee Chong Man Jason	**216**	**3,111**	**–**	**18**	**3,345**
Mr. Au-Yeung Tai Hong Rorce	**216**	**6,304**	**–**	**18**	**6,538**
Mr. Lo Siu Yuen	**216**	**5,160***	**–**	**18**	**5,394**
Non-executive directors:					
Ms. Chan Mei Wan	**216**	**2,512**	**–**	**18**	**2,746**
Mr. Kwok Man Leung	**–**	**–**	**–**	**–**	**–**
	1,080	**20,329**	**–**	**90**	**21,499**
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

* Included equity-settled share-based payment expense of HK$2,370,000 for shares awarded under the share award scheme (2019: Nil)

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 (2019: Nil).

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the year (2019: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2019: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2019: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020	2019
	HK$'000	HK$'000
Salaries, bonuses, allowances and benefits in kind	**6,180**	6,000
Equity-settled share-based payment expense	**3,081**	49
Pension scheme contributions (defined contribution scheme)	**36**	36
	9,297	6,085

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	
	2020	2019
HK$2,500,001 to HK$3,000,000	**—**	1
HK$3,000,001 to HK$3,500,000	**—**	1
HK$3,500,001 to HK$4,000,000	**1**	—
HK$5,000,001 to HK$5,500,000	**1**	—
	2	2

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 34 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 prior year was included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

During the year, shares were awarded 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 shares, which has been recognised in the statement of profit or loss, was determined as at the date of award 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% (2019: 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. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 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.

	2020 HK$'000	2019 HK$'000
Current — Hong Kong		
Charge for the year	**7,510**	10,266
Overprovision in prior years	**(4,124)**	—
Current — Elsewhere		
Charge for the year	**36,295**	35,192
Overprovision in prior years	**(3,018)**	(3,338)
Deferred	**20,269**	(1,231)
Total tax charge for the year	**56,932**	40,889

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:

	2020 HK$'000	2019 HK$'000
Profit before tax	**582,365**	323,147
Tax at the Hong Kong statutory tax rate of 16.5% (2019: 16.5%)	**96,090**	53,319
Different tax rates enacted by specific countries/jurisdictions	**1,312**	2,140
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiary	**860**	(330)
Withholding taxes	**22,144**	19,257
Adjustments in respect of current tax of previous periods	**(7,142)**	(3,338)
Profits and losses attributable to joint ventures	**(43,490)**	(11,034)
Income derived from the IBO segment which was claimed offshore and not subject to tax in Hong Kong	**(86,057)**	(91,749)
Income not subject to tax	**(32,245)**	(11,804)
Expenses not deductible for tax	**108,810**	86,376
Tax losses utilised from previous periods	**(4,148)**	(641)
Tax losses not recognised	**3,917**	264
Others	**(3,119)**	(1,571)
Tax charge at the Group's effective tax rate	**56,932**	40,889

11. DIVIDENDS

	2020 HK$'000	2019 HK$'000
Dividends recognised as distribution during the year:		
Final dividend for the year ended 31 December 2019		
— HK2.20 cents (2018: HK0.48 cent) per ordinary share	**56,391**	12,298
Less: Dividend for shares held under the share award scheme	**(173)**	(59)
	56,218	12,239
Interim dividend for the six months ended 30 June 2020		
— HK1.51 cents (2019: HK0.55 cent) per ordinary share	**39,967**	14,092
Less: Dividend for shares held under the share award scheme	**(210)**	(68)
	39,757	14,024
	95,975	26,263
Final dividend proposed after the end of the reporting period:		
Proposed final dividend for the year ended 31 December 2020		
— HK3.45 cents (2019: HK2.20 cents) per ordinary share	**91,319**	56,370

The proposed final dividend for the year, with a scrip dividend alternative, 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$516,294,000 (2019: HK$283,551,000), and the weighted average number of ordinary shares of 2,585,639,000 (2019: 2,549,837,000) 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$516,294,000 (2019: HK$283,551,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 2,585,639,000 (2019: 2,549,837,000) in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 1,058,000 (2019: 1,085,000) 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 2020								
At 31 December 2019 and at 1 January 2020:								
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
At 1 January 2020, net of accumulated depreciation	75,887	5,317	66,535	3,452,935	8,038	10,122	142,187	3,761,021
Additions	4,088	1,184	19,801	151,233	1,419	599	93,715	272,039
Transfer from inventories	–	–	–	88,894	–	–	–	88,894
Depreciation provided during the year	(11,386)	(3,351)	(46,205)	(242,218)	(3,229)	(3,554)	–	(309,943)
Disposals	–	–	–	(11,033)	(1,486)	(386)	–	(12,905)
Transfers	65,412	–	62	5,560	2,933	–	(73,967)	–
Exchange realignment	(4,533)	(40)	290	(55,828)	(26)	34	(19,053)	(79,156)
At 31 December 2020, net of accumulated depreciation	129,468	3,110	40,483	3,389,543	7,649	6,815	142,882	3,719,950
At 31 December 2020:								
Cost	143,077	10,957	205,663	4,253,825	24,421	21,478	142,882	4,802,303
Accumulated depreciation	(13,609)	(7,847)	(165,180)	(864,282)	(16,772)	(14,663)	–	(1,082,353)
Net carrying amount	129,468	3,110	40,483	3,389,543	7,649	6,815	142,882	3,719,950

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 2019								
At 1 January 2019:								
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 1 January 2019, net of accumulated depreciation	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 37)*	–	–	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

As at 31 December 2020, certain of the Group's property, plant and equipment with a net carrying amount of HK$824,081,000 (2019: HK$873,870,000) were pledged to secure senior notes (note 29) and banking facilities and other borrowings granted to the Group (note 30).

14. INVESTMENT PROPERTY

	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January	**24,600**	25,000
Net loss from a fair value adjustment	**(900)**	(400)
Carrying amount at 31 December	**23,700**	24,600

The Group's investment property is a commercial property in Hong Kong. The Group's investment property was revalued on 31 December 2020 based on a valuation performed by Vigers Appraisal and Consulting (International) Limited, an independent firm of professionally qualified valuers, at HK$23,700,000 (2019: HK$24,600,000). 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 2020 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	**—**	**—**	**23,700**	**23,700**

	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

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 (2019: 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 2019	25,000
Net loss from a fair value adjustment	(400)
Carrying amount at 31 December 2019 and at 1 January 2020	24,600
Net loss from a fair value adjustment	(900)
Carrying amount at 31 December 2020	23,700

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

	Valuation technique	**Significant unobservable input**	**Range**	
			2020	2019
Commercial property	Direct comparison method	Estimated price per sq.ft.	**HK$13,249 to HK$16,822**	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 warehouses, factory premises, office premises, staff quarters, motor vehicles and office equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 to 40 years, and no ongoing payments will be made under the terms of these land leases. The remaining leases are negotiated for terms ranging from 1 to 20 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:

	Leasehold land HK$'000	Leased properties HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2019	—	19,335	104	—	19,439
Additions	—	8,683	—	672	9,355
Depreciation charge during the year	—	(10,309)	(33)	(56)	(10,398)
Exchange realignment	—	(111)	—	5	(106)
At 31 December 2019 and at 1 January 2020	—	17,598	71	621	18,290
Additions	**43,733**	**11,852**	**—**	**1,474**	**57,059**
Depreciation charge during the year	**(1,501)**	**(14,347)**	**(31)**	**(244)**	**(16,123)**
Early termination of a lease	**—**	**(93)**	**—**	**—**	**(93)**
Exchange realignment	**2,714**	**(245)**	**1**	**(1)**	**2,469**
As at 31 December 2020	**44,946**	**14,765**	**41**	**1,850**	**61,602**

15. LEASES (CONTINUED)

The Group as a lessee (continued)

(b) Lease liabilities

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

	2020 HK$'000	2019 HK$'000
At 1 January	**17,582**	20,431
New leases	**56,907**	9,175
Accretion of interest recognised during the year	**2,632**	1,042
Payments during the year	**(18,584)**	(12,955)
Early termination of a lease	**(97)**	—
Covid-19-related rent concessions from lessors	**(23)**	—
Exchange realignment	**2,486**	(111)
At 31 December	**60,903**	17,582
Analysed into:		
Current portion	**7,657**	10,434
Non-current portion	**53,246**	7,148

The maturity analysis of lease liabilities is disclosed in note 45 to the financial statements.

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain factory premises and staff quarters during the year.

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

	2020 HK$'000	2019 HK$'000
Notional interest on lease liabilities	**2,632**	1,042
Depreciation charge of right-of-use assets	**16,123**	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)	**5,299**	5,032
Gain on early termination of a lease	**(4)**	—
Covid-19-related rent concessions from lessors	**(23)**	—
Total amount recognised in profit or loss	**24,027**	16,472

(d) The total cash outflow for leases is disclosed in note 39(c) to the financial statements.

16. GOODWILL

	2020	2019
	HK$'000	HK$'000
Cost and carrying amount at 1 January and 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 17.5-year period (2019: 18.5-year period) approved by senior management. The forecast period represented the remaining service period of the power generation agreement of the Genrent Peru Group. The discount rate applied to the cash flow projections is 14.8% (2019: 16.8%).

Assumptions were used in the value in use calculation of the Genrent Peru Group cash-generating unit for 31 December 2020 and 31 December 2019. 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 2020			
Cost at 1 January 2020, net of accumulated amortisation	**43,369**	**50,782**	**94,151**
Amortisation provided during the year	**—**	**(2,879)**	**(2,879)**
Exchange realignment	**1,090**	**—**	**1,090**
At 31 December 2020	**44,459**	**47,903**	**92,362**
At 31 December 2020:			
Cost	**44,459**	**56,300**	**100,759**
Accumulated amortisation	**—**	**(8,397)**	**(8,397)**
Net carrying amount	**44,459**	**47,903**	**92,362**
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 and at 1 January 2020:			
Cost	43,369	56,300	99,669
Accumulated amortisation	—	(5,518)	(5,518)
Net carrying amount	43,369	50,782	94,151

18. INTERESTS IN JOINT VENTURES

	2020 HK$'000	2019 HK$'000
Share of net assets	**1,754,748**	853,047

In January 2018, the Company and CITIC Pacific Limited ("CITIC Pacific"), through their respective subsidiaries, established 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 2020, the Group invested approximately HK$787,730,000 (2019: HK$778,448,000) in the Fund.

In September 2019, the Company and China National Technical Import & Export Corporation ("CNTIC"), through their respective subsidiaries, established CNTIC VPower Group Holdings Limited ("CNTIC VPower"), which is indirectly owned as to 50% by each of the Company and CNTIC. CNTIC VPower, together with its subsidiaries, was principally engaged in the development and operation of three power generation projects in Myanmar. As at 31 December 2020, the Group invested approximately HK$700,444,000 in CNTIC VPower.

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

			Percentage of			
Name	Registered capital/ Capital contribution	Place of registration and business	Ownership interest	Voting power	Profit sharing	Principal activities
CNTIC VPower Group Holdings Limited	US$179,601,000	Hong Kong	50	50	50	Development and operation of power generation projects
Tamar VPower Energy Fund I, L.P.	US$201,982,117	Cayman Islands	50	50	50	Investment holding

The above investments are indirectly held by the Company.

CNTIC VPower Group Holdings Limited, which is considered a material joint venture of the Group in 2020, is accounted for using the equity method.

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

18. INTERESTS IN JOINT VENTURES (CONTINUED)

The following table illustrates the summarised financial information in respect of CNTIC VPower Group Holdings Limited adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2020 HK$'000
Cash and cash equivalents	293,163
Other current assets	635,409
Current assets	928,572
Non-current assets	2,820,108
Current liabilities	(1,008,998)
Non-current liabilities	(895,573)
Net assets	1,844,109
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	50%
Group's share of net assets of the joint venture	922,055
Elimination of unrealised results on transactions between the Group and the joint venture	(5,886)
Carrying amount of the investment	916,169
Other income	1,280,308
Profit and total comprehensive income for the year	446,077

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:

	2020 HK$'000	2019 HK$'000
Cash and cash equivalents	984	93,306
Other current assets	99	66
Current assets	1,083	93,372
Non-current assets	1,677,057	1,613,560
Current liabilities	(528)	(528)
Net assets	1,677,612	1,706,404
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	838,806	853,202
Revenue	100,063	155,402
Interest income	—	1
Profit and total comprehensive income for the year	81,216	136,761
Distributions received	64,286	—

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

	2020 HK$'000	2019 HK$'000
Share of the joint ventures' losses for the year	72	1,508
Aggregate carrying amount of the Group's interests in the joint ventures	(227)	(155)

19. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	**181,926**	186,733
Work in progress	**1,684**	9,764
Finished goods	**769,308**	502,922
Spare parts and consumables	**226,853**	186,441
	1,179,771	885,860

20. TRADE AND BILLS RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	**626,280**	1,229,791
Bills receivables	**1,380**	—
Impairment	**(9,019)**	(4,159)
	618,641	1,225,632

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 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.

Included in the Group's trade receivables are amounts due from subsidiaries of a joint venture of HK$27,329,000 (2019: Nil), which are repayable within 30 days.

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:

	2020 HK$'000	2019 HK$'000
Within 90 days	**290,392**	869,381
91 to 180 days	**106,205**	68,878
181 to 360 days	**23,389**	86,804
Over 360 days	**198,655**	200,569
	618,641	1,225,632

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 2019	1,140	1,419	2,559
Impairment losses, net *(note 7)*	762	840	1,602
Exchange realignment	(2)	—	(2)
At 31 December 2019 and at 1 January 2020	1,900	2,259	4,159
Impairment losses/(reversal of impairment losses), net *(note 7)*	(168)	5,035	4,867
Exchange realignment	(7)	—	(7)
At 31 December 2020	1,725	7,294	9,019

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 2020

		Past due days			
	Current	**1 to 30**	**31 to 90**	**Over 90**	**Total**
Expected credit loss rate	**0.05%**	**0.19%**	**0.34%**	**4.28%**	**0.68%**
Gross carrying amount (HK$'000)	**200,187**	**8,787**	**8,660**	**37,017**	**254,651**
Expected credit losses (HK$'000)	**94**	**17**	**29**	**1,585**	**1,725**

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

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 2020, the probability of default applied ranged from 0.01% to 15.53% (2019: 0.01% to 1.63%), and the loss given default was estimated to be 100% (2019: 100%).

Bills receivables

The Group applies a general approach in calculating ECLs for bill receivables. The Group classifies such instruments as Stage 1 and measures ECLs on a 12-month basis. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. All of the bills receivables are not past due and the expected credit loss rate is assessed to be minimal.

21. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2020 HK$'000	2019 HK$'000
Prepayments		**212,411**	47,181
Deposits paid for purchases of property, plant and equipment		**43,654**	128,111
Deposits and other receivables		**147,344**	553,527
Capitalised contract costs for construction services		**21,169**	—
Capitalised contract costs for technical services		**72,305**	—
Loan receivable		**—**	6,077
Due from joint ventures		**2,853**	45,595
Due from a related company	22	**96**	96
Contract assets *(note)*		**7,249**	5,985
		507,081	786,572
Current portion included in prepayments, deposits, other receivables and other assets		**(462,671)**	(639,225)
Non-current portion		**44,410**	147,347

As at 31 December 2019, the loan receivable was unsecured, bore interest at a rate of 7% per annum and was repayable based on terms stipulated in the loan agreement.

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 2020 and 2019, the loss allowance was assessed to be minimal.

Note:

	2020 HK$'000	2019 HK$'000
Contract assets arising from sale of engine-based electricity generation units and construction services	**7,290**	5,996
Impairment	**(41)**	(11)
	7,249	5,985

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 2020, a loss allowance of HK$33,000 (2019: a reversal of loss allowance of HK$697,000) 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:

	2020 HK$'000	2019 HK$'000
Within one year	**3,001**	3,029
More than one year	**4,248**	2,956
Total contract assets	**7,249**	5,985

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:

	2020	2019
	HK$'000	HK$'000
At beginning of year	**11**	710
Impairment losses/(reversal of impairment losses), net *(note 7)*	**33**	(697)
Exchange realignment	**(3)**	(2)
At end of year	**41**	11

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

	2020	2019
Expected credit loss rate	**0.56%**	0.18%
Gross carrying amount (HK$'000)	**7,290**	5,996
Expected credit losses (HK$'000)	**41**	11

22. DUE FROM A RELATED COMPANY

The amount due from a related company is non-trade related, unsecured and repayable on demand.

Particulars of the amount due from a related company are as follows:

31 December 2020

	At 31 December 2020 HK$'000	**Maximum amount outstanding during the year HK$'000**	**At 1 January 2020 HK$'000**
Orient Profit Investment Limited*	**96**	**96**	**96**

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

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

Since the amount due from a related company was not past due, the expected credit loss as at 31 December 2020 and 2019 was assessed to be minimal.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 Assets HK$'000	2020 Liabilities HK$'000	2019 Assets HK$'000	2019 Liabilities HK$'000
Forward currency contracts	–	–	589	—
Interest rate swaps	–	9,196	—	194
Current portion	–	9,196	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 (2019: HK$589,000) were charged (2019: 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 loss of HK$6,631,000 (2019: a net gain of HK$975,000) was reclassified from other comprehensive income to profit or loss as follows:

	2020 HK$'000	2019 HK$'000
Total fair value loss/(gain) included in the cash flow hedge reserve	15,633	(781)
Reclassified from other comprehensive income and recognised in finance costs included in the statement of profit or loss *(note 6)*	(6,631)	975
Net loss on cash flow hedges	9,002	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 2020 of the hedging instruments is the same as that of the hedged items, equaling the amount of the total fair value loss included in the cash flow hedge reserve of HK$15,633,000 (2019: total fair value gain of HK$781,000) above.

Interest rate benchmark reform

Following the decision by global regulators to phase out the existing interest rate benchmarks and replace them with RFRs, the Group is evaluating the impact on its existing hedge relationships. The evaluation is performed by a team headed by the chief financial officer and progress updates are made to the audit committee twice a year for interim and annual financial reporting. The Group has adopted the temporary reliefs provided by the amendments to HKFRS 9, HKAS 39 and HKFRS 7 which enable the hedge accounting of the Group to continue during the period of uncertainty, which is before the replacement of an existing interest rate benchmark with an RFR.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that may be affected by the interest rate benchmark reform, analysed by interest rate benchmarks. The derivative hedging instruments provide a close approximation to the extent of the risk exposure that the Group manages through hedging relationships.

As at 31 December 2020

	Nominal amount HK$'000	**Weighted average maturity** (Years)
Interest rate swap:		
United States dollar LIBOR	664,950	2.5

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	2020 HK$'000	2019 HK$'000
Cash and bank balances		**1,081,902**	916,274
Less: Pledged deposits for banking facilities and bank borrowings	30	**(37,126)**	(62,200)
Less: Restricted cash	24	**(66,594)**	(81,635)
Cash and cash equivalents		**978,182**	772,439

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

	2020 HK$'000	2019 HK$'000
Hong Kong dollars	**32,833**	17,914
Euro	**27,939**	162,043
Renminbi ("RMB")	**49,955**	124,316
United States dollars ("USD")	**734,033**	435,326
Perurian Soles ("PEN")	**61,277**	10,096
Indonesian Rupiah ("IDR")	**23,393**	10,023
Others	**48,752**	12,721
	978,182	772,439

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

	2020 HK$'000	2019 HK$'000
Trade and bills payables	**844,739**	739,105
Portion classified as current liabilities	**(802,006)**	(739,105)
Non-current portion	**42,733**	—

26. TRADE AND BILLS PAYABLES (CONTINUED)

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:

	2020 HK$'000	2019 HK$'000
Within 90 days	**441,428**	573,975
91 to 180 days	**170,986**	126,069
181 to 360 days	**213,980**	14,344
Over 360 days	**18,345**	24,717
	844,739	739,105

Included in the Group's trade payables are amounts due to subsidiaries of a joint venture of HK$185,556,000 (2019: HK$25,218,000), which are repayable by instalments up to August 2022. Other trade and bills payables are non-interest-bearing and are normally settled on terms ranging from 30 to 360 days.

27. OTHER PAYABLES AND ACCRUALS

	2020 HK$'000	2019 HK$'000
Due to EPC Contractors	**391,948**	499,959
Sundry payables	**118,823**	293,934
Accruals	**49,586**	87,127
Loan payables	**44,888**	253,521
	605,245	1,134,541
Current portion included in other payables and accruals	**(324,122)**	(805,306)
Non-current portion	**281,123**	329,235

27. OTHER PAYABLES AND ACCRUALS (CONTINUED)

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 2020 of HK$391,948,000 (2019: HK$499,959,000) were repayable by instalments up to January 2024 (2019: January 2024).

Included in the sundry payables is an amount due to a subsidiary of a joint venture of HK$31,212,000 (2019: HK$43,631,000), which is repayable by instalments up to March 2022 (2019: December 2020). Other sundry payables have an average term of 30 days.

As at 31 December 2020, the loan payables representing an amount due to a non-controlling shareholder which is unsecured, non-interest-bearing (2019: bore interest at a rate of 4.7% per annum) and is repayable based on terms stipulated in the loan agreement. As at 31 December 2019, the loan payables included payable to a subsidiary of a joint venture which was unsecured, bore interest at a rate of 4.3% per annum and was repaid in 2020.

28. CONTRACT LIABILITIES

	2020 **HK$'000**	2019 HK$'000
Short-term advances received from customers		
Sale of engine-based electricity generation units	**102,370**	122,868
Construction services*	**706,469**	—
Technical services*	**66,483**	—
Total contract liabilities	**875,322**	122,868

Contract liabilities are short-term advances received from customers for construction services, sale of engine-based electricity generation units and provision of technical services. The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the construction services and provision of technical services at the end of the year.

* The advances are received from subsidiaries of a joint venture.

29. SENIOR NOTES

In February 2018, a subsidiary of the Company, Genrent del Peru S.A.C., 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, among other things, (i) the assets of such subsidiary, which must remain free of any other lien until maturity; (ii) the equity interest in such subsidiary held by its shareholders; and (iii) a fiduciary trust which was constituted on certain bank collection accounts of such subsidiary, deposit in which amounted to US$8,538,000 (equivalent to approximately HK$66,594,000) and US$10,466,000 (equivalent to approximately HK$81,635,000) as at 31 December 2020 and 31 December 2019, respectively.

	2020 **HK$'000**	2019 HK$'000
Amounts payable:		
Within one year	**21,978**	17,724
In the second year	**24,299**	21,990
In the third to fifth years, inclusive	**94,238**	83,663
Beyond five years	**626,986**	658,742
	767,501	782,119
Analysed into:		
Current portion	**21,978**	17,724
Non-current portion	**745,523**	764,395
	767,501	782,119

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank overdrafts — unsecured	–	–	–	2.3–3.5	2020	4,237
Portions of bank loans due for repayment within one year or on demand — unsecured	1.04–3.05	2021	1,029,969	2.00–5.43	2020	1,651,028
Portions of bank loans due for repayment after one year which contain a repayment on demand clause *(note)* — unsecured	–	–	–	4.2–4.25	2021	98,230
Other borrowings — secured	6.2	2021	108,313	6.2	2020	29,062
			1,138,282			1,782,557
Non-current						
Portions of bank loans due for repayment after one year – unsecured	1.04–3.05	2022–2023	1,241,679	4.19–4.26	2021–2022	1,299,741
Other borrowings — secured	6.2	2022	41,462	6.2	2021–2022	149,963
			1,283,141			1,449,704
			2,421,423			3,232,261

Note:

Certain term loans of the Group containing a repayment on demand clause as at 31 December 2019 with a carrying amount of HK$218,166,000 had 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. For the purpose of the above analysis, such long-term portions were 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:

	2020 HK$'000	2019 HK$'000
Within one year	1,138,282	1,684,327
In the second year	1,162,861	684,588
In the third to fifth years, inclusive	120,280	863,346
	2,421,423	3,232,261

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

(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$52,339,000 (2019: HK$59,761,000) as at 31 December 2020 (note 13); and

(ii) the pledge of certain of the Group's cash deposits amounting to HK$37,126,000 (2019: HK$62,200,000) as at 31 December 2019 (note 25).

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

	2020	2019
	HK$'000	HK$'000
Hong Kong dollars	**277,655**	287,458
Euro	**101,684**	65,975
USD	**2,023,273**	2,874,593
Great British Pound	**—**	4,235
PEN	**18,811**	—
	2,421,423	3,232,261

31. PROVISION FOR RESTORATION

	2020	2019
	HK$'000	HK$'000
At 1 January	**27,000**	34,729
Additional provision	**1,950**	2,755
Amount utilised during the year	**(2,640)**	(817)
Reversal of unutilised amounts	**—**	(9,667)
At 31 December	**26,310**	27,000
Portion classified as current liabilities	**(6,123)**	(4,174)
Non-current portion	**20,187**	22,826

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.

32. 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 a business combination HK$'000	Total HK$'000
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
At 31 December 2019 and at 1 January 2020	**107,483**	**7,636**	**11,112**	**126,231**
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	**(29,399)**	**860**	**(632)**	**(29,171)**
Gross deferred tax liabilities at 31 December 2020	**78,084**	**8,496**	**10,480**	**97,060**

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 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
At 31 December 2019 and at 1 January 2020	**11,389**	**111,428**	**122,817**
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 10)*	**(1,458)**	**(47,982)**	**(49,440)**
Exchange realignment	**319**	**—**	**319**
Gross deferred tax assets at 31 December 2020	**10,250**	**63,446**	**73,696**

32. 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:

	2020 HK$'000	2019 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**4,750**	15,333
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(28,114)**	(18,747)
Net deferred tax liabilities	**(23,364)**	(3,414)

As at 31 December 2020, the Group has tax losses of HK$5,968,000 (2019: HK$4,988,000) 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 company in which the losses arose.

As at 31 December 2020, the Group also has tax losses arising in Mainland China of HK$9,627,000 (2019: Nil) that will expire in one to five years for offsetting against future taxable profits.

As at 31 December 2020, the Group also has tax losses arising in Peru of S/81,625,000 (equivalent to approximately HK$173,461,000) (2019: S/83,286,000 (equivalent to approximately HK$194,415,000)) 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 2020, the Group also has tax losses arising in Sri Lanka of Sri Lankan Rupee 1,092,534,000 (equivalent to approximately HK$46,095,000) (2019: Sri Lankan Rupee 4,469,063,000 (equivalent to approximately HK$191,928,000)) that will expire in six to ten years for offsetting against future taxable profits.

Deferred tax assets of HK$3,392,000 (2019: HK$823,000) 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.

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.

33. SHARE CAPITAL

Shares

	2020 HK$'000	2019 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.1 each	**500,000**	500,000
Issued and fully paid:		
2,646,915,000 (2019: 2,562,284,000) ordinary shares of HK$0.1 each	**264,692**	256,228

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 2019		2,562,074,000	256,207
Share options exercised	(a)	210,000	21
At 31 December 2019 and at 1 January 2020		2,562,284,000	256,228
Share options exercised	(b)	1,631,000	164
Issue of subscription shares	(c)	83,000,000	8,300
At 31 December 2020		2,646,915,000	264,692

(a) Share options with rights to subscribe for 210,000 shares 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.

(b) Share options with rights to subscribe for 1,631,000 shares were exercised at the subscription price of HK$2.016 per share, resulting in the issue of 1,631,000 ordinary shares of HK$0.1 each for a total cash consideration, before expenses, of HK$3,289,000. An amount of HK$2,098,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(c) On 23 July 2020, 83,000,000 shares were allotted and issued at the subscription price of HK$3.75 per share pursuant to a placing and subscription arrangement for a cash consideration, before expenses, of HK$311,250,000.

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 34 and 35 to the financial statements, respectively.

34. SHARE OPTION SCHEMES

The Company adopted 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.

34. 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:

	2020		2019	
	Weighted average exercise price per share HK$	**Number of options '000**	Weighted average exercise price per share HK$	Number of options '000
At beginning of year	**2.016**	**4,180**	2.016	4,432
Forfeited/expired during the year	**2.016**	**(87)**	2.016	(42)
Exercised during the year	**2.016**	**(1,631)**	2.016	(210)
At end of year	**2.016**	**2,462**	2.016	4,180

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.17 per share (2019: HK$2.75 per share).

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

2020

Number of options '000	**Exercise price per share* HK$**	**Exercise period**
1,013	**2.016**	**24 November 2018 to 23 November 2021**
1,449	**2.016**	**24 November 2019 to 23 November 2022**
2,462		

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		

* 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.

34. SHARE OPTION SCHEMES (CONTINUED)

No share option expense was recognised during the year ended 31 December 2020 (2019: HK$775,000).

The 1,631,000 (2019: 210,000) share options exercised during the year resulted in the issue of 1,631,000 (2019: 210,000) ordinary shares of the Company and new share capital of HK$164,000 (2019: HK$21,000) and share premium of HK$5,223,000 (2019: HK$661,000), as further detailed in note 33 to the financial statements.

At the end of the reporting period, the Company had 2,462,000 (2019: 4,180,000) 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 2,462,000 (2019: 4,180,000) additional ordinary shares of the Company and additional share capital of HK$246,000 (2019: HK$418,000) and share premium of HK$4,717,000 (2019: HK$8,009,000) (before issue expenses).

At the date of approval of these financial statements, the Company had not granted any share option under the Share Option Scheme; and had 2,462,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.09% of the Company's shares in issue as at that date.

35. SHARE AWARD SCHEME

The Company adopted a share award scheme on 18 July 2017 (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 may be new shares to be allotted or shares 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.

35. SHARE AWARD SCHEME (CONTINUED)

During the year, the Group purchased 11,462,000 (2019: Nil) of its own shares through the Trustee from the open market. The total amount paid to acquire the shares was approximately HK$38,064,000 (2019: Nil) and has been deducted from equity. As at 31 December 2020, 18,796,000 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 2019, 31 December 2019 and 1 January 2020	12,354,000	58,122
Purchases of shares for the Share Award Scheme	11,462,000	38,064
Shares awarded	(5,020,000)	(23,618)
At 31 December 2020	18,796,000	72,568

During the year, the Company awarded 5,020,000 shares to the eligible participants under the Share Award Scheme (2019: Nil).

36. 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").

36. 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. In the prior year, the Company acquired an 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 interest in the Brazil subsidiary was 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% did not result in any changes of the Company's control over the Brazil subsidiary and was 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, was 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.

37. ASSETS HELD FOR SALE

In the prior 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 were 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.

During the year, the assets held for sale were disposed of to independent third parties.

38. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that has material non-controlling interests is set out below:

	2020	2019
Percentage of equity interest held by non-controlling interests:		
Genrent Peru Group	49%	49%

	2020 HK$'000	2019 HK$'000
Profit for the year allocated to non-controlling interests:		
Genrent Peru Group	9,139	536
Accumulated balance of non-controlling interests at the reporting date:		
Genrent Peru Group	45,932	36,793

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Genrent Peru Group	
	2020 HK$'000	2019 HK$'000
Revenue	452,319	449,592
Total expenses, net	(433,667)	(448,499)
Profit for the year and total comprehensive income for the year	18,652	1,093
Current assets	251,084	205,213
Non-current assets	822,969	893,182
Current liabilities	(136,365)	(168,288)
Non-current liabilities	(843,964)	(855,044)
Net cash flows from operating activities	113,878	54,855
Net cash flows from/(used in) investing activities	13,805	(2,510)
Net cash flows used in financing activities	(76,464)	(46,381)
Net increase in cash and cash equivalents	51,219	5,964

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$56,907,000 (2019: HK$9,355,000) and HK$56,907,000 (2019: HK$9,175,000), respectively, in respect of lease arrangements for leased properties and motor vehicle.

During the year, the Group derecognised right-of-use assets and lease liabilities of HK$93,000 (2019: Nil) and HK$97,000 (2019: Nil), respectively, in respect of early termination of a lease arrangement for a leased property.

(ii) 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$140,901,000 (2019: HK$662,042,000).

(iii) During the year, payables to certain EPC contractors were offset against other receivables in aggregate amount of HK$246,971,000 (2019: Nil).

(iv) 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 2020, the Group has accrued and capitalised the estimated restoration cost of HK$1,950,000 (2019: HK$2,755,000) when such obligation has arisen.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

	Senior Notes	Bank and other loans	Lease liabilities	Loan payables
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2019	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
Changes from operating cash flows	**—**	**—**	**(2,632)**	**—**
Changes from financing cash flows	**(17,724)**	**(837,928)**	**(15,952)**	**(208,633)**
Repayment of bank overdrafts	**—**	**(4,237)**	**—**	**—**
Non-cash changes:				
Amortisation of debt establishment costs	**3,106**	**25,385**	**—**	**—**
New leases	**—**	**—**	**56,907**	**—**
Early termination of a lease	**—**	**—**	**(97)**	**—**
Covid-19-related rent concessions from lessors	**—**	**—**	**(23)**	**—**
Notional interest on lease liabilities	**—**	**—**	**2,632**	**—**
Foreign exchange movement	**—**	**5,942**	**2,486**	**—**
At 31 December 2020	**767,501**	**2,421,423**	**60,903**	**44,888**

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 HK$'000	2019 HK$'000
Within operating activities	**2,632**	1,042
Within financing activities	**15,952**	11,913
	18,584	12,955

40. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting period (2019: Nil).

41. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 HK$'000	2019 HK$'000
Contracted, but not provided for:		
Power generation assets	**326,776**	527,201
Capital contribution to the Fund	**31,270**	40,552

42. 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:

	2020 HK$'000	2019 HK$'000
A related company:		
Lease expense*	**938**	982
Subsidiaries of joint ventures:		
Purchase of goods	**201,986**	82,487
Provision of technical services	**18,812**	—
Sale of goods	**65,668**	—
Interest expense#	**3,138**	8,385

* Lease expense to Orient Profit Investment Limited comprised of depreciation charge of right-of-use assets and interest on lease liabilities amounting to HK$913,000 (2019: 913,000) and HK$25,000 (2019: 69,000), respectively. The related company is controlled by a controlling shareholder of the Company. The tenancy agreement expired during the year. The right-of-use assets and lease liabilities as at 31 December 2019 were HK$913,000 and HK$935,000, respectively.

Interest expense 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.

42. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Commitments with related companies

(i) On 1 January 2019, a subsidiary of the Group entered into a tenancy agreement with Orient Profit Investment Limited to rent a residential property in Hong Kong at a monthly rent of HK$80,000, for a term of two years.

(ii) As at 31 December 2020, the joint ventures had capital commitments of HK$1,578,775,000 (2019: Nil), which are contracted, but not provided for, to the Group for the engineering, procurement and construction of power generation assets.

(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:

	2020 HK$'000	2019 HK$'000
Short-term employee benefits	29,354	25,467
Post-employment benefits	162	162
Equity-settled share-based payment expense	6,755	403
Total compensation paid to key management personnel	36,271	26,032

43. 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:

2020

Financial assets

	Financial assets at amortised cost HK$'000
Trade and bills receivables	618,641
Financial assets included in prepayments, deposits, other receivables and other assets	209,651
Restricted cash	66,594
Pledged deposits	37,126
Cash and cash equivalents	978,182
	1,910,194

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	—	844,739	844,739
Financial liabilities included in other payables and accruals	—	575,367	575,367
Derivative financial instruments	9,196	—	9,196
Senior Notes	—	767,501	767,501
Interest-bearing bank and other borrowings	—	2,421,423	2,421,423
Lease liabilities	—	60,903	60,903
	9,196	4,669,933	4,679,129

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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	—	572,370	572,370
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

44. 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, the current portion of financial assets included in prepayments, deposits, other receivables and other assets, trade and bills payables, the 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, and 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, the non-current portion of financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings approximate to their carrying amounts. The fair value of senior notes is disclosed below.

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 2020, 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 2020.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2020

	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	—	9,196	—	9,196

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

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 (2019: Nil).

44. 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 2020

	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	—	—	760,491	760,491

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

45. 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 2020, after taking into account the effect of the interest rate swaps, approximately 49% (2019: 43%) 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$4,033,000 (2019: HK$5,683,000) as a result of higher/lower interest expenses on bank borrowings.

45. 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
2020		
If the Hong Kong dollar weakens against the Euro	**5**	**(15,232)**
If the Hong Kong dollar strengthens against the Euro	**(5)**	**15,232**
If the Hong Kong dollar weakens against the IDR	**5**	**3,332**
If the Hong Kong dollar strengthens against the IDR	**(5)**	**(3,332)**
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)

45. 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 2020

	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*	—	—	—	626,280	626,280
Bills receivables					
— Not yet past due	1,380	—	—	—	1,380
Contract assets included in prepayments, deposits, other receivables and other assets*	—	—	—	7,290	7,290
Financial assets included in prepayments, deposits, other receivables and other assets					
— Normal**	209,651	—	—	—	209,651
Restricted cash					
— Not yet past due	66,594	—	—	—	66,594
Pledged deposits					
— Not yet past due	37,126	—	—	—	37,126
Cash and cash equivalents					
— Not yet past due	978,182	—	—	—	978,182
	1,292,933	—	—	633,570	1,926,503

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

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**	572,370	—	—	—	572,370
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

* 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 24% (2019: 26%) and 67% (2019: 71%) of the Group's trade and bills receivables were due from the Group's largest debtor and five largest debtors, respectively.

45. 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 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:

	2020			
	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	802,006	42,733	—	844,739
Financial liabilities included in other payables and accruals	295,366	296,049	—	591,415
Senior notes	72,073	302,048	901,880	1,276,001
Interest-bearing bank and other borrowings *(note)*	1,210,310	1,317,544	—	2,527,854
Lease liabilities	10,556	18,879	67,575	97,010
Derivative financial instruments				
Interest rate swaps (net settlement)				
— net inflow	8,830	1,183	—	10,013
	2,399,141	1,978,436	969,455	5,347,032

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

	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

Note:

Included in the above interest-bearing bank and other borrowings of the Group as at 31 December 2020 are term loans with a carrying amount of HK$43,630,000 (2019: HK$218,166,000). 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 2020	44,208	—	44,208
As at 31 December 2019	127,150	99,776	226,926

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.

45. 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 2020 and 31 December 2019.

Capital of the Group comprises all components of shareholders' equity.

46. 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:

	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**330,807**	332,758
CURRENT ASSETS		
Prepayments and other receivables	**110**	148
Due from subsidiaries	**2,015,256**	1,724,655
Cash and cash equivalents	**1,780**	2,555
Total current assets	**2,017,146**	1,727,358
CURRENT LIABILITIES		
Other payables and accruals	**455**	1,101
Due to subsidiaries	**—**	28,934
Total current liabilities	**455**	30,035
NET CURRENT ASSETS	**2,016,691**	1,697,323
Net assets	**2,347,498**	2,030,081
EQUITY		
Share capital	**264,692**	256,228
Reserves *(note)*	**2,082,806**	1,773,853
Total equity	**2,347,498**	2,030,081

46. 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$'000 *(note 36(c))*	Shares held under the share award scheme HK$'000 *(note 35)*	Retained profits HK$'000	Total HK$'000
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 and at 1 January 2020	1,512,209	128,895	5,411	(58,122)	185,460	1,773,853
Profit and total comprehensive income for the year	—	—	—	—	142,948	142,948
Issue of subscription shares	285,047	—	—	—	—	285,047
Issue of shares upon exercise of share options	5,223	—	(2,098)	—	—	3,125
Transfer of share option reserve upon the forfeiture or expiry of share options	—	—	(105)	—	80	(25)
Equity-settled share-based arrangement	—	—	—	23,618	(11,721)	11,897
Purchase of shares for the share award scheme	—	—	—	(38,064)	—	(38,064)
Final 2019 dividend	—	—	—	—	(56,218)	(56,218)
Interim 2020 dividend	—	—	—	—	(39,757)	(39,757)
At 31 December 2020	1,802,479	128,895	3,208	(72,568)	220,792	2,082,806

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.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2021.

FIVE YEAR FINANCIAL SUMMARY

A SUMMARY OF RESULTS

	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**3,386,936**	2,794,036	2,420,749	1,746,016	1,531,011
Cost of sales	**(2,575,810)**	(2,056,794)	(1,714,007)	(1,169,189)	(1,033,197)
Gross profit	**811,126**	737,242	706,742	576,827	497,814
Other income and gains	**175,461**	143,505	40,164	190,246	53,997
Selling and distribution expenses	**(33,131)**	(30,981)	(25,794)	(29,091)	(23,973)
Administrative expenses	**(344,813)**	(338,986)	(272,561)	(205,031)	(201,401)
Other expenses, net	**(69,308)**	(5,210)	(32,489)	(98,620)	(4,463)
Finance costs	**(220,544)**	(249,296)	(191,359)	(76,999)	(68,836)
Share of profits and losses of joint ventures	**263,574**	66,873	6,298	—	—
PROFIT BEFORE TAX	**582,365**	323,147	231,001	357,332	253,138
Income tax expense	**(56,932)**	(40,889)	(30,096)	(26,014)	(31,125)
PROFIT FOR THE YEAR	**525,433**	282,258	200,905	331,318	222,013
Attributable to:					
Owners of the Company	**516,294**	283,551	213,288	331,924	222,013
Non-controlling interests	**9,139**	(1,293)	(12,383)	(606)	—
	525,433	282,258	200,905	331,318	222,013

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**9,131,061**	8,951,272	7,394,227	5,926,607	5,025,360
TOTAL LIABILITIES	**(5,649,573)**	(6,092,636)	(4,777,873)	(3,465,885)	(2,763,110)
	3,481,488	2,858,636	2,616,354	2,460,722	2,262,250
EQUITY					
Equity attributable to owners of the Company	**3,435,556**	2,821,843	2,570,200	2,461,316	2,262,250
Non-controlling interests	**45,932**	36,793	46,154	(594)	—
	3,481,488	2,858,636	2,616,354	2,460,722	2,262,250

KEY FINANCIAL RATIOS

	As of and for the year ended 31 December				
	2020	2019	2018	2017	2016
Profitability ratios					
Return on equity(1)	**16.6%**	10.3%	7.9%	14.0%	15.8%
Return on total assets(2)	**5.8%**	3.5%	3.0%	6.1%	5.7%
Liquidity ratios					
Current ratio(3)	**1.0**	1.1	1.4	1.4	1.8
Quick ratio(4)	**0.7**	0.9	1.0	1.1	1.5
Liabilities to assets ratio(5)	**0.6**	0.7	0.6	0.6	0.5
Capital adequacy ratios					
Net gearing ratio(6)	**60.5%**	108.4%	117.9%	7.7%	(28.5)%
Interest coverage(7)	**3.6**	2.3	2.2	5.6	4.7
EBITDA interest coverage(8)	**5.1**	3.4	3.2	7.8	6.4

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)*
Ms. Chan Mei Wan
Mr. Yeung Wai Fai Andrew

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
Certified Public Accountants
Registered Public Interest Entity Auditor

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

Cricket Square
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Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 2701–05, 27/F
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18–22 Tak Fung Street
Hung Hom
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Conyers Trust Company (Cayman)
Limited
Cricket Square
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Cayman Islands

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Computershare Hong Kong Investor
Services Limited
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Hong Kong

COMPANY WEBSITE

www.vpower.com

STOCK CODE

1608