VPOWER GROUP

# VPower Group International Holdings Limited

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

Stock Code: 1608


# LIGHTEN UP
## THE WORLD OF POSSIBILITIES

**2018 ANNUAL REPORT**

# CONTENTS


VPOW

# COMPANY
## PROFILE

**VPower Group International Holdings Limited (VPower Group) (SEHK:1608) is one of the world's leading large gen-set system integration providers and one of Southeast Asia's largest gas-fired engine-based distributed power generation (DPG) station owners and operators, 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, (2) designing, investing in, building, leasing, operating DPG stations for off-takers. Together, they make up our two principal business segments: (1) System Integration (SI) business and (2) Investment, Building and Operating (IBO) business. Our fast-track power solutions generate stable and reliable electricity for our customers in emerging markets to improve their power supply and living standards; as well as provide flexible and efficient electricity to our customers in developed markets to supplement the increasing use of renewable energy due to power reform.

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

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

We power the world, and lighten up possibilities.

# ACHIEVEMENTS


Honoured with the “2018 Hong Kong Awards for Industries: Upgrading and Transformation Grand Award” by the Hong Kong Young Industrialists Council, VPower Group was recognised with our distinguished ability and achievements in business upgrading in the ever-changing market. The awards presentation ceremony officiated by Mrs Carrie Lam Cheng Yuet-ngor, the Chief Executive of the Hong Kong Special Administrative Region, was held at Hong Kong Science Park on 11 December 2018.

VPower Group received “BOCHK Corporate Environmental Leadership Award — Belt and Road Environmental Leadership Recognition Award” from the Federation of Hong Kong Industries and Bank of China (Hong Kong) on 31 May 2018 in recognition of our achievements in environmental protection and outstanding contributions to improve the environment in countries and regions along the Belt and Road Initiative.

To support the tremendous demand growth for electricity in Myanmar, VPower Group was building its 4th distributed power station in Myanmar to generate stable and reliable electricity. On 24 November 2018, His Excellency U Win Khaing, Union Minister for Ministry of Electricity and Energy of Myanmar conducted a site visit to our new power station.

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of VPower Group International Holdings Limited ("VPower Group" or the "Company"), I am pleased to present you our annual results for the year ended 31 December 2018 (the "Year" or "FY2018").

Mr. LAM Yee Chun
Executive Chairman

# CHAIRMAN'S STATEMENT

## SOLID FUNDAMENTALS FOR FUTURE EARNINGS GROWTH

In 2018, we recorded a revenue of HK$2,420.7 million (2017: HK$1,746.0 million), representing a year-on-year growth of 38.6%. Among which, revenue from SI business was HK$1,579.0 million (2017: HK$1,182.9 million), representing a remarkable growth of 33.5%; revenue from IBO business was HK$841.7 million (2017: HK$563.2 million), representing a growth of 49.4%. Gross profit increased 22.5% to HK$706.7 million (2017: HK$ 576.8 million). EBITDA rose 3.2% to HK$621.6 million (2017: HK$602.6 million). Despite of the satisfactory fundamental growth in business development, we recorded a decrease of 35.7% in profit attributable to the owners of the Company to HK$213.3 million (2017: HK$331.9 million), which was mainly due to no substantial amount of fair value gain on derivative financial instrument recorded as that in 2017 and an increase in finance costs.

To reward our shareholders for the great support, the Board proposed a final dividend of HK0.48 cent. Upon shareholder's approval, this will result in a full year dividend of HK1.95 cents, which is in line with our dividend policy of around 25% of profit for the year.

## HONOURED WITH "2018 HONG KONG AWARDS FOR INDUSTRIES: UPGRADING AND TRANSFORMATION GRAND AWARD"

Over the years, capitalizing our advantages as a Hong Kong-based enterprise, we have been spirited and driven to upgrade ourselves and grow our global business presence. During the Year, we were overwhelmingly honoured to be awarded "2018 Hong Kong Awards for Industries: Upgrading and Transformation Grand Award" and receive the award from Mrs Carrie Lam Cheng Yuet-ngor, the Chief Executive of the Hong Kong Special Administrative Region.


Organized by Hong Kong Young Industrialists Council, the Upgrading and Transformation Award under Hong Kong Awards for Industries encourages and recognises enterprises that have reformed their core business to adapt to the ever-changing market and business environment through participating in the upgrading and transformation programme so as to continuously enhance the competitiveness of Hong Kong enterprises. It also affirms the importance of upgrading and transformation to the industry sector as well as Hong Kong's economy. Winning the Grand Award is a prestigious recognition of our achievement in upgrading ourselves from a power system integration provider to an all-rounded distributed power generation solution provider, which I would like to share with every member of VPower Group.

# CHAIRMAN'S STATEMENT

## SIGNIFICANT PROGRESS IN BUILDING BUSINESS NETWORK

With a clear objective to grow into a global leading distributed power generation solution provider, we continued our efforts to solidify our leadership in power system integration industry and build our global network for IBO business during the Year.

Apart from penetrating our existing IBO markets, we leveraged on our strong SI network and market intelligence and successfully entered into Peru with a 20-year, 79.8MW heavy fuel oil-fired project, and China with a 15-year, 8.2MW biogas project with combined heat and power system during the Year. These two projects not only marked our achievement in expanding business footprint, but also demonstrated our capability to accommodate the different needs of off-takers. As discussed since mid-2018, we have determined to explore the tremendous business opportunities for our IBO projects in developed countries such as the United Kingdom. During the Year, we deployed substantial resources to lay a solid foundation for our upcoming business development in the market with some potential projects being selected as pilot projects.

On top of business development, we made an important decision in 2018 to establish a 50:50 energy fund with CITIC Pacific. The fund aims to invest in the energy sector along the Belt and Road Initiative. It has made 3 investments within the first year with the investees companies' business engaging in waste to energy technology, equipment rental and power system manufacturing and integration respectively. These investee companies were strategically selected because of their well-established business foundation, their business nature, and most importantly, the potential synergies between our Company, CITIC Pacific and the investee companies as well as the synergies among the investee companies themselves. Together with our market leading position in the distributed power industry and technical know-how, we are confident to integrate the investee companies' specialization and grow it into an integrated platform for our diversified and sustainable development.

## UNDERPINNING SUSTAINABILITY AND CREATING LONG-TERM VALUE

We made some investments in 2018, not just for short-term growth but to create long-term value. We believe that our work to solidify our foundation and get ourselves ready for the upcoming business opportunities is extremely significant to our business sustainability, which reflects our responsibility to create value for our shareholders.

Looking ahead, we remain positive on the development of DPG market around the world. DPG market is gaining momentum as the structural power deficit in emerging markets continues and we are seeing an upward demand for power reserve capacity to stabilize and balance the local power grid in developed markets. Riding on the successful geographical expansion and foundation built in 2018, we will continue to diversify and enrich our IBO portfolio and strengthen our SI business at the same time in pursuit of sustainability.

For emerging markets, we will prioritize the existing markets of operations in order to effectively allocate our resources and capture upcoming opportunities. We have a good start in 2019 by having commenced commercial operation of Myingyan II Project and Yangon Project with a total installed capacity of 114.4MW in Myanmar. We are expecting to have our first project in Sri Lanka, with an installed capacity of 54.9MW to commence operation by end of April 2019. Following our debut in Peru in February 2018, we expect to expand our presence in Latin America, mainly in Brazil, in the second half of 2019.

# CHAIRMAN'S STATEMENT

Thanks to the accelerating demand for power reserve to alleviate the risk of renewable power supply instability, the market potential in developed countries is expected to be tremendous. The United Kingdom, one of our targeted developed markets, is expected to decommission all coal-fired power stations by 2025. The rise of renewables is substantially changing the power generation mix in the United Kingdom, posing a threat to large scale baseload generators that may become unprofitable at lower load factors. Meanwhile, the intermittent nature of renewables makes them unable to provide firm power, and still require backup power generation. As such, markets increasingly look set to reward small-scale, flexible DPG stations and storage technologies such as batteries that are capable of ramping up and down quickly to help balance and stabilize the grid system. We expect to have our first 20.3MW Doncaster Project in the United Kingdom in operation in the third quarter of 2019 and we are targeting to have an additional 60.9MW in operation in the fourth quarter of 2019. With our industry leading efficiency and technical expertise, strong relationship with world-class engine manufacturers and economies of scale, we are poised to capture market opportunities there.

We are seeing good acquisition opportunities emerging from some consolidations in the industry and the changing energy mix. Leveraging on the resources of CITIC Pacific and our well-established leadership in the DPG industry, we will continue to seek for attractive business opportunities in the evolving energy sector in countries along the Belt and Road Initiative through the Fund or other forms of cooperation.

## INVESTING FOR THE FUTURE

The global power market is experiencing a major transition and becoming more dynamic as more emphasis is placed on low-carbon, energy efficiency and decentralisation. To seize the foreseen market potential for DPG solutions, we will continue to explore various business opportunities. Nevertheless, in order to underpin the Group's sustainability amid rising geopolitical uncertainties in various parts of the world, we will take a proactive yet fairly cautious approach to build our global diversified and risk-controlled IBO portfolio. Expecting some potential industry consolidations arising from the global energy transition, we will also actively look for regional collaboration with strategic partners and synergistic opportunities in mergers and acquisitions opportunities.

In closing, on behalf of the Board, I would like to extend my sincere gratitude to all of our shareholders, customers, vendors, investors and business partners for their unwavering trust and continuous support. Last but not least, my deepest appreciation goes to our professional and dynamic team of colleagues, who contribute to release the value of the Company and deliver our services to the world in need of high quality, flexible and reliable distributed power solutions.

**LAM Yee Chun**
*Executive Chairman*

28 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

The global energy market is in transition to a low-carbon and energy efficient future. With our long history of industry experience, dedication in improving efficiency of our solutions, sound expansion strategy, and also solid partnerships with different international players, we continued to solidify our foundation and prepare ourselves to seize the upcoming business opportunities in 2018.

## BUSINESS OVERVIEW

### Market Review

In 2018, distributed power generation ("**DPG**") market, particularly for engine-based power generation, continued to grow with expanding scope of application, covering power rental, backup power, peak-shaving, fast-track small scale utilities and power reserve market.

The power system integration market remained strong in 2018. A significant growth in market demand was seen mainly due to the growing power reserve market to supplement renewable energy generation, rapid development of data centers and e-commerce logistics centers, and continuing strengthening of marine market.

Most of the Southeast Asian countries continued to experience solid power demand growth and power deficit. Myanmar, for example, expected the domestic demand for electricity to increase to 5,774MW by 2022, representing a growth of 80% as compared to 2018 level. To support the increasing need, the government announced in early 2018 its commitment to provide an additional 3,600MW electricity within the next four years. Our lower capital required, flexible, fast-track DPG solutions continued to play a key role in bridging the demand and supply gap in these countries given the overall more volatile macro environment globally.

# MANAGEMENT DISCUSSION AND ANALYSIS

Developed countries also experienced an increasing demand for DPG solutions primarily driven by the rise of renewable and clean energy generation. The intermittent nature of renewable energy made the immediately available DPG solution an ideal solution to balance and stabilize the grid system.

## Business Review

We principally engage in (i) system integration ("**SI**") business, in which we design, integrate and sell gas-fired and diesel-fired engine-based gen-sets and power generation systems ("**PGSs**"); and (ii) invest, build and operate ("IBO") business, in which we invest in, build, lease and operate distributed power stations to deliver reliable electricity to the off-takers.

### *SI Business*

Leveraging on our 20 years of operational experience in SI business, we continued to penetrate into the global SI markets and recorded a remarkable revenue growth of 33.5% to HK$1,579.0 million for the year ended 31 December 2018 (2017: HK$1,182.9 million). The growth was mainly attributable to the successful capturing of growing market demand from the power reserve market to supplement renewable energy, data centers, e-commerce logistic centers and marine market, and the early delivery of certain 2019 orders.

### *IBO Business*

In 2018, on top of penetrating existing IBO markets, we continued to deploy substantial resources in market development with a view to extending our business presence into potential markets and building a strategic global business network.

Replicating the success in Southeast Asia and leveraging our well-established SI global network, we expanded our IBO business into Latin America. In February 2018, we exercised the option to acquire 51% equity interest in the project company of a heavy fuel oil-fired project in Peru with installed capacity of 79.8MW ("**Iquitos Project**"), to which we offered a 3-year convertible loan of US$30 million in May 2017, at a consideration of US$4.6 million which was satisfied by way of set-off against the same amount of the convertible loan. The project has a contract term of 20 years which is expected to provide a long term and stable revenue stream to the Group and establish our presence in Latin America.

In September 2018, the first phase of our first biogas project with combined heat and power ("**CHP**") system in Shandong Province, China ("**Shandong Project**") commenced commercial operation. The installed capacity of the first phase of the project is 8.2MW and the contract term is 15 years. The second phase of 6.2MW is expected to be in commercial operation in the second half of 2019.

Myanmar has been one of our focuses of operating countries along the Belt and Road Initiative. Since our entry in 2015, we have been the leader in the local DPG market and have built a track record of operational excellence. We won a public tender for a DPG project in March 2018 and entered into the relevant power purchase agreement in November 2018. The power station for the project with installed capacity of 109.7MW and a contract term of 5 years ("**Myingyan II Project**") was under construction as at 31 December 2018 and commenced commercial operation in February 2019. In addition, we secured a DPG project in Yangon, Myanmar in the second half of 2018. This project with installed capacity of 4.7MW and a contract term of 4 years ("**Yangon Project**") commenced commercial operation in March 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2018, we also tapped into the power reserve market in the United Kingdom by securing a contract in Doncaster, the United Kingdom with a planned installed capacity of 20.3MW ("**Doncaster Project**"). The project is expected to commence commercial operation in the third quarter of 2019. We plan to add more projects with an aggregate planned installed capacity of 60.9MW which are expected to commence commercial operation in the fourth quarter of 2019.

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

| **Projects** | **Installed capacity (MW)[1]** | **Contract length (months)[2]** | **Location** |
|---|---|---|---|
| Teluk Lembu I | 20.3 | 12 | Indonesia |
| Teluk Lembu II | 65.8 | 60 | Indonesia |
| Jambi | 56.4 | 60 | Indonesia |
| Medan[3] | 54.0 | 12 | Indonesia |
| Rengat | 20.3 | 36 | Indonesia |
| Subtotal | 216.8 | | |
| Kyauk Phyu I | 49.9 | 60 | Myanmar |
| Kyauk Phyu II | 49.9 | 60 | Myanmar |
| Myingyan I | 149.8 | 60 | Myanmar |
| Myingyan II[4] | 109.7 | 60 | Myanmar |
| Yangon[5] | 4.7 | 48 | Myanmar |
| Subtotal | 364.0 | | |
| Iquitos[6] | 79.8 | 240 | Peru |
| Shandong | 8.2 | 180 | China |
| **Total** | 668.8 | | |

VPower Group International Holdings Limited

# MANAGEMENT DISCUSSION AND ANALYSIS

As of the date of this report, we are in progress to renew the contract of the following project:

| Project | Installed capacity (MW)[1] | Location |
|---|---|---|
| Pagla | 58.8 | Bangladesh |

*Notes:*

(1) Installed capacity refers to the maximum power generation capacity of the DPG station based on an aggregate capacity of power generation systems ("**PGS(s)**") installed.

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

(3) The Medan project consists of Aceh, Tanjung Belit, Tembilahan and Kota Tengah DPG stations.

(4) Myingyan II Project commenced commercial operation in February 2019 as scheduled.

(5) Yangon Project commenced commercial operation in March 2019 as scheduled.

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

Our IBO business segment recorded a revenue of HK$841.7 million for the year ended 31 December 2018 (2017: HK$563.2 million), representing a year-on-year increase of approximately 49.4%. The increase in IBO revenue was primarily contributed by the Iquitos Project (in which our revenue includes pass-through fuel cost).

The following table shows our potential projects, for which we have won public tenders or entered into contracts or letter of intent for operation or acquisition, as of the date of this report:

| Projects | Planned installed capacity (MW) | Location |
|---|---|---|
| Sri Lanka | 54.9 | Sri Lanka |
| China Biogas | 18.6 | China |
| Amazonas State | 70.3 | Brazil |
| Doncaster | 20.3 | United Kingdom |
| UK | 60.9 | United Kingdom |
| Bangladesh | 300.0 | Bangladesh |
| Ghana | 56.2 | Ghana |
| **Total** | 581.2 | |

In addition, as of the date of this report, we have projects with over 420MW planned installed capacity under advanced stage of negotiation in Myanmar, Indonesia, China, the United Kingdom and the Middle East.

# MANAGEMENT DISCUSSION AND ANALYSIS

*Tamar VPower Energy Fund I, L.P.*

To explore the opportunities in the energy sector in countries along the Belt and Road Initiative, we and CITIC Pacific, one of China's largest conglomerates and our 8% shareholder, established an energy fund with equal initial commitments in January 2018. Since its establishment, the Fund has invested in three companies, namely Orcan International Energy Technology Co., Ltd. (together with its subsidiaries, "**Orcan International**"), Byrne Equipment Rental LLC (together with its subsidiaries, the "**Byrne Group**") and 科源動力科技有限公司 Keyuan Power Technology Co. Ltd* (formerly known as 中高柴油機重工有限公司 Zgpt Diesel Heavy Industry Co., Ltd*) ("**Keyuan Power**").

Orcan International offers efficient energy solutions based on organic rankine cycle ("**ORC**") technology for conversion of waste heat into electricity in sectors including gas-fired and diesel-fired power plants, oil and gas industrial, hotels, hospitals, marine power, geothermal power, biomass and landfill gas. Orcan International has been granted a license to use ORC technology, patents and brands of Orcan Energy AG (Germany). There are a lot of synergies between our Group and Orcan International as we can apply this ORC technology in our DPG projects to increase the overall energy efficiency of the projects. For example, we installed the modular ORC systems of Orcan International in the power station of Myingyan II Project which successfully enhances the project's energy efficiency.

Being a long-term SI customer of our Group, the Byrne Group is one of the most diverse equipment rental suppliers in the Gulf Cooperation Council ("**GCC**") region. With more than 10,000 items of plant and 15 operational bases, the Byrne Group offers high quality equipment rental solutions and power rental solutions to a broad variety of sectors including oil and gas, construction and infrastructure, events industrial and manufacturing and marine and ports throughout the GCC region. The strong network of the Byrne Group provides a readily available platform for us to efficiently expand our SI and IBO business into the Middle East which is among the world's highest electricity consumption per capita and where the electricity demand has continued to outpace supply growth.

Keyuan Power, headquartered in the strategic Hangzhou Economic and Technological Development Zone which is in close proximity to the central business district of Hangzhou Dongbuwan and Hangzhou Xiaoshan International Airport, engages in the manufacturing and fabrication of power equipment, solutions and peripherals. With an entitled land area of 59,385 $m^2$ and a gross floor area of 52,526 $m^2$, Keyuan Power has comprehensive facilities, including research and development center, assembly equipment, test equipment, physicochemical analysis equipment and automatic stereoscopic warehouse. It is expected that the facilities will further strengthen our system manufacturing and integration capability.

We believe these investments are synergistic to us and CITIC Pacific and will contribute significant return to the Fund in the near future. The businesses of the above investee companies are related to our core businesses which could support our business development, in particular, they will enhance our power solutions' energy efficiency, strengthen our research and development capability, broaden and upgrade our product range, and strength our self-manufacturing capacity.

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

### *Revenue*

The revenue of the Group was mainly derived from: (i) SI business by providing gen-sets and PGSs 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.

In 2018, the Group recorded a revenue of approximately HK$2,420.7 million, representing an increase of 38.6% as compared with approximately HK$1,746.0 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 significant 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** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **HK$'000** | **% of total revenue** | HK$'000 | % of total revenue |
| Hong Kong | **67,797** | **2.8** | 101,862 | 5.8 |
| Mainland China | **393,936** | **16.3** | 350,287 | 20.1 |
| Other Asian countries/territories[(1)] | **961,596** | **39.7** | 644,250 | 36.9 |
| Other countries/territories | **155,709** | **6.4** | 86,464 | 4.9 |
| Total | **1,579,038** | **65.2** | 1,182,863 | 67.7 |

*Note:*

(1) Other Asian countries/territories include Singapore, United Arab Emirates, South Korea, Israel, the Philippines 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** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **HK$'000** | **% of total revenue** | HK$'000 | % of total revenue |
| Peru | **333,374** | **13.8** | — | — |
| Indonesia | **172,622** | **7.1** | 183,145 | 10.5 |
| Bangladesh | **65,720** | **2.7** | 74,652 | 4.3 |
| Myanmar | **256,763** | **10.6** | 305,356 | 17.5 |
| Mainland China | **13,232** | **0.6** | — | — |
| Total | **841,711** | **34.8** | 563,153 | 32.3 |

### *Cost of sales*

Under our SI business, our cost of sales mainly consists of cost of goods sold and services provided, staff costs, rental expense and depreciation. We use engines, radiators, alternators, other parts and ancillary equipment to produce gen-sets and PGSs. We incur rental expense for our manufacturing facilities.

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 2018 and 2017, our cost of sales was approximately HK$1,714.0 million and HK$1,169.2 million, respectively, due to the growth of both SI and IBO businesses.

### *Gross profit and gross profit margin*

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **HK$'000** | **gross profit margin %** | HK$'000 | gross profit margin % |
| SI | **334,656** | **21.2** | 253,821 | 21.4 |
| IBO | **372,086** | **44.2** | 323,006 | 57.4 |
| Total | **706,742** | **29.2** | 576,827 | 33.0 |

Gross profit of the Group was approximately HK$706.7 million, representing an increase of 22.5% as compared with approximately HK$576.8 million of the previous year. Gross profit margin for this year decreased to 29.2% from 33.0% for 2017 which was mainly attributable to the addition of the Iquitos Project (in which we incur pass-through fuel cost) to the IBO business.

### *Profit before tax*

Profit before tax for the year ended 31 December 2018 was approximately HK$231.0 million, representing a decrease of 35.3% as compared with approximately HK$357.3 million of the previous year. The decrease was mainly due to (i) an exceptionally substantial amount of fair value gain on derivative financial instrument recorded in 2017; (ii) increase in finance cost as a result of increase in interest-bearing bank and other borrowings and senior notes; and (iii) increase in administrative expenses as a result of addition of the Iquitos Project to IBO business and increase of headcounts.

### *Other income and gains*

In 2018, other income and gains of the Group amounted to approximately HK$40.2 million, representing a decrease of 78.9% as compared with approximately HK$190.2 million of the previous year. The decrease was mainly attributable to no substantial fair value gain on derivative financial instrument as that recorded in 2017 and less gain on debt extinguishment in relation to payables to EPC contractors during the year.

### *Selling and distribution expenses*

Selling and distribution expenses of the Group primarily consist of costs for transportation and traveling expenses, commission expense, insurance expense, staff costs and others. In 2018, selling and distribution expenses of the Group decreased by 11.3% from approximately HK$29.1 million in 2017 to approximately HK$25.8 million. It was mainly attributable to the decrease in transportation cost.

### *Administrative expenses*

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

In 2018, administrative expenses of the Group were approximately HK$272.6 million, an increase of 33.0% over the previous year of approximately HK$205.0 million. The increase was mainly due to addition of the Iquitos Project to the IBO business and increase in headcounts and professional fees.

### *Other expenses, net*

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

In 2018, other expenses, net were approximately HK$32.5 million, which represented a decrease of 67.0% as compared with the previous year of approximately HK$98.6 million. The decrease was mainly attributable to the decrease in foreign exchange loss.

### *Finance costs*

Finance costs of the Group primarily consist of interest and other finance costs on letters of credit, bank loans and overdrafts, notional interest on other payables and interest on finance leases and other borrowings. In 2018, finance costs were approximately HK$191.4 million, which represented an increase of 148.6% over the previous year of approximately HK$77.0 million. The increase was primarily due to the interest paid under the senior notes issued by Genrent Peru to finance, among other things, the Iquitos Project and increase in the loan interest for interest-bearing bank and other borrowings.

### *Income tax expense*

Income tax expense of the Group primarily consists of income tax payable by our subsidiaries in the PRC and Hong Kong. In 2018, income tax expense was approximately HK$30.1 million, representing an increase of 15.8% over the previous year of approximately HK$26.0 million, and our effective tax rate was 13.0% and 7.3% for 2018 and 2017, respectively. The increase in effective tax rate was primarily due to the addition of the Iquitos Project to the IBO business in 2018, which was subject to a higher tax rate.

### *Profit Attributable to Owners and Earnings per Share*

In 2018, profit attributable to owners of the Company was approximately HK$213.3 million, representing a decrease of approximately HK$118.6 million or approximately 35.7% as compared with approximately HK$331.9 million of the previous year.

Basic earnings per share for the year ended 31 December 2018 were HK8.36 cents as compared with HK12.99 cents of the previous year.

### *Liquidity, Financial and Capital Resources*

As at 31 December 2018, total current assets to the Group amounted to HK$4,447.0 million (2017: HK$3,123.6 million). In terms of financial resources as at 31 December 2018, cash and cash equivalents of the Group were HK$541.4 million (2017: HK$1,033.5 million).

As at 31 December 2018, total bank and other borrowings and senior notes of the Group amounted to approximately HK$3,755.8 million (2017: HK$1,389.0 million), representing an increase of approximately 170.4% as compared to that of 31 December 2017. 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 2018, the Group's bank and other borrowings and senior notes denominated in U.S. dollars, HK dollars and Euro were approximately HK$3,284.0 million (2017: HK$984.9 million), HK$409.2 million (2017: HK$225.7 million) and HK$62.6 million (2017: HK$178.1 million), respectively.

Details of bank and other borrowing and senior notes are set out in note 28 and note 27 to the audited consolidated financial statements, respectively.

The Group finances its business with internally generated cash flows from operations and bank borrowings. The decrease in cash and cash equivalents was mainly due to the utilisation of funds for daily operations and capital expenditure of property, plant and equipment as well as investment in joint ventures.

As at 31 December 2018, the Group's current ratio was 1.4 (2017: 1.4). The Group's liabilities to assets ratio, which is calculated as a percentage of total liabilities to total assets, was 64.6% (2017: 58.5%). 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 58.9% (2017: 58.5%). 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 117.9% (2017: 7.7%). The net gearing ratio, adjusted by excluding the senior notes issued by a non-wholly owned subsidiary which are non-recourse to the Company and any other subsidiaries, and restricted cash held under that non-wholly owned subsidiary, was 91.0% (2017: 7.7%).

### *Charge of Assets*

As at 31 December 2018, the Group had charged certain property, plant and equipment with a net book value of approximately HK$565.8 million (2017: HK$594.9 million) to certain banks and a finance leasing company to secure bank and other borrowings; and the equity interest in a 51% owned subsidiary with the total asset value of approximately HK$862.0 million as security for the senior notes issuance of such subsidiary.

Details of the charge of assets are set out in note 13, 27 and 28 to the audited consolidated financial statements.

### *Exposure on Foreign Exchange Fluctuations*

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

The Group is exposed to foreign exchange risk through sales and purchase that are dominated in currencies other than the functional currency of the respective operations. The currencies involved are primarily Euro, IDR and RMB. The Group's majority of purchases are either in Euro or U.S. dollar. During the year, the Group entered into currency forward contracts to hedge its partial foreign exchange exposure against Euro fluctuation. 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 and adopt strategies that, if necessary, reduce the exposure to currency risks.

### *Contingent Liabilities*

Details of contingent liabilities as at 31 December 2018 are set out in the note 40 to the audited consolidated financial statements.

### *Capital Expenditures*

For the year ended 31 December 2018, the Group invested HK$1,012.1 million (2017: HK$403.3 million) in property, plant and equipment, HK$998.3 million of which (2017: HK$340.2 million) was invested mainly for IBO projects relate to prospective DPG stations located in Mainland China and Myanmar and acquisition of a subsidiary.

## MATERIAL ACQUISITION AND DISPOSAL

Details of the acquisition and performance during the year are set out in note 17 and 38 to the audited consolidated financial statements.

## EMPLOYEES

As at 31 December 2018, the Group had 371 employees (2017: 293). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set out the Mandatory Provident Fund Scheme for the employees in Hong Kong and has made contributions to the state-sponsored pension scheme operated by the PRC government for the employees in the PRC. The Group has share option schemes and a share award scheme to motivate valued employees. During the year of 2018, the Group provided internal and external training (e.g. orientation training, on-the-job training, product training and site safety training) to enrich the knowledge and skills of our employees.

# CORPORATE SOCIAL
## RESPONSIBILITY

We are a fast-growing company with a clear mission to power the world and lighten up possibilities. As a responsible corporate, we are committed to creating value for our stakeholders from shareholders, suppliers, customers, partners to employees and most importantly, the communities.

We actively address the needs of our stakeholders, and provide corresponding solutions to construct a better living, working and business environment for different stakeholders respectively.

### ORBIS MOONWALKERS · HONG KONG

Orbis is an international non-profit non-governmental organization. Since the 1980s, they have been eradicating blindness in different countries. Through hands-on training, public health education, advocacy and local partnerships, their programs focus on the prevention of blindness and the treatment of blinding eye diseases in developing countries.

In the effort to raise funds for patients living in the poor regions, a group of VPower Group's management and staff participated in the Orbis Moonwalkers 2018 to challenge a through-the-night 20km walkathon from Shatin Sports Ground to Tai Mei Tuk, Tai Po.

# CORPORATE SOCIAL RESPONSIBILITY

## FEAST FOR THE ELDERLY · HONG KONG

To encourage younger generation to care for senior citizens and arouse public attention to the social needs of the aging population, VPower Group sponsored the "Feast for the Elderly" which was co-organized by 2 social enterprises, "Run to Your Home" and "Sweet Stories".

Held in the campus of the Chinese University of Hong Kong, there were 1,000 guests, including 500 elderly people and 500 community ambassadors sharing meals in one-on-one manner. Through the feast for a thousand of people, the organizers hoped to deliver the importance of caring and accompanying the elderly.

## CELEBRATING TUEN NG FESTIVAL & PROMOTING DRAGON BOAT RACING · HONG KONG · SINGAPORE

Dragon boat racing, once an ancient Chinese folk ritual to celebrate Tuen Ng Festival, has transformed into a modern international sport in recent years. To celebrate the Dragon Boat Festival with the public and to promote this sport in Hong Kong, the Group has sponsored a team of local and expatriate sports aficionados in forming the VPower Group Dragon Boat Team since 2015.



# CORPORATE SOCIAL RESPONSIBILITY

## SHARING HAPPINESS WITH THE COMMUNITY · INDONESIA

As a form of caring and commitment to the society, VPower Group distributed 490 packs of food bags with sugar, rice, and cooking oil to the residents who are living in the vicinity of our power plants in Jambi, Takengon and Tanjung Belit.

We hope our business operation will bring new job opportunities and create a sustainable future to the local citizens.

## CARING THE NEEDY CHILDREN · PERU

Aprendo Contigo is an association with an objective to support and accompany the pediatric patient during their hospitalization and/or medical treatment. Through education and game, it helps to bring the children's learning paths back on track. For the last 18 years, the association has served more than 200 children every day.

VPower Group joined its program to promote and support the education for these children at the National Cancer Institute in Lima. We are glad they would not miss their school year.

# DIRECTORS AND SENIOR MANAGEMENT

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

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

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

**Mr. LAM Yee Chun**, aged 47, was appointed as an Executive Director of the Company on 22 February 2016. He is a Co-Founder and the Executive Chairman of the Group, a member of the Company's Nomination Committee and a director of various subsidiaries of the Group. Mr. LAM is principally responsible for the Group's strategic developments in both commercial and technical aspects. He is also responsible for formulating overall mission and vision of the Group, responsible for the leadership of the Board, performing his duties under the nomination committee and providing top-level leadership of the general management of the Group.

Mr. LAM has more than 22 years of experience in entrepreneurship, general management, project management, supply chain management, system integration and operation and maintenance in the engine based power generation industry. As a project engineer for Cummins Hong Kong Ltd., in charge of power generation projects between 1993 and 1995, Mr. LAM has gained numerous experiences in design, practical works and operation. He has years of experiences in designing PGS for various applications, including backup or prime use in emergency situations such as disasters or power outages as well as continuous power generation for power stations.

In November 2016, Mr. LAM was awarded the Young Industrialist Awards of Hong Kong 2016 by the Federation of Hong Kong Industries. He obtained a higher certificate in building services engineering from the Hong Kong Polytechnic University in November 1997.

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

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. LEE Chong Man Jason**, aged 49, was appointed as an Executive Director of the Company on 26 April 2016. He is a Co-Founder and a Co-Chief Executive Officer and a director of various subsidiaries of the Group. Mr. LEE is responsible for formulating overall corporate strategies and policies of the Group and for general management and day-to-day operation of the Group.

Mr. LEE has more than 17 years of experience in general management, global sales, distribution, project management, business development, power monitoring, power quality control and power saving in the engine based power generation industry, as well as setting our current business strategies, direction and goals.

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

**Mr. AU-YEUNG Tai Hong Rorce**, aged 62, joined the Group in June 2014 and was appointed as an Executive Director of the Company on 26 April 2016. He is a Co-Chief Executive Officer and a director of various subsidiaries of the Group. Mr. AU-YEUNG is responsible for formulating overall corporate strategies and policies of the Group and for general management and day-to-day operation of the Group.

Mr. AU-YEUNG has over 22 years of multinational corporate executive experience in the environmental infrastructure and energy industry. Prior to joining the Group in June 2014, Mr. AU-YEUNG was the chief executive officer of Dongjiang Environment (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, he 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 is an independent non-executive director of CL Group (Holdings) Limited (listed on the Hong Kong Stock Exchange, stock code: 8098) since February 2011. He is the chairman of the remuneration committee and a member of the audit committee of its board of directors, but is not involved in its day-to-day operation.

**Mr. LO Siu Yuen**, aged 48, joined the Group in September 2011 and was appointed as an Executive Director of the Company on 26 April 2016. He is also the Chief Operation Officer of the Group. Mr. LO is responsible for formulating overall corporate strategies and policies in relation to the project functional operation including human resources planning of the Group and overseeing ongoing project functional business operations including procurement and logistics.

Mr. LO has been a certified public accountant since July 1998 with over 22 years of experience in accounting, auditing, and financial management. He had served as various managerial, consultant, compliance and/or auditing roles from 1994 to 2011 including as the senior consultant of various consultant companies between February 2008 and August 2011, as a compliance officer of CITIC-Prudential Life Insurance Company Limited from January 2006 to December 2007, as the assistant compliance manager and compliance manager of American International Assurance Company (Bermuda) Limited from January 2003 to January 2006. Mr. LO joined Hong Kong Exchanges and Clearing Limited in June 2001 and was an assistant manager of the group international audit business unit prior to his departure in January 2003. He worked for First Pacific Bank Limited from December 1999 to May 2001 with his last position being a manager and was an associate and senior associate of PricewaterhouseCoopers Ltd. from April 1997 to December 1999. Mr. LO also practiced audits and accountancy in W. M. Sum & Co. from September 1994 to March 1997.

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

**Ms. CHAN Mei Wan**, aged 46, joined the Group in June 2001 and was appointed as a Non-Executive Director of the Company on 26 April 2016. She is the Vice Chairwoman of the Group and a member of the Company's Audit Committee and Remuneration Committee. Through assisting Mr. LAM Yee Chun ("**Mr. LAM**") and Mr. LEE Chong Man Jason, she was heavily involved in the founding of the Group. Ms. CHAN is responsible for advising on key human resources and financial matters and performing her duties as a Non-Executive Director through the Board, the Audit Committee and the Remuneration Committee.

Ms. CHAN has more than 17 years of experience in entrepreneurship, general management, corporate administration and human resources. Ms. CHAN supported Mr. LAM's PGS 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 reorganization and staff welfare scheme.

Ms. CHAN obtained a certificate for commerce course from Sacred Heart Canossian Commercial School in July 1994.

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

**Mr. KWOK Man Leung**, aged 50, 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 22 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 property 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 a non-executive director of Dah Chong Hong Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1828) and a director of Daye Special Steel Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000708).

**Mr. David TSOI**, aged 71, was appointed as an Independent Non-Executive Director of the Company on 24 October 2016. He is also the Chairman of the Company's Audit Committee and a member of the Nomination Committee.

Mr. TSOI is a director of Alloitt, Tsoi CPA Limited since January 2006. He has been a certified public accountant since September 1981 with over 32 years of experience in accounting, auditing and financial management. Mr. TSOI is a certified public accountant registered at the Hong Kong Institute of Certified Public Accountants and a certified tax adviser registered at the Taxation Institute of Hong Kong; a fellow of the Association of Chartered Certified Accountants since September 1981; a fellow of the Institute of Chartered Accountants in England & Wales since May 2015; a member of the Society of Chinese Accountants & Auditors since April 1987 and a fellow since December 2015; a fellow of the CPA Australia since November 2009 and a member of the Chartered Professional Accountants of British Columbia, Canada since June 2015. He obtained a master of business administration in October 1986 from University of East Asia Macau.

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

**Mr. YEUNG Wai Fai Andrew**, aged 46, 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 managing director of Titan Financial Services Limited. He has over 18 years of experience in investment and private banking. Mr. YEUNG was the deputy chairman and non-executive director of Qianhai Health Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 911) between January 2017 and June 2018. He was the independent non-executive director of Huabang Financial Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 3638) between June and September, 2016 and was the non-executive director between June 2018 and January 2019. He had been the head of investment banking and advisory of Kim Eng Securities (Hong Kong) Limited from July 2015 to October 2016. He was the head of corporate finance advisory of Edmond de Rothschild (Suisse) S.A., Hong Kong Branch, from August 2014 to May 2015. Prior to joining Edmond de Rothschild (Suisse) S.A., Hong Kong Branch, he was the managing director of DBS Asia Capital Limited and he worked at DBS Asia Capital Limited for over 10 years. Mr. YEUNG worked as the corporate finance associate in BNP Paribas Peregrine Capital Limited from April 2000 to May 2002 and was the manager of KPMG Hong Kong between 1994 to 2000.

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

**Mr. SUEN Wai Yu**, aged 41, was appointed as our Independent Non-Executive Director of the Company on 24 October 2016. He is also the Chairman of the Company's Nomination Committee and a member of the Remuneration Committee.

Mr. SUEN is the chief legal officer of ANTA Sports Products Limited (listed on the Hong Kong Stock Exchange, stock code: 2020) and responsible for overseeing all its legal and regulatory matters. He has over 15 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.

**Mr. Boyang LIU**, aged 48, joined the Group in January 2015. He is the Chief Investment Officer of the Group. Mr. LIU is responsible for formulating overall strategies and policies in relation to the project investment of the Group, responsible for the long term strategies, project investment direction, business planning and forecasting, merger & acquisition, capital structure and capital allocation of the Group.

Mr. LIU has over 16 years of experience in investment banking, strategic investment and private equity investment. Before joining the Group, he served as the managing director of Guangdong Success Capital Partners Limited from January 2014 to December 2014, co-founder and chief financial officer of NovaSolar Limited from May 2011 to May 2014, and chief financial officer of Dongjiang Environmental (HK) Co. Limited, a subsidiary of Dongjiang Environmental Company Limited (listed on the Hong Kong Stock Exchange, stock code: 895), from November 2007 to April 2010. Prior to that, he held various management positions in strategic planning, investment management and investment banking including as the Senior Finance Manager of PayPal Inc. from October 2005 to September 2007, as a manager in the financial strategy and analysis group of HSBC Card Services (under HSBC Bank USA, N.A.) from August 2004 to October 2005, worked at Byron Venture Partners L.P. from July 2001 to May 2004, and as the investment banking associate of JP Morgan Securities Inc. from July 2000 to June 2001.

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

**Mr. CHAN Kam Shing**, aged 47, joined the Group in January 2015. He is the Chief Financial Officer and the Company Secretary of the Group. He is responsible for formulating overall strategies and policies in relation to the financial management, strategic and tactical matter related to financial reporting, budget management, cost-benefit analysis, tax planning and treasury management of the Group.

Mr. CHAN has been a certified public accountant with the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since April 1998 with more than 22 years of professional experience in accounting, auditing, financial management, and corporate operation and productivity enhancement, with the most recent assignment with the Hong Kong and China Gas Company Limited as the manager of internal audit between February 2010 and December 2014.

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

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. CHEUNG Yeung Earnest**, aged 45, 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 20 years of banking experience specializing in business development and cross-border structured financing transactions. He has years of experience in origination and deal execution in a variety of geographies covering energy and utilities clients. Mr. CHEUNG was an executive director for the corporate finance business of Standard Chartered Bank (HK) Limited from October 2007 to August 2015 prior to his departure and joining the Group. He also worked as a vice president, investment finance specialist at Citicorp International Limited between September 2006 and October 2007 and held various managerial roles with The Hongkong and Shanghai Banking Corporation Limited between September 1995 and September 2006, in which he was a global relationship manager, energy and utilities sector in the corporate and institutional banking business prior to his departure.

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

**Mr. LEE Siu Ming**, aged 43, joined the Group in April 2017. He is the Chief Strategy Officer and Head of Capital Markets/ Corporate Finance of the Group. Mr. LEE is responsible for formulating the overall strategy of the Group and in charge of the overall capital markets, financing and corporate finance activities of the Group, including fund raisings, merger and acquisitions and investor relations.

Mr. LEE has around 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, Deutsche Bank and BNP Paribas Peregrine, etc in Hong Kong.

Mr. LEE obtained his Master of Business Administration and Bachelor of Business Administration degrees at University of Wisconsin — Madison in 1997. In addition, he has been CFA® charterholder since 1999.

# CORPORATE GOVERNANCE REPORT

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

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year 2018, the Company complied with all the code provisions in 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**") as set out in Appendix 10 to the Listing Rules as its code of conduct for Directors' securities transactions. Having made all specific enquiries with all directors of the Company (the "**Directors**"), all Directors have confirmed that they complied with the required standard set out in the Model Code throughout the year 2018.

## BOARD AND BOARD OF COMMITTEES

### Board's Role and Function

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

### Board's Delegation

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

### Board's Responsibilities for the Consolidated Financial Statements

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

The statement of the external auditor of the Company concerning its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 56 to 63 of this annual report.

## Board Composition

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

There was no change of Directors and Board committee members during the year ended 31 December 2018. Brief biographical details of each Director (including his/her age, gender, term of office, professional qualification and experience) are set out under the section headed "Directors and Senior Management" on pages 21 to 26 of this annual report.

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

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

## Chairman and Co-Chief Executive Officers

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

## Board Diversity Policy

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

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

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

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

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

## Board Meetings and Process

The Board held 5 meetings in the year ended 31 December 2018. Senior management members and project managers are invited to attend Board meetings to brief the Board on issues considered by the Board where appropriate.

Directors' attendance record of meetings held during the year ended 31 December 2018:

| | | Board Committees | | | |
|---|---|---|---|---|---|
| | **Board** | **Audit** | **Remuneration** | **Nomination** | **Shareholders** |
| Number of meetings held during the year | 5 | 3 | 1 | 1 | 1 |
| **Executive Directors** | | | | | |
| Mr. LAM Yee Chun *(Executive Chairman)* | 5/5 | — | — | 1/1 | 1/1 |
| Mr. LEE Chong Man Jason *(Co-Chief Executive Officer)* | 5/5 | — | — | — | 1/1 |
| Mr. AU-YEUNG Tai Hong Rorce *(Co-Chief Executive Officer)* | 5/5 | — | — | — | 1/1 |
| Mr. LO Siu Yuen *(Chief Operation Officer)* | 5/5 | — | — | — | 1/1 |
| **Non-Executive Directors** | | | | | |
| Ms. CHAN Mei Wan *(Vice Chairwoman)* | 5/5 | 3/3 | 1/1 | — | 1/1 |
| Mr. KWOK Man Leung | 5/5 | — | — | — | 1/1 |
| **Independent Non-Executive Directors** | | | | | |
| Mr. David TSOI | 5/5 | 3/3 | — | 1/1 | 1/1 |
| Mr. YEUNG Wai Fai Andrew | 5/5 | 3/3 | 1/1 | — | 1/1 |
| Mr. SUEN Wai Yu | 5/5 | — | 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 directors appointed either to fill a casual vacancy or as an addition to the Board during the year by the Board following the recommendation of the Nomination Committee are subject to re-election by shareholders of the Company at the next following general meeting after their appointment.

Every Executive Director has entered into a service contract with the Company for a term of three years and subject to termination in accordance with their respective terms.

Every Non-Executive Director (including Independent Non-Executive Directors) has signed a letter of appointment with the Company for a term of three years and subject to termination in accordance with their respective terms.

## Directors' Commitments

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

## Training and Professional Development

For all newly appointed directors, a comprehensive and tailored induction programme is administered to ensure full awareness of director's duties and responsibilities under statute and common law, the Conduct Code, the Listing Rules and other regulatory requirements and the business and governance policies of the Group.

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 2018, the Company provided training materials for all the then Directors to keep them abreast of the latest development of legal, regulatory and corporate governance. The Company has received the records of training from all those Directors.

| **Board** | **Training** |
|---|---|
| Mr. LAM Yee Chun | ✓ |
| Mr. LEE Chong Man Jason | ✓ |
| Mr. AU-YEUNG Tai Hong Rorce | ✓ |
| Mr. LO Siu Yuen | ✓ |
| Ms. CHAN Mei Wan | ✓ |
| Mr. KWOK Man Leung | ✓ |
| Mr. David TSOI | ✓ |
| Mr. YEUNG Wai Fai Andrew | ✓ |
| Mr. SUEN Wai Yu | ✓ |

# BOARD COMMITTEES

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

## Audit Committee

| | | |
|---|---|---|
| **Composition** | **Independent Non-Executive Directors**<br>Mr. David TSOI *(Chairman)*<br>Mr. YEUNG Wai Fai Andrew<br>+ | **Non-Executive Director**<br>Ms. CHAN Mei Wan |
| **Role & functions*** | (a) Consider the appointment of external auditor and any questions of resignation or dismissal<br>(b) Discuss with the external auditor before the audit commences, the nature and scope of the audit<br>(c) Review half-year and annual financial statements before submission to the Board<br>(d) Discuss matters arising from the audit, and any matters the external auditor may wish to discuss<br>(e) Consider and review the Group's risk management and internal controls systems | |
| **Summary of work performed in 2018** | (a) Reviewed unaudited interim consolidated financial statements and audited annual consolidated financial statements of the Group with a recommendation to the Board for approval<br>(b) Reviewed internal control and risk management framework of the Group<br>(c) Received and reviewed progress reports on internal control, risk management and internal audit actions implemented/planned by the Group<br>(d) Met with external auditors in the absence of Executive Directors of the Company | |

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

## Remuneration Committee

| | | |
|---|---|---|
| **Composition** | **Independent Non-Executive Directors**<br>Mr. YEUNG Wai Fai Andrew *(Chairman)*<br>Mr. SUEN Wai Yu<br>+ | **Non-Executive Director**<br>Ms. CHAN Mei Wan |
| **Role & functions*** | (a) Consider the Group's policy and structure of remuneration of the Directors and senior management<br>(b) Determine specific remuneration packages of all Directors and senior management<br>(c) Make recommendation to the Board on the remuneration packages of individual Executive Directors and senior management<br>(d) Review and approve the managements' remuneration with reference to the Group's goals and objectives resolved by the Board periodically<br>(e) Review compensation payable to Directors and senior management relating to any loss or termination of their office or appointment<br>(f) Review compensative arrangements relating to dismissal or removal of Directors for misconduct | |
| **Summary of work performed in 2018** | (a) Reviewed the remuneration packages of Directors for the year ended 31 December 2018<br>(b) Reviewed the remuneration packages of senior management for the year ended 31 December 2018 | |

* 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**<br>Mr. SUEN Wai Yu *(Chairman)*<br>Mr. David TSOI<br>**+** | **Executive Director**<br>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<br>(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<br>(c) Assess the independence of Independent Non-Executive Directors and review the Independent Non-Executive Directors' confirmations on their independence<br>(d) Make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors<br>(e) Consider other topics and review other documents as may be reasonably requested by the Board periodically<br>(f) Review the Board Diversity Policy | |
| **Summary of work performed in 2018** | (a) Nominated the retiring Directors for re-election by Shareholders at 2019 AGM<br>(b) Reviewed and assessed individual Independent Non-executive Director's annual confirmation of independence declared pursuant to Rule 3.13 of the Listing Rules<br>(c) Reviewed the structure, size and composition of the Board<br>(d) Reviewed the Board Diversity Policy | |

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

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the Group's system of corporate governance and has performed and reviewed the corporate governance functions timely as required under the Corporate Governance Code of Appendix 14 of the Listing Rules. During the year ended 31 December 2018, the Board reviewed and monitored the Company's policies and practices on corporate governance and the Staff Handbook through various meetings with senior management.

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

## EXTERNAL AUDITOR

Ernst & Young ("**EY**") was re-appointed as the Company's external auditor at 2018 annual general meeting until the conclusion of the next annual general meeting. In order to maintain independence, EY is primarily responsible for providing audit services in connection with the Group's consolidated financial statements, and only provides non-audit services that do not impair their independence or objectivity and are approved by the Audit Committee.

Remuneration paid or payable to EY for audit and non-audit services for the year ended 31 December 2018 are set out below:

| | **HK$'000** |
|---|---|
| Audit services | 6,163 |
| Non-audit services | |
| Tax compliance and advisory services | 937 |
| Services provided in connection with potential acquisitions and related financing exercises | 1,900 |
| Total | 9,000 |

## INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

Details of our key risks and our risk management measures are disclosed under the section headed "Risk Management" on pages 52 to 55 in this annual report.

## DISCLOSURE OF INSIDE INFORMATION

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

## SHAREHOLDERS

### Communication with Shareholders

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

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

During the year ended 31 December 2018, the Company held a general meeting. Voting on resolutions put forward at the general meeting has been taken by way of poll and the poll results have been published and posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("**HKEx**").

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

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

### Shareholders' Rights

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

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

## DIVIDEND POLICY

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

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

## CONSTITUTIONAL DOCUMENTS

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

No amendments were made to the Memorandum of Association and Articles of Association of the Company during the year ended 31 December 2018.

# 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 2018.

## 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 2018 on pages 71 to 72 of this annual report. There were no significant changes in the nature of the Group's principal activities during the year.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out under the section headed "Management Discussion and Analysis" on pages 8 to 17 of this annual report. The discussion forms part of this directors' report.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the financial position of the Group as at 31 December 2018 are set out in the audited consolidated financial statements on pages 64 to 67.

The Board resolved to recommend the payment of a final dividend of HK0.48 cent per share for the year ended 31 December 2018 to shareholders whose name appear on the Register of Members of the Company on Wednesday, 12 June 2019, subject to the approval of shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Monday, 3 June 2019 (the "**2019 AGM**"). Subject to shareholders' approval at the 2019 AGM, the proposed dividend will be paid on or about Tuesday, 25 June 2019.

An interim cash dividend for the year ended 31 December 2018 of HK1.47 cents per share amounting to HK$37,659,000 was paid to the shareholders of the Company during the year.

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

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend the 2019 AGM, the register of members of the Company will be closed during the period from Wednesday, 29 May 2019 to Monday, 3 June 2019, 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 2019 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 no later than 4:30 p.m. on Tuesday, 28 May 2019.

For the purpose of determining the entitlement to the proposed final dividend, the register of members of the Company will be closed during the period from Monday, 10 June 2019 to Wednesday, 12 June 2019, both days inclusive, during which period no transfer of share(s) of the Company will be effected. In order to qualify for the proposed final dividend, all transfer document(s), accompanied by the relevant share certificate(s), must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 6 June 2019.

## USE OF PROCEEDS FROM GLOBAL OFFERING

| Intended use of net proceeds as stated in the Prospectus ("**Net Proceeds**") | Net Proceeds (HK$ million) | Actual use of proceeds up to 31 December 2017 (HK$ million) | Unutilised amount as at 31 December 2017 (HK$ million) | **Actual use of proceeds up to 31 December 2018 (HK$ million)** | **Unutilised amount as at 31 December 2018 (HK$ million)** |
|---|---|---|---|---|---|
| – **Developing and investing for IBO business** | | | | | |
| (a) for expanding into new markets (such as Africa, the Middle East and China) | 455.1 | (399.4) | 55.7 | **(55.7)** | **–** |
| (b) for projects in our existing markets | 379.2 | (379.2) | – | **–** | **–** |
| – **Expansion of SI business** | | | | | |
| (a) budget for purchasing engines and ancillary equipment by the end of 2017 | 75.9 | (75.9) | – | **–** | **–** |
| (b) (i) enhancing our assembly line for system integration; (ii) remuneration for additional system integration, sales and services staff and (iii) research and development for CHP and power generation using new forms of gas by the end of 2018 | 227.5 | (103.6) | 123.9 | **(123.9)** | **–** |
| – **Developing domestic and overseas offices and technical support facilities as well as strengthening presence in key markets for SI and IBO businesses** | 151.7 | (90.3) | 61.4 | **(61.4)** | **–** |
| – **Research and development activities** | 75.9 | (44.3) | 31.6 | **(31.6)** | **–** |
| – **Working capital and other general corporate purposes** | 151.7 | (151.7) | – | **–** | **–** |
| **Total** | 1,517.0 | (1,244.4) | 272.6 | **(272.6)** | **–** |

The Board is not aware of any material change to the planned use of Net Proceeds as at the date of this directors' report.

## 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 pages 162 to 163. The summary does not form part of the audited consolidated financial statements for the year ended 31 December 2018.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 32 and 33 to the audited consolidated financial statements.

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

During 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the share award scheme adopted by the Company on 18 July 2017 (the "**Share Award Scheme**"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 1,173,000 ordinary shares of the Company at a total consideration of HK$3,951,000.

## 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 2018, the Company's reserves available for distribution amounted to HK$1,720.5 million, HK$12.3 million of which has been proposed as a final dividend for the year.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$0.2 million.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate percentage of sales attributable to the Group's five largest customers was approximately 65% of the Group's total revenue and the percentage of sales attributable to the Group's largest customer was approximately 23%.

For the year ended 31 December 2018, the aggregate percentage of purchases attributable to the Group's five largest suppliers was approximately 87% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier was approximately 39%.

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

## EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year ended 31 December 2018 or subsisted at the end of the year.

## ARRANGEMENTS TO PURCHASE SHARES

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

## DIRECTORS

The directors of the Company (the "**Directors**") who held office during the year ended 31 December 2018 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. LAM Yee Chun, Mr. YEUNG Wai Fai Andrew and Mr. SUEN Wai Yu shall retire by rotation at the 2019 AGM and, being eligible, offer themselves for re-election.

Details of the Directors standing for re-election at the 2019 AGM are set out in the circular of the Company sent to the shareholders together with this annual report.

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 26 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

On 28 October 2016, each of the Executive Directors entered into a service contract with the Company. The principal particulars of the service agreement are: (a) for a term of three years commencing from 24 November 2016, and (b) subject to termination in accordance with their respective terms. The service agreement may be renewed in accordance with the Articles of Association and the applicable laws and regulations.

On 28 October 2016 and 11 April 2017, Ms. CHAN Mei Wan and Mr. KWOK Man Leung, the Non-Executive Directors signed a letter of appointment with the Company for a term of three years, respectively. The letters of appointment are subject to termination in accordance with their respective terms.

On 28 October 2016, each of the Independent Non-Executive Directors signed a letter of appointment with the Company for a term of three years commencing from 24 November 2016. The letters of appointment are subject to termination in accordance with their respective terms.

None of the Directors of the Company proposed for re-election at the 2019 AGM has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation (other than the statutory compensation).

## DIRECTORS' REMUNERATION

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

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance between the Company or its subsidiaries and the controlling shareholder of the Company or its subsidiaries subsisted at the end of the year ended 31 December 2018 or at any time during the year ended 31 December 2018.

## PERMITTED INDEMNITY PROVISION

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

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

As at 31 December 2018, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company (the "**Model Code**") were as follows:

### (i) Interest in the Company

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

*Notes:*

1. All the above interests in the shares and underlying shares of the Company were long positions. None of the Directors and the chief executive of the Company held any short positions in the shares and underlying shares of the Company as at 31 December 2018.

2. Based on 2,562,074,000 shares of the Company in issue as at 31 December 2018.

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

   Mr. LAM had options granted under the Pre-IPO Share Option Scheme to subscribe for 398,000 shares in the Company. Mr. LAM is the spouse of Ms. CHAN. Under Divisions 2 and 3 of Part XV of the SFO, Mr. LAM is deemed to have interest in the same number of shares in the Company in which his spouse has interest.

4. Ms. CHAN had options granted under the Pre-IPO Share Option Scheme to subscribe for 390,000 shares in the Company. Ms. CHAN is the spouse of Mr. LAM. Under Divisions 2 and 3 of Part XV of the SFO, Ms. CHAN is deemed to have interest in the same number of shares in the Company in which her spouse has interest. Ms. CHAN is a director of Energy Garden Limited.

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

## (ii) Interest in Associated Corporation

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

*Notes:*

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

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEMES

### 1. PRE-IPO SHARE OPTION SCHEME

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

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

As at 31 December 2018, the Company had outstanding 4,432,000 share options under the Pre-IPO Share Option Scheme, representing approximately 0.17% of the share capital of the Company in issue as at 31 December 2018.

Details of the movements in the share options, which were granted under the Pre-IPO Share Option Scheme, during the year ended 31 December 2018 are as follows:

| | | | Number of shares to be issued upon exercise of the share options | | | | |
|---|---|---|---|---|---|---|---|
| Grantee | Date of grant (dd.mm.yyyy) | Exercise price per share HK$ | Outstanding as at 01.01.2018 | Cancelled or forfeited during the year | Exercised during the year | Outstanding as at 31.12.2018 | Exercise period (dd.mm.yyyy) |
| **Directors** | | | | | | | |
| LAM Yee Chun | 01.11.2016 | 2.016 | 133,000 | – | – | 133,000 | 24.11.2018–23.11.2021 |
| | 01.11.2016 | 2.016 | 132,000 | – | – | 132,000 | 24.11.2019–23.11.2022 |
| LEE Chong Man Jason | 01.11.2016 | 2.016 | 132,000 | – | – | 132,000 | 24.11.2018–23.11.2021 |
| | 01.11.2016 | 2.016 | 131,000 | – | – | 131,000 | 24.11.2019–23.11.2022 |
| AU-YEUNG Tai Hong Rorce | 01.11.2016 | 2.016 | 132,000 | – | – | 132,000 | 24.11.2018–23.11.2021 |
| | 01.11.2016 | 2.016 | 131,000 | – | – | 131,000 | 24.11.2019–23.11.2022 |
| LO Siu Yuen | 01.11.2016 | 2.016 | 130,000 | – | – | 130,000 | 24.11.2018–23.11.2021 |
| | 01.11.2016 | 2.016 | 130,000 | – | – | 130,000 | 24.11.2019–23.11.2022 |
| CHAN Mei Wan | 01.11.2016 | 2.016 | 130,000 | – | – | 130,000 | 24.11.2018–23.11.2021 |
| | 01.11.2016 | 2.016 | 130,000 | – | – | 130,000 | 24.11.2019–23.11.2022 |
| *Sub-total* | | | 1,311,000 | – | – | 1,311,000 | |
| **Consultants** | 01.11.2016 | 2.016 | 58,000 | – | (41,000) | 17,000 | 24.11.2017–23.11.2020 |
| | 01.11.2016 | 2.016 | 57,000 | – | – | 57,000 | 24.11.2018–23.11.2021 |
| | 01.11.2016 | 2.016 | 55,000 | – | – | 55,000 | 24.11.2019–23.11.2022 |
| **Employees** | 01.11.2016 | 2.016 | 562,000 | – | (230,000) | 332,000 | 24.11.2017–23.11.2020 |
| | 01.11.2016 | 2.016 | 1,471,000 | (28,000) | (209,000) | 1,234,000 | 24.11.2018–23.11.2021 |
| | 01.11.2016 | 2.016 | 1,454,000 | (28,000) | – | 1,426,000 | 24.11.2019–23.11.2022 |
| *Sub-total* | | | 3,657,000 | (56,000) | (480,000) | 3,121,000 | |
| Grand-total | | | 4,968,000 | (56,000) | (480,000) | 4,432,000 | |

## 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 Participant for their contribution, and to align the corporate objectives and interests between the Group and its key talents.

The maximum number of ordinary shares of the Company ("**Shares**") which may be issued upon exercise of all options to be granted under the Share Option Scheme is 256,000,000 Shares, representing approximately 10% of the Company's issued share capital as at 24 November 2016, the date of listing of the shares of the Company on the Stock Exchange. The maximum number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to any one person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

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

(i) the closing price of a share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option;

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

(iii) the nominal value of a share of the Company on the date of grant of the relevant option.

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

As at 31 December 2018, no option had been granted by the Board under the Share Option Scheme.

## SHARE AWARD SCHEME

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

As at 31 December 2018, no shares of the Company had been awarded by the Board under the Share Award Scheme.

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

Changes in the information of Directors required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of the 2018 Interim Report of the Company are set out as below:

Mr. YEUNG Wai Fai, Andrew resigned as non-executive director of Huabang Financial Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 3638) with effect from 2 January 2019.

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted as at 31 December 2018 or at any time during the year ended 31 December 2018.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## MANAGEMENT CONTRACTS

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

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS

As at 31 December 2018, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the substantial shareholders/other persons, other than Directors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

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

*Notes:*

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

2. Based on 2,562,074,000 shares of the Company in issue as at 31 December 2018.

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

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

   Mr. LAM directly holds the entire issued share capital of Sunpower and therefore, is deemed to have interest in the 1,806,633,881 shares held by Energy Garden. Mr. LAM is interested in options granted under the Pre-IPO Share Option Scheme to subscribe for 398,000 shares of the Company. Mr. LAM is the spouse of Ms. CHAN. Under the SFO, Mr. LAM is deemed to be interested in the same number of shares in the Company in which his spouse is interested.

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

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO.

## CONNECTED TRANSACTIONS

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

1. On 1 April 2018, VPower Holdings Limited ("**VH**") as lessee entered into a rental agreement ("**Rental Agreement**") with Orient Profit Investment Limited ("**Orient Profit**") as lessor to rent a residential property located at G/F, Silver Crest, 75 Nga Tsin Wai Road, Kowloon Tong, Hong Kong for a monthly rent of HK$80,000 with a fixed term of nine months. On 1 January 2019, the Rental Agreement was renewed at 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 rental service provided by Orient Profit to VH under the Rental Agreement constitutes a continuing connected transaction of the Company which is exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under Rule 14A.76(1) of the Listing Rules.

2. On 17 April 2018, a facility agreement ("**Facility Agreement**") was entered into between Crest Pacific Investments Limited ("**Crest Pacific**"), a wholly-owned subsidiary of the Company as lender, and Mr. AU-YEUNG Tai Hong Rorce ("**Mr. AU-YEUNG**") as borrower. Pursuant to the Facility Agreement, Crest Pacific agreed to make available to Mr. AU-YEUNG a loan facility of HK$41,500,000 at the interest rate of 6% per annum.

   As Mr. AU-YEUNG is the Company's Co-Chief Executive Officer and Executive Director and therefore a connected person of the Company, the Facility Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

   As the applicable percentage ratios (as defined in the Listing Rules) in respect of the financial assistance granted to Mr. AU-YEUNG are less than 5% but the value of the financial assistance exceeds HK$3,000,000 and the terms of the Facility Agreement are on normal commercial terms, the Facility Agreement and the transactions contemplated thereunder are subject to reporting and announcement requirements but exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

   On 28 May 2018, Mr. AU-YEUNG made full prepayment in accordance with the terms of the Facility Agreement.

3. On 24 October 2016, the Company entered into a master supply agreement ("**Master Supply Agreement**") with Sharkteeth Investments Limited ("**Sharkteeth**"), pursuant to which the Group will sell and Sharkteeth and its subsidiaries will purchase parts or consumables for overhaul and maintenance services related to the VPower Technology Chad Limited (the "**VPower Technology Chad**") which is operating one distributed power generation station with an installed capacity of approximately 20MW in Chad (the "**Chad Project**") on a non-exclusive basis and normal commercial terms.

   Sharkteeth is held by certain shareholders of the Company as to, namely, 57.6% by Mr. LAM Yee Chun and 19.2% by Ms. CHAN Mei Wan. Hence, it is an associate of the controlling shareholder of the Company and a connected person of the Company.

   The Master Supply Agreement constitutes a continuing connected transaction of the Company exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under the Listing Rules.

   The Master Supply Agreement was expired on 31 December 2018.

## RELATED PARTY TRANSACTIONS

Details of significant related party transactions undertaken in the normal course of business of the Group are provided under note 43 to the financial statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules that is required to be disclosed, except for those described above in the paragraph headed "Connected Transactions" above in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

## SUFFICIENCY OF PUBLIC FLOAT

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

## DEED OF NON-COMPETITION

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

- carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with the Business (as defined below) (the "**Restricted Business**"), whether as a shareholder, director, officer, partner, agent, lender, employee, consultant or otherwise; and
- take any action which interferes with or disrupts or may interfere with or disrupt the Business of the Group including, but not limited to, solicitation of any of the then current customers, suppliers or employees from any members of the Group.

For the purpose of the Deed of Non-competition, our "Business" is defined to cover:

(a) the design, integration and sale of gas-fired and diesel-fired gen-sets and PGSs; and
(b) the design, investment in, building, leasing and operation of DPG stations.

The Deed of Non-competition does not apply to:

(a) the carrying on, engagement or participation in the Excluded Business as set out in the paragraph of "**Excluded Business**" under the section headed "RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS" in the prospectus of the Company dated 14 November 2016 by Sharkteeth whether directly or indirectly through VPower Technology Chad;
(b) the relevant Controlling Shareholder's holding in the shares of a company where:
    - the total number of shares held by the Controlling Shareholders does not exceed ten per cent. 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 ten per cent. of its consolidated turnover or consolidated assets, as shown in its latest audited accounts; and
(c) the Forgone Business Opportunity (as defined below) which the Company has confirmed that it does not intend to pursue.

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 Hong Kong 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.

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 and in the following manner:

## Right to Acquire the Excluded Business and Forgone Business Opportunity from Controlling Shareholders

To eliminate any potential competition, the Controlling Shareholders has 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:

- Upon Listing, the Company shall be entitled, but not obliged to, by serving notice to Sharkteeth, purchase all or part of the shares in VPower Technology Chad (the "**Chad Call Shares**") which are held by Sharkteeth (the "**Chad Call Option**") through itself or any member of the Group.
- The Company shall be entitled, but not obliged to, by serving notice to the relevant Controlling Shareholder, purchase all or part of the shares in the entity holding the Forgone Business Opportunity (the "**Other Call Shares**") which are held by the relevant Controlling Shareholder (the "**Other Call Option**") through itself or any member of the Group.

Given the Group has entered into the Project Income Agreement with VPower Technology Chad pursuant to which the Company will receive shared revenue from its project in Chad on a semi-annual basis and the Controlling Shareholders has committed to engage the Group to undertake the operation of the Forgone Business Opportunity through entering into servicing agreement with a member of the Group, the Company will be able to track the status and performance of these projects that are managed by the Company and will be in a position to determine whether such projects meet our investment criteria.

Our exercising of such acquisition right will be subject to the agreement on the terms and price to be negotiated by the parties in good faith and on arm's length basis, which may vary depending on the performance and potential of such projects. These acquisitions will also be subject to the compliance with the applicable laws and regulations (including but not limited to the Listing Rules). The Independent Board will be responsible for considering and determining whether and when to exercise our right of acquisition having regard to the interests of the Company and Shareholders as a whole.

- provide all information requested by the Company (or its auditors) which is necessary for an annual review by the Independent Non-Executive Directors of its compliance with the Deed of Non-competition and the enforcement of the same;
- procure the Company to disclose decisions on matters reviewed by the Independent Non-Executive Directors relating to the compliance and enforcement of the Deed of Non-competition either through the annual report, or by way of announcements to the public; and
- upon the request of the Company, provide a written confirmation in respect of its compliance and that of its associates with the non-competition undertakings under the Deed of Non-competition and consent to the inclusion of such confirmation in the Company's annual report.

The Independent Non-Executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by the Controlling Shareholders and duly enforced since 24 November 2016 and up to date of this report.

## SUSTAINABILITY REPORT

The Company is preparing its Sustainability Report 2018 in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Main Board Listing Rules of the Stock Exchange. The full report, in Chinese and English versions, will be issued within three months after the publication of our Annual Report 2018.

## AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the 2019 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 2019 AGM.

By Order of the Board
**LAM Yee Chun**
*Executive Chairman*

Hong Kong, 28 March 2019

# RISK MANAGEMENT

## RISK MANAGEMENT FRAMEWORK

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

## STRUCTURE

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

## RISK MANAGEMENT PROCESS

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

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

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

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

# RISK MANAGEMENT

Key risks currently being managed include:

**RISK CATEGORY: STRATEGIC RISK**

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

**RISK CATEGORY: OPERATIONAL & HUMAN RESOURCES RISKS**

| RISK AREA | EXAMPLES OF MITIGATING MEASURES |
|---|---|
| **Potential loss of physical power plant assets due to natural disaster or political unrest.** Our operations in Indonesia, Myanmar and Peru are at risk for natural disasters or political unrest. | • Ensure insurance coverage over natural disaster and political unrest. |
| **Any loss of key staff** may potentially affect the operation of the Company which in turn jeopardizes the profit of the Company. | • Succession planning for key positions;<br>• Review our compensation policy regularly for employee retention. |
| **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. | • Ensure proper implementation of Power Plant Emergency Reaction System;<br>• Ensure performing regular safety and maintenance check;<br>• Ensure timely reporting and monitoring of hazards and potential problems;<br>• Provide staff and contractors with systematic, professional, technical and safety training. |

# RISK MANAGEMENT

RISK CATEGORY: FINANCE, REGULATORY & COMPLIANCE RISKS

| RISK AREA | EXAMPLES OF MITIGATING MEASURES |
|---|---|
| **The Group's revenue streams and cost components are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations.** As such, we are also exposed to translation risk primarily due to the receivables, payables and cash balances denominated in foreign currencies. In particular, currency fluctuations in Euro may adversely affect our results. | • Investment committee adopts the hedging policy and regularly reviews the macroeconomic environment which affects the currency fluctuation;<br>• Hedge currency exposures in line with the Group's treasury and capital management policy;<br>• Natural hedge by matching currency of revenue, cost and debt;<br>• Enter into currency forward contract for hedging purpose. |
| **Tax risks relating to multinational operations,** including policies to ensure compliance with overseas tax laws by the local partner. | • Engage an external consultant to perform tax planning review in new market;<br>• 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;<br>• 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, PGSs and DPG stations.** Significant increase in gas and diesel prices may render gen-sets, PGSs and DPG stations less attractive, which may affect our revenue. | • Explore generation by using other fuel types, such as biogas, HFO and renewable fuel source;<br>• Introduce more efficient system (such as CHP and ORC) to reduce the fuel consumption of our gen-sets, PGSs 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;<br>• Expand our product lines to cater the different needs of our customers;<br>• Penetrate existing and new markets and working with new partners. |

**RISK CATEGORY: INVESTMENT RISK**

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

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

# INDEPENDENT AUDITOR'S REPORT

EY 安永

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

## OPINION

We have audited the consolidated financial statements of VPower Group International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 161, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS (CONTINUED)

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Revenue recognition of engine-based electricity generation units and spare parts* | |
| During the year, the Group recognised revenue of approximately HK$153.2 million, representing 6.3% of the total revenue of the Group, for the sales of engine-based electricity generation units (the "Inventory Sale Transactions") to an independent third party, which was a sub-contractor of 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.<br><br>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 sub-contractor and hence the recognition criteria for the related revenue were met.<br><br>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 sub-contractor of 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 and contract assets* | |
| As at 31 December 2018, the aggregate carrying amount of trade and bills receivables and contract assets was HK$1,077.1 million and represented 14.6% of the Group's total assets. Assessment of expected credit losses ("ECLs") of trade and bills receivables and contract assets 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.<br><br>The Group uses a provision matrix and probability of default to calculate ECLs for trade and bills receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.<br><br>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 and contract assets based on, among others, the correlation among historical observed default rates, forecast economic conditions (i.e. gross domestic products) and ECLs.<br><br>The Group's accounting policies and disclosures of accounting estimates on provision for ECLs on trade and bills receivables and contract assets and information about the ECLs on trade and bills receivables and contract assets are included in notes 2.4, 3, 19 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 products) against market data; and (iii) reviewing the arithmetic accuracy of the calculation of the ECLs. |

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Assessment of net realisable value of inventories* | |
| The Group holds significant amount of inventories for its system integration and investment, building and operating segments. As at 31 December 2018, the carrying amount of inventories was HK$1,249.4 million and represented 16.9% 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.<br><br>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.<br><br>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. |

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Purchase price allocation of a business combination*<br><br>In February 2018, the Group (i) exercised the option to subscribe for a 51% equity interest in Genrent del Peru S.A.C. ("Genrent Peru") for an exercise consideration of US$4.6 million (equivalent to approximately HK$35.9 million); and (ii) acquired a 51% equity interest in VPTM Iquitos S.A.C. ("VPTM Iquitos") for a consideration of Peruvian Soles 510 (equivalent to approximately HK$1,000) (collectively, the "Genrent Peru Acquisition"). As at the date of acquisition, the aggregate fair value of the identifiable net assets of Genrent Peru and VPTM Iquitos amounted to HK$89.4 million, with goodwill of HK$81.5 million recognised from the acquisition.<br><br>The Group engaged an independent external valuer to perform the purchase price allocation on the fair values of the identifiable assets acquired and liabilities assumed in the business combination. The purchase price allocation is significant to our audit due to (i) significant judgement involved in the identification of assets acquired and liabilities assumed; and (ii) the determination of the fair values of the identifiable assets acquired and liabilities assumed is dependent on a number of estimates, including, among others, estimated future cash flows of the underlying power generation project, discount rate and interest rate.<br><br>The accounting judgements and estimates and the details of the business combination are disclosed in notes 3 and 38 to the consolidated financial statements, respectively. | With the assistance from our internal valuation specialists, we evaluated the valuation methodologies and assumptions adopted by the external valuer in the purchase price allocation by (i) examining the terms of the relevant agreements; (ii) assessing the valuation methodologies adopted for the purpose of determining the fair values of the identifiable assets acquired and liabilities assumed; (iii) assessing the assumptions used in the discounted cash flow projections of the underlying power generation project, including, among others, estimated selling price and estimated operation and maintenance expenses by checking to the power generation contract and historical operating performance; and (iv) benchmarking the key parameters, such as discount rate and interest rate, against market data.<br><br>In addition, we considered the independence, objectivity and competence of the external valuer engaged by management. We also assessed the adequacy of disclosures in connection with the business combination. |

## 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.

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

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.

- 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.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Leung Chi Kit.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

28 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

| | Notes | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| REVENUE | 5 | 2,420,749 | 1,746,016 |
| Cost of sales | | (1,714,007) | (1,169,189) |
| Gross profit | | 706,742 | 576,827 |
| Other income and gains | 5 | 40,164 | 190,246 |
| Selling and distribution expenses | | (25,794) | (29,091) |
| Administrative expenses | | (272,561) | (205,031) |
| Other expenses, net | | (32,489) | (98,620) |
| Finance costs | 6 | (191,359) | (76,999) |
| Share of profits and losses of joint ventures | | 6,298 | — |
| PROFIT BEFORE TAX | 7 | 231,001 | 357,332 |
| Income tax expense | 10 | (30,096) | (26,014) |
| PROFIT FOR THE YEAR | | 200,905 | 331,318 |
| Attributable to: | | | |
| Owners of the Company | | 213,288 | 331,924 |
| Non-controlling interests | | (12,383) | (606) |
| | | 200,905 | 331,318 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 12 | | |
| Basic | | HK8.36 cents | HK12.99 cents |
| Diluted | | HK8.36 cents | HK12.98 cents |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **200,905** | 331,318 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **(12,604)** | 16,913 |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | |
| Gain on property revaluation | **1,063** | — |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX | **(11,541)** | 16,913 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **189,364** | 348,231 |
| Attributable to: | | |
| Owners of the Company | **187,194** | 348,825 |
| Non-controlling interests | **2,170** | (594) |
| | **189,364** | 348,231 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **1,811,786** | 2,189,082 |
| Investment property | 14 | **25,000** | — |
| Goodwill | 15 | **81,489** | — |
| Other intangible assets | 16 | **86,296** | — |
| Interests in joint ventures | 17 | **762,918** | — |
| Deposits and other receivables | 20 | **164,292** | 608,597 |
| Deferred tax assets | 31 | **15,465** | 5,329 |
| Total non-current assets | | **2,947,246** | 2,803,008 |
| CURRENT ASSETS | | | |
| Inventories | 18 | **1,249,430** | 712,451 |
| Trade and bills receivables | 19 | **1,071,077** | 780,898 |
| Prepayments, deposits, other receivables and other assets | 20 | **445,939** | 314,838 |
| Due from related companies | 21 | **579** | 96 |
| Derivative financial instrument | 22 | **—** | 90,386 |
| Tax recoverable | | **52,022** | 25,669 |
| Restricted cash | 23 | **81,209** | — |
| Pledged deposits | 24 | **48,443** | 165,759 |
| Cash and cash equivalents | 24 | **541,353** | 1,033,502 |
| | | **3,490,052** | 3,123,599 |
| Assets held for sale | 36 | **956,929** | — |
| Total current assets | | **4,446,981** | 3,123,599 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 25 | **394,801** | 904,075 |
| Other payables and accruals | 26 | **492,884** | 832,025 |
| Senior notes | 27 | **6,268** | — |
| Interest-bearing bank and other borrowings | 28 | **2,384,499** | 532,392 |
| Tax payable | | **6,024** | 17,808 |
| Provision for restoration | 30 | **3,249** | 3,672 |
| Total current liabilities | | **3,287,725** | 2,289,972 |
| NET CURRENT ASSETS | | **1,159,256** | 833,627 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **4,106,502** | 3,636,635 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Other payables | 26 | 73,491 | 311,046 |
| Senior notes | 27 | 779,622 | — |
| Interest-bearing bank and other borrowings | 28 | 585,434 | 856,651 |
| Provision for restoration | 30 | 31,480 | 2,330 |
| Deferred tax liabilities | 31 | 20,121 | 5,886 |
| Total non-current liabilities | | 1,490,148 | 1,175,913 |
| Net assets | | 2,616,354 | 2,460,722 |
| EQUITY | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 32 | 256,207 | 256,159 |
| Reserves | 35 | 2,313,993 | 2,205,157 |
| | | 2,570,200 | 2,461,316 |
| Non-controlling interests | | 46,154 | (594) |
| Total equity | | 2,616,354 | 2,460,722 |

**Lam Yee Chun**
*Director*

**Au-Yeung Tai Hong Rorce**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

| | Notes | Share capital HK$'000 | Share premium account HK$'000 | Merger reserve HK$'000 (note 35(a)) | Capital reserve HK$'000 (note 35(b)) | Share option reserve HK$'000 (note 35(c)) | Shares held under the share award scheme HK$'000 (note 34) | Asset revaluation reserve HK$'000 | Statutory reserve funds HK$'000 (note 35(d)) | Exchange fluctuation reserve HK$'000 (note 35(e)) | Retained profits HK$'000 | Total K$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | | | | | | |
| At 1 January 2017 | | 256,000 | 1,505,085 | (15,458) | 147,749 | 796 | – | 15,999 | 10,556 | (6,917) | 348,440 | 2,262,250 | – | 2,262,250 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 331,924 | 331,924 | (606) | 331,318 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | – | 16,901 | – | 16,901 | 12 | 16,913 |
| Total comprehensive income for the year | | – | – | – | – | – | – | – | – | 16,901 | 331,924 | 348,825 | (594) | 348,231 |
| Issue of shares upon exercise of share options | 32 | 159 | 4,957 | – | – | (1,903) | – | – | – | – | – | 3,213 | – | 3,213 |
| Equity-settled share option arrangement | 33 | – | – | – | – | 4,502 | – | – | – | – | – | 4,502 | – | 4,502 |
| Purchases of shares for the share award scheme | 34 | – | – | – | – | – | (54,171) | – | – | – | – | (54,171) | – | (54,171) |
| Transfer to statutory reserve funds | | – | – | – | – | – | – | – | 6,036 | – | (6,036) | – | – | – |
| Final 2016 dividend | 11 | – | – | – | – | – | – | – | – | – | (65,792) | (65,792) | – | (65,792) |
| Interim 2017 dividend | 11 | – | – | – | – | – | – | – | – | – | (37,511) | (37,511) | – | (37,511) |
| At 31 December 2017 | | 256,159 | 1,510,042 | (15,458) | 147,749 | 3,395 | (54,171) | 15,999 | 16,592 | 9,984 | 571,025 | 2,461,316 | (594) | 2,460,722 |
| Effect of adoption of HKFRS 9 | 2.2 | – | – | – | – | – | – | – | – | – | 4,949 | 4,949 | – | 4,949 |
| At 1 January 2018 (restated) | | 256,159 | 1,510,042 | (15,458) | 147,749 | 3,395 | (54,171) | 15,999 | 16,592 | 9,984 | 575,974 | 2,466,265 | (594) | 2,465,671 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 213,288 | 213,288 | (12,383) | 200,905 |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | – | (27,157) | – | (27,157) | 14,553 | (12,604) |
| Gain on property revaluation | 13 | – | – | – | – | – | – | 1,063 | – | – | – | 1,063 | – | 1,063 |
| Total comprehensive income for the year | | – | – | – | – | – | – | 1,063 | – | (27,157) | 213,288 | 187,194 | 2,170 | 189,364 |
| Acquisition of subsidiaries | 38 | – | – | – | – | – | – | – | – | – | – | – | 44,578 | 44,578 |
| Issue of shares upon exercise of share options | 32 | 48 | 1,506 | – | – | (586) | – | – | – | – | – | 968 | – | 968 |
| Equity-settled share option arrangement | 33 | – | – | – | – | 2,086 | – | – | – | – | – | 2,086 | – | 2,086 |
| Purchases of shares for the share award scheme | 34 | – | – | – | – | – | (3,951) | – | – | – | – | (3,951) | – | (3,951) |
| Transfer to statutory reserve funds | | – | – | – | – | – | – | – | 4,496 | – | (4,496) | – | – | – |
| Final 2017 dividend | 11 | – | – | – | – | – | – | – | – | – | (44,887) | (44,887) | – | (44,887) |
| Interim 2018 dividend | 11 | – | – | – | – | – | – | – | – | – | (37,475) | (37,475) | – | (37,475) |
| At 31 December 2018 | | 256,207 | 1,511,548* | (15,458)* | 147,749* | 4,895* | (58,122)* | 17,062* | 21,088* | (17,173)* | 702,404* | 2,570,200 | 46,154 | 2,616,354 |

* These reserve accounts comprise the consolidated reserves of HK$2,313,993,000 (2017: HK$2,205,157,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **231,001** | 357,332 |
| Adjustments for: | | | |
| Finance costs | 6 | **191,359** | 76,999 |
| Share of profits and losses of joint ventures | | **(6,298)** | — |
| Bank interest income | 5 | **(2,828)** | (8,307) |
| Loan interest income | 5 | **(3,914)** | (16,601) |
| Sales deposits forfeited | 5 | **(11,050)** | — |
| Fair value gain on derivative financial instrument | 5 | **—** | (90,386) |
| Gain on debt extinguishment | 5 | **(12,847)** | (49,605) |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 7 | **361** | (1) |
| Depreciation | 7 | **196,516** | 168,294 |
| Amortisation of intangible assets | 7 | **2,700** | — |
| Fair value gain on an investment property | 7 | **(1,000)** | (4,400) |
| Impairment of contract assets | 7 | **2** | — |
| Impairment of trade receivables, net | 7 | **(1,303)** | 8,053 |
| Write-down/(reversal of write-down) of inventories to net realisable value | 7 | **(9,025)** | 2,481 |
| Equity-settled share option expense | 7, 33 | **2,086** | 4,502 |
| | | **575,760** | 448,361 |
| Increase in inventories | | **(308,918)** | (164,049) |
| Increase in trade and bills receivables | | **(241,375)** | (74,197) |
| Decrease/(increase) in prepayments, deposits, other receivables and other assets | | **187,976** | (71,279) |
| Increase in amounts due from related companies | | **(483)** | — |
| Increase/(decrease) in trade and bills payables | | **(526,049)** | 488,986 |
| Increase in other payables and accruals | | **163,850** | 44,536 |
| Cash generated from/(used in) operations | | **(149,239)** | 672,358 |
| Interest element of finance lease rental payments | | **(12)** | (17) |
| Hong Kong profits tax paid | | **(5,921)** | (29,862) |
| Overseas taxes paid | | **(48,096)** | (15,690) |
| Net cash flows from/(used in) operating activities | | **(203,268)** | 626,789 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **3,149** | 8,786 |
| Purchases of items of property, plant and equipment | | **(1,019,361)** | (628,369) |
| Acquisition of subsidiaries | 38 | **58,049** | — |
| Additions to other intangible assets | | **(24,229)** | — |
| Decrease/(increase) in deposits paid for purchases of property, plant and equipment | | **77,181** | (453,495) |
| Proceeds from disposal of items of property, plant and equipment | | **10** | 6 |
| Advance of loans to business partners | | **—** | (214,450) |
| Repayment of loans from business partners | | **32,760** | — |
| Advance of loan to a director | | **(41,500)** | — |
| Repayment of loan from a director | | **41,500** | — |
| Decrease in pledged deposits | | **116,858** | 126,106 |
| Increase in restricted cash | | **(81,209)** | — |
| Decrease in amounts due from related companies | | **—** | 6,423 |
| Investment in joint ventures | | **(756,620)** | — |
| Net cash flows used in investing activities | | **(1,593,412)** | (1,154,993) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 32 | **968** | 3,213 |
| Purchases of shares for the share award scheme | 34 | **(3,951)** | (54,171) |
| New bank borrowings, net of debt establishment costs | | **3,298,003** | 1,829,502 |
| Repayment of bank borrowings | | **(1,680,214)** | (1,428,852) |
| Repayment of other borrowings | | **(36,660)** | (48,050) |
| Repayment of senior notes | | **(78)** | — |
| Capital element of finance lease rental payments | | **(234)** | (189) |
| Dividends paid | | **(82,362)** | (103,303) |
| Interest paid | | **(163,591)** | (34,560) |
| Net cash flows from financing activities | | **1,331,881** | 163,590 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(464,799)** | (364,614) |
| Cash and cash equivalents at beginning of year | | **1,033,502** | 1,392,009 |
| Effect of foreign exchange rate changes, net | | **(27,350)** | 6,107 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **541,353** | 1,033,502 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **541,353** | 781,913 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | **—** | 251,589 |
| | | **541,353** | 1,033,502 |

## 1. CORPORATE AND GROUP INFORMATION

VPower Group International Holdings Limited 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, lease 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 2018 | 2017 | 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 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| VPower Group Holdings Limited | Hong Kong | HK$10,000 | 100 | 100 | Investment holding and provision of distributed power solutions |
| VPower Holdings (Singapore) Pte. Limited | Singapore | Singapore Dollar 10,000 | 100 | 100 | Provision of repair and maintenance services |
| VPower Myanmar Limited^ | Hong Kong | HK$1 | 100 | — | Provision of distributed power solutions |
| VPower Operation and Services Limited | Hong Kong | HK$1 | 100 | 100 | Provision of technical services |
| Genrent del Peru S.A.C. (“Genrent Peru”)+ | Peru | Peruvian Soles (“S/”) 57,318,175 | 51 | — | Provision of distributed power solutions |
| VPTM Iquitos S.A.C. (“VPTM Iquitos”)+ | Peru | S/1,000 | 51 | — | Provision of operation and maintenance services |
| 偉能新能源科技(臨沂)有限公司*# | PRC/Mainland China | US$5,000,000 | 100 | 100 | Provision of distributed power solutions |

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

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

^ This subsidiary was newly incorporated during the year.

\+ In February 2018, the Group (i) exercised the option to subscribe for a 51% equity interest in Genrent Peru for an exercise consideration of US$4,600,000 (equivalent to approximately HK$35,880,000); and (ii) acquired a 51% equity interest in VPTM Iquitos for a consideration of S/510 (equivalent to approximately HK$1,000) (collectively, the “Genrent Peru Acquisition”). Further details of the Genrent Peru Acquisition are included in note 38 to the financial statements.

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 instrument 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. 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 2018. 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.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| *Annual Improvements to HKFRSs 2014–2016 Cycle* | Amendments to HKFRS 1 and HKAS 28 |

Except for the amendments to HKFRS 4, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

### Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

| | | HKAS 39 measurement | | | HKFRS 9 measurement | |
|---|---|---|---|---|---|---|
| | | Category | Amount | ECL | Amount | Category |
| | Note | | HK$'000 | HK$'000 | HK$'000 | |
| **Financial assets** | | | | | | |
| Trade and bills receivables | (i) | L&R[1] | 776,630 | 4,949 | 781,579 | AC[2] |
| Financial assets included in prepayments, deposits, other receivables and other assets | | L&R | 422,486 | — | 422,486 | AC |
| Due from a related company | | L&R | 96 | — | 96 | AC |
| Derivative financial instrument | | FVPL[3] | 90,386 | — | 90,386 | FVPL |
| Pledged deposits | | L&R | 165,759 | — | 165,759 | AC |
| Cash and cash equivalents | | L&R | 1,033,502 | — | 1,033,502 | AC |
| | | | 2,488,859 | 4,949 | 2,493,808 | |
| **Other assets** | | | | | | |
| Contract assets included in prepayments, deposits, other receivables and other assets | (i) | | 4,268 | — | 4,268 | — |
| | | | 2,493,127 | | 2,498,076 | |
| **Financial liabilities** | | | | | | |
| Trade and bills payables | | AC | 904,075 | — | 904,075 | AC |
| Financial liabilities included in other payables and accruals | | AC | 1,070,787 | — | 1,070,787 | AC |
| Interest-bearing bank and other borrowings | | AC | 1,389,043 | — | 1,389,043 | AC |
| | | | 3,363,905 | — | 3,363,905 | |

1 L&R: Loans and receivables
2 AC: Financial assets or financial liabilities at amortised cost
3 FVPL: Financial assets at fair value through profit or loss

Note:

(i) The gross carrying amount of the trade receivables and the contract assets under the column "HKAS 39 measurement — Amount" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of HKFRS 15 are included in note 2.2(c) to the financial statements.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

### Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 19 to the financial statements.

| | **Impairment allowances under HKAS 39 at 31 December 2017** | **Re-measurement** | **ECL allowances under HKFRS 9 at 1 January 2018** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Trade and bills receivables | 10,236 | (4,949) | 5,287 |

### Impact on retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

| | **Retained profits** |
|---|---|
| | HK$'000 |
| Balance as at 31 December 2017 under HKAS 39 | 571,025 |
| Remeasurement of expected credit losses for trade and bills receivables under HKFRS 9 | 4,949 |
| Balance as at 1 January 2018 under HKFRS 9 | 575,974 |

(c) HKFRS 15 and its amendments replace HKAS 11 Con*struction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (Continued)

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The application of HKFRS 15 has had no impact on the financial performance of the Group. Hence, no cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. The comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

| | Notes | **Increase/ (decrease)** HK$'000 |
|---|---|---|
| **Assets** | | |
| Trade and bills receivables | (i) | (4,268) |
| Contract assets included in prepayments, deposits, other receivables and other assets | (i) | 4,268 |
| **Liabilities** | | |
| Receipts in advance and deferred income included in other payables and accruals | (ii) | (46,610) |
| Contract liabilities included in other payables and accruals | (ii) | 46,610 |

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on the Group's profit or loss, other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (Continued)

Consolidated statement of financial position as at 31 December 2018:

| | | Amounts prepared under | | |
|---|---|---|---|---|
| | | | Previous | Increase/ |
| | | HKFRS 15 | HKFRS | (decrease) |
| | Notes | HK$'000 | HK$'000 | HK$'000 |
| **Assets** | | | | |
| Trade and bills receivables | (i) | 1,071,077 | 1,077,099 | (6,022) |
| Prepayments, deposits, other receivables and other assets (current portion) | (i) | 445,939 | 439,917 | 6,022 |
| **Liabilities** | | | | |
| Receipts in advance and deferred income included in other payables and accruals | (ii) | — | 73,884 | (73,884) |
| Contract liabilities included in other payables and accruals | (ii) | 73,884 | — | 73,884 |

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 are described below:

### (i) Sale of engine-based electricity generation units with installation/construction services

The Group provides certain installation/construction services bundled together with the sale of engine-based electricity generation units.

Before the adoption of HKFRS 15, retention receivables arising from sale of engine-based electricity generation units, that were conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, were included in trade receivables. Upon adoption of HKFRS 15, retention receivables are reclassified to contract assets. Accordingly, the Group reclassified HK$4,268,000 from trade receivables to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in trade receivables of HK$6,022,000 and an increase in contract assets of HK$6,022,000.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (Continued)

### (ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$46,610,000 from receipts in advance and deferred income to contract liabilities included in other payables and accruals as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$73,884,000 was reclassified from receipts in advance and deferred income to contract liabilities included in other payables and accruals in relation to the consideration received from customers in advance for the sale of engine-based electricity generation units.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

(f) Amendments under *Annual Improvements to HKFRSs 2014–2016 Cycle*

HKAS 28 *Investments in Associates and Joint Ventures*: Clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries when applying the equity method. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. The amendments did not have any impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business*[2] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[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 16 | *Leases*[1] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[2] |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[1] |
| *Annual Improvements 2015–2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1] |

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group is currently assessing the impact of adoption of HKFRS 16. As disclosed in note 41(b) to the financial statements, at 31 December 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$22,740,000. Upon adoption of HKFRS 16, certain amounts included therein will need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new right-of-use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

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

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Interests 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Interests in joint ventures (Continued)

The Group's interests 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 interests in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

If an interest 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.

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations and goodwill (Continued)

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair value measurement (Continued)

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, 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:

| | |
|---|---|
| Land and buildings | Over the shorter of lease term and 50 years |
| Leasehold improvements | Over the shorter of lease term and 20% |
| Mobilisation and installation | Over the lease terms |
| Machinery and equipment | 4% to $33^1/_3$% |
| Furniture, fixtures and office equipment | 10% to $33^1/_3$% |
| Motor vehicles | 12.5% 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 interest under an operating lease for a property 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)

### Investment properties (Continued)

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

### Non-current assets held for sale

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

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

### 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 the respective useful economic lives.

### 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

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

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

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

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

### Financial assets (policies under HKFRS 9 applicable from 1 January 2018)

*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 (applicable from 1 January 2018)" 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

*Initial recognition and measurement (Continued)*

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.

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

*Subsequent measurement*

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

*Financial assets at amortised cost (debt instruments)*

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

*Subsequent measurement (Continued)*

*Financial assets at fair value through profit or loss (Continued)*

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.

### Financial assets (policies under HKAS 39 applicable before 1 January 2018)

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

*Subsequent measurement*

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

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. These net fair value changes do not include any interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

*Subsequent measurement (Continued)*

*Financial assets at fair value through profit or loss (Continued)*

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These 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.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the statement of profit or loss.

### Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for 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.

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 |

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

*Simplified approach*

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

### Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

*Financial assets carried at amortised cost (Continued)*

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

### Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

*Subsequent measurement of 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 (policies under HKFRS 9 applicable from 1 January 2018)*

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 (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (Continued)

*Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018) (Continued)*

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 contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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.

### Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Derivative financial instruments also include an option contract to subscribe for equity interest in a company holding a power generation project. 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. All forward currency contracts entered into by the Group do not qualify for hedge accounting.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Derivative financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (Continued)

*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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income tax (Continued)

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.

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

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

### Government grants

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

### Revenue recognition (applicable from 1 January 2018)

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (applicable from 1 January 2018) (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 on delivery of the engine-based electricity generation units.

(b) *Installation/construction services*

The Group provides certain installation/construction services that are bundled together with the sale of engine-based electricity generation units to a customer. The installation/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 certain installation/construction services are comprised of two performance obligations because the promises to transfer the engine-based electricity generation units and provide such installation/construction services are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative standalone selling prices of the engine-based electricity generation units and such installation/construction services.

Revenue from such installation/construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. 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's contracts primarily represent lease contracts, which are accounted for as operating leases. The Group determines lease classification on a contract-specific basis.

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). The revenue of the contract is recognised when the energy is produced and delivered to the customer in accordance with the contractual arrangements.

*Other income*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

*(a) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

*(b) Distributed power solutions*

The revenue of the contract is recognised when the energy is produced and delivered to the customer in accordance with the contractual arrangements.

*(c) Income from contract assignment/novation*

The consideration for the assignment/novation of a contract to a related company is contingent on the electricity generated by the related company for the operation of a distributed power generation station in Chad (the "Chad Operation"). Income from the assignment/novation of contract is recognised when the electricity generated can be measured reliably.

*(d) Interest income*

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 (applicable from 1 January 2018)

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 liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Contract costs (applicable from 1 January 2018)

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

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

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

### Share-based payments

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

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based payments (Continued)

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.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (Continued)

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:

*Determination of functional currency*

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currency of each entity in the Group, judgement is required to determine and consider the currency that mainly influences sales prices of goods and services and of the country/jurisdiction whose competitive forces and regulations mainly determines the sales prices of goods and services; the currency that mainly influences labour, materials and other costs of providing goods or services; the currency in which funds from financing activities are generated; and the currency in which receipts from operating activities are usually retained. The functional currency of each entity in the Group is determined based on management's assessment of the primary economic environment in which the entities operate. When the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

*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 and certain installation/construction services*

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (Continued)

*Revenue from contracts with customers (Continued)*

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

The Group determined that both engine-based electricity generation units and such installation/construction services are each capable of being distinct. The fact that the Group regularly sells engine-based electricity generation units on a standalone basis indicates that the customer can benefit from the electricity generation units on their own. The Group also determined that the promises to transfer the engine-based electricity generation units and to provide such installation/construction services are distinct within the context of the contract. The engine-based electricity generation units and such installation/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 installation/construction services together in the contract does not result in any additional or combined functionality and neither the electricity generation units nor the installation/construction modifies or customises the other. In addition, the engine-based electricity generation units and such installation/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 installation/construction and would be able to provide installation/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 installation/construction services based on relative standalone selling prices.

*(ii) Determining the timing of satisfaction of certain installation/construction services*

The Group concluded that revenue for certain installation/construction services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the installation/construction that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the input method is the best method in measuring the progress of the installation/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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (Continued)

#### *Revenue from contracts with customers (Continued)*

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

During the year ended 31 December 2018, the Group recognised revenue of approximately HK$153,152,000 (2017: HK$37,321,000) for the sales of engine-based electricity generation units to an independent third party, which was a sub-contractor of an engineering, procurement and construction contractor (the "EPC Contractor") of the Group for the construction of certain power stations. Upon completion of the construction of the power stations, the EPC Contractor would transfer the power stations (including the power generation assets) to the Group and the Group would recognise such power stations in accordance with the accounting policy for property, plant and equipment and depreciation in note 2.4 to the financial statements. Significant judgement is involved by management to determine that the above transactions were not linked transactions and control of the engine-based electricity generation units have been transferred to the sub-contractor and hence the recognition criteria for the related revenue are met. The estimated gross profit in respect of the related sales of engine-based electricity generation units amounted to approximately HK$27,571,000 (2017: HK$9,924,000) for the year ended 31 December 2018.

#### *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 2018 was HK$81,489,000 (2017: Nil). Further details are given in note 15.

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

The Group uses a provision matrix to calculate ECLs for certain trade and bills receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty (Continued)

*Provision for expected credit losses on trade and bills receivables and contract assets (Continued)*

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) 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 are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of 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 19 and 20 to the financial statements, respectively.

*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 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 of goods may be different from estimation and profit or loss could be affected by differences in this estimation. As at 31 December 2018, the carrying amount of inventories was HK$1,249,430,000 (2017: HK$712,451,000).

*Purchase price allocation of a business combination*

The purchase price allocation of the Group's business combination, as detailed in note 38 to the financial statements, requires the determination of fair values of the identifiable assets acquired and liabilities assumed. The net assets acquired, include amongst others, property, plant and equipment and other intangible assets, of which their fair values are dependent on a range of estimates including estimated future cash flows of the underlying power generation project, discount rate and interest rate. Given the uncertainties in the estimation, the actual outcomes may be higher or lower than the estimated fair values of these items as at the date of acquisition. Where the actual outcomes of these items are different from the amounts initially recorded, such differences may impact the future financial results.

## 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 system integration (“SI”) segment designs, integrates, sells and installs engine-based electricity generation units; and
(b) the investment, building and operating (“IBO”) segment designs, invests in, builds, leases 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 resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s profit before tax except that bank interest income, finance costs, fair value gains/losses from the Group’s financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, amounts due from related companies, derivative financial instrument, 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 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 2018**

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

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

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

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

**Year ended 31 December 2017**

| | SI HK$'000 | IBO HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Segment revenue:** | | | |
| Sales to external customers | 1,182,863 | 563,153 | 1,746,016 |
| Intersegment sales | 43,563 | — | 43,563 |
| | 1,226,426 | 563,153 | 1,789,579 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (43,563) |
| Revenue | | | 1,746,016 |
| **Segment results** | 96,963 | 296,923 | 393,886 |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | (1,723) |
| Bank interest income | | | 8,307 |
| Corporate and unallocated income, net | | | 33,861 |
| Finance costs | | | (76,999) |
| Profit before tax | | | 357,332 |
| **Segment assets** | 1,220,988 | 3,327,327 | 4,548,315 |
| *Reconciliation:* | | | |
| Corporate and unallocated assets | | | 1,378,292 |
| Total assets | | | 5,926,607 |
| **Segment liabilities** | 913,127 | 1,123,644 | 2,036,771 |
| *Reconciliation:* | | | |
| Corporate and unallocated liabilities | | | 1,429,114 |
| Total liabilities | | | 3,465,885 |
| **Other segment information:** | | | |
| Impairment of trade receivables, net | (489) | 8,542 | 8,053 |
| Write-down of inventories to net realisable value | 2,481 | — | 2,481 |
| Depreciation* | 3,497 | 164,388 | 167,885 |
| Capital expenditure# | 7,667 | 340,228 | 347,895 |

* Depreciation excludes depreciation charges of HK$409,000 for corporate assets.

# Capital expenditure excludes additions to property, plant and equipment of HK$55,443,000 for corporate assets.

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### Geographical information

#### *(a) Revenue from external customers*

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Hong Kong | **67,797** | 101,862 |
| Mainland China | **407,168** | 350,287 |
| Asian countries | **1,456,701** | 1,207,403 |
| Latin America | **486,526** | 81,685 |
| Other countries | **2,557** | 4,779 |
| | **2,420,749** | 1,746,016 |

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

#### *(b) Non-current assets*

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Hong Kong | **944,014** | 484,755 |
| Mainland China | **49,901** | 14,861 |
| Asian countries | **823,340** | 2,098,891 |
| Latin America | **1,021,570** | 1,860 |
| Other countries | **90,748** | 55,034 |
| | **2,929,573** | 2,655,401 |

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:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Customer A | **560,324** | 434,368 |
| Customer B | **333,374** | N/A* |
| Customer C | **269,323** | N/A* |
| Customer D | **256,764** | 305,356 |
| | **1,419,785** | 739,724 |

* Nil or less than 10% of revenue

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Revenue from contracts with customers | 2,420,749 | — |
| Sale of goods | — | 1,182,863 |
| Provision of distributed power solutions | — | 563,153 |
| | 2,420,749 | 1,746,016 |

### Revenue from contracts with customers

#### *(i) Disaggregated revenue information*

**For the year ended 31 December 2018**

| Segments | SI HK$'000 | IBO HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Type of goods or services** | | | |
| Sale of goods | 1,577,190 | — | 1,577,190 |
| Installation/construction services | 1,848 | — | 1,848 |
| Provision of distributed power solutions | — | 841,711 | 841,711 |
| Total revenue from contracts with customers | 1,579,038 | 841,711 | 2,420,749 |
| **Geographical markets** | | | |
| Hong Kong | 67,797 | — | 67,797 |
| Mainland China | 393,936 | 13,232 | 407,168 |
| Asian countries | 961,596 | 495,105 | 1,456,701 |
| Latin America | 153,152 | 333,374 | 486,526 |
| Other countries | 2,557 | — | 2,557 |
| Total revenue from contracts with customers | 1,579,038 | 841,711 | 2,420,749 |
| **Timing of revenue recognition** | | | |
| Goods transferred at a point in time | 1,577,190 | — | 1,577,190 |
| Services transferred over time | 1,848 | 841,711 | 843,559 |
| Total revenue from contracts with customers | 1,579,038 | 841,711 | 2,420,749 |

## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Revenue from contracts with customers (Continued)

*(i) Disaggregated revenue information (Continued)*

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:

| | 2018<br>HK$'000 |
|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | |
| Sale of goods | 43,374 |

*(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 delivery of the engine-based electricity generation units and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required.

*Installation/construction services*

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of installation/construction and customer acceptance.

*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.

## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Revenue from contracts with customers (Continued)

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| **Other income** | | |
| Bank interest income | 2,828 | 8,307 |
| Loan interest income | 3,914 | 16,601 |
| Income from contract assignment/novation | — | 6,592 |
| Government grants* | 271 | 235 |
| Sales deposits forfeited | 11,050 | — |
| Others | 8,254 | 4,237 |
| | 26,317 | 35,972 |
| **Gains** | | |
| Fair value gain on derivative financial instrument | — | 90,386 |
| Fair value gain on an investment property | 1,000 | 4,400 |
| Gain on debt extinguishment | 12,847 | 49,605 |
| Net gain on settlement of derivative financial instruments | — | 9,882 |
| Gain on disposal of items of property, plant and equipment, net | — | 1 |
| | 13,847 | 154,274 |
| | 40,164 | 190,246 |

* A subsidiary is qualified as a high-and-new technology enterprise in the People's Republic of 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:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Interest on senior notes | 44,463 | — |
| Interest and other finance costs on letters of credit, bank loans and overdrafts | 108,670 | 20,622 |
| Interest on finance leases | 12 | 17 |
| Interest on other borrowings | 11,785 | 12,516 |
| | 164,930 | 33,155 |
| Amortisation of debt establishment costs | 10,511 | 3,498 |
| Notional interest on other payables | 15,918 | 40,346 |
| | 191,359 | 76,999 |

## 7. PROFIT BEFORE TAX

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

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | **1,229,800** | 913,956 |
| Cost of services provided | | **472,411** | 243,884 |
| Auditor's remuneration | | **6,163** | 4,690 |
| Depreciation* | 13 | **196,516** | 168,294 |
| Amortisation of intangible assets | 16 | **2,700** | — |
| Lease receipts under operating leases in respect of power generation assets: | | | |
| Contingent amounts recognised as income | | **(841,711)** | (563,153) |
| Minimum lease payments under operating leases in respect of land and buildings | | **16,138** | 11,104 |
| Employee benefit expense (including directors' and chief executives' remuneration *(note 8)*)^: | | | |
| Wages, salaries, bonuses, allowances and benefits in kind | | **124,923** | 84,917 |
| Equity-settled share option expense | 33 | **2,086** | 4,502 |
| Pension scheme contributions (defined contribution schemes) | | **5,758** | 3,325 |
| | | **132,767** | 92,744 |
| Net loss/(gain) on settlement of derivative financial instruments | | **4,504#** | (9,882) |
| Fair value gain on an investment property | 14 | **(1,000)** | (4,400) |
| Foreign exchange differences, net# | | **28,827** | 88,054 |
| Impairment of trade receivables, net# | 19 | **(1,303)** | 8,053 |
| Impairment of contract assets# | 20 | **2** | — |
| Loss/(gain) on disposal of items of property, plant and equipment, net | | **361#** | (1) |
| Write-down/(reversal of write-down) of inventories to net realisable value | | **(9,025)*** | 2,481# |

* Included in the cost of sales for the year was depreciation charges of HK$175,533,000 (2017: HK$151,894,000) and reversal of write-down of inventories to net realisable value of HK$9,025,000 (2017: Nil).

^ Employee benefit expense incurred on research and development activities for the year amounted to HK$3,957,000 (2017: HK$3,574,000).

# 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 Hong Kong Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Fees | **1,728** | 1,789 |
| Other emoluments: | | |
| Salaries, bonuses, allowances and benefits in kind | **14,322** | 13,646 |
| Equity-settled share option expense | **652** | 1,364 |
| Pension scheme contributions | **90** | 90 |
| | **15,064** | 15,100 |
| | **16,792** | 16,889 |

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 33 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executives' remuneration disclosures.

### (a) Independent non-executive directors

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

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Mr. Tsoi David | **216** | 216 |
| Mr. Yeung Wai Fai Andrew | **216** | 216 |
| Mr. Suen Wai Yu | **216** | 216 |
| | **648** | 648 |

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

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

### (b) Executive directors and non-executive directors

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries or their capacity as employees of these subsidiaries. The remuneration of each of these directors set out below includes those recorded in the financial statements of the subsidiaries.

| | 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 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Executive directors: | | | | | |
| Mr. Lam Yee Chun | **216** | **3,528** | **132** | **18** | **3,894** |
| Mr. Lee Chong Man Jason | **216** | **2,716** | **131** | **18** | **3,081** |
| Mr. Au-Yeung Tai Hong Rorce | **216** | **4,204** | **131** | **18** | **4,569** |
| Mr. Lo Siu Yuen | **216** | **2,340** | **129** | **18** | **2,703** |
| Non-executive directors: | | | | | |
| Ms. Chan Mei Wan | **216** | **1,534** | **129** | **18** | **1,897** |
| Mr. Kwok Man Leung | **—** | **—** | **—** | **—** | **—** |
| | **1,080** | **14,322** | **652** | **90** | **16,144** |
| 2017 | | | | | |
| Executive directors: | | | | | |
| Mr. Lam Yee Chun | 216 | 3,658 | 276 | 18 | 4,168 |
| Mr. Lee Chong Man Jason | 216 | 2,696 | 274 | 18 | 3,204 |
| Mr. Au-Yeung Tai Hong Rorce | 216 | 3,120 | 274 | 18 | 3,628 |
| Mr. Lo Siu Yuen | 216 | 2,520 | 270 | 18 | 3,024 |
| Non-executive directors: | | | | | |
| Ms. Chan Mei Wan | 216 | 1,652 | 270 | 18 | 2,156 |
| Dr. Chan Ka Keung~ | 61 | — | — | — | 61 |
| Mr. Kwok Man Leung+ | — | — | — | — | — |
| | 1,141 | 13,646 | 1,364 | 90 | 16,241 |

~ Dr. Chan Ka Keung resigned as a non-executive director of the Company on 11 April 2017.

\+ Mr. Kwok Man Leung was appointed as a non-executive director of the Company on 11 April 2017.

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

During the year, no remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil).

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2017: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2017: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Salaries, bonuses, allowances and benefits in kind | **2,600** | 2,900 |
| Equity-settled share option expense | **125** | 264 |
| Pension scheme contributions (defined contribution scheme) | **18** | 18 |
| | **2,743** | 3,182 |

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** | |
|---|---|---|
| | **2018** | 2017 |
| HK$2,500,001 to HK$3,000,000 | **1** | — |
| HK$3,000,001 to HK$3,500,000 | **—** | 1 |
| | **1** | 1 |

In prior years, share options were granted to the non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employee's remuneration disclosures.

## 10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current — Hong Kong | | |
| Charge for the year | **6,686** | 1,763 |
| Overprovision in prior years | **(126)** | (20) |
| Current — Elsewhere | | |
| Charge for the year | **24,415** | 22,437 |
| Overprovision in prior years | **(1,127)** | (930) |
| Deferred | **248** | 2,764 |
| Total tax charge for the year | **30,096** | 26,014 |

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:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before tax | **231,001** | 357,332 |
| Tax at the Hong Kong statutory tax rate of 16.5% (2017: 16.5%) | **38,115** | 58,960 |
| Different tax rates enacted by specific countries/jurisdictions | **(1,041)** | (774) |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiary | **2,491** | 7,019 |
| Withholding taxes | **13,609** | 8,480 |
| Adjustments in respect of current tax of previous periods | **(1,253)** | (950) |
| Profits and losses attributable to joint ventures | **(1,039)** | — |
| Income derived from the IBO segment which was claimed offshore and not subject to tax under Hong Kong jurisdiction | **(84,817)** | (119,618) |
| Other income not subject to tax | **(645)** | (2,298) |
| Expenses not deductible for tax | **68,408** | 72,457 |
| Tax losses utilised from previous periods | **(3,311)** | (577) |
| Tax losses not recognised | **559** | 3,311 |
| Others | **(980)** | 4 |
| Tax charge at the Group's effective tax rate | **30,096** | 26,014 |

## 11. DIVIDENDS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| Final 2017 — HK1.76 cents (2016: HK2.57 cents) per ordinary share | 45,089 | 65,792 |
| Less: Dividend for shares held under share award scheme | (202) | — |
| | 44,887 | 65,792 |
| Interim 2018 — HK1.47 cents (2017: HK1.47 cents) per ordinary share | 37,659 | 37,632 |
| Less: Dividend for shares held under share award scheme | (184) | (121) |
| | 37,475 | 37,511 |
| | 82,362 | 103,303 |
| Final dividend proposed after the end of the reporting period: | | |
| Proposed final 2018 — HK0.48 cent (2017: HK1.76 cents) per ordinary share | 12,298 | 45,084 |

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$213,288,000 (2017: HK$331,924,000), and the weighted average number of ordinary shares of 2,549,976,678 (2017: 2,555,633,054) in issue during the year, as adjusted to exclude the shares held under the share award scheme during the year.

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$213,288,000 (2017: HK$331,924,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 2,549,976,678 (2017: 2,555,633,054) in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 1,451,538 (2017: 2,062,356) 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 2018** | | | | | | | | |
| At 31 December 2017 and at 1 January 2018: | | | | | | | | |
| Cost | 77,158 | 6,588 | 115,219 | 2,323,221 | 14,360 | 15,141 | 30,848 | 2,582,535 |
| Accumulated depreciation | (335) | (4,533) | (61,184) | (311,098) | (8,431) | (7,872) | – | (393,453) |
| Net carrying amount | 76,823 | 2,055 | 54,035 | 2,012,123 | 5,929 | 7,269 | 30,848 | 2,189,082 |
| At 1 January 2018, net of accumulated depreciation | 76,823 | 2,055 | 54,035 | 2,012,123 | 5,929 | 7,269 | 30,848 | 2,189,082 |
| Acquisition of subsidiaries (note 38) | 9,557 | – | – | 885,945 | 104 | 1,410 | – | 897,016 |
| Additions | 11,725 | 4,543 | 15,502 | 50,170 | 6,986 | 6,143 | 19,978 | 115,047 |
| Transfer to investment property | (24,000) | – | – | – | – | – | – | (24,000) |
| Transfer to assets held for sale (note 36) | – | – | (19,825) | (937,104) | – | – | – | (956,929) |
| Transfer to inventories | – | – | – | (207,107) | – | – | – | (207,107) |
| Depreciation provided during the year | (1,472) | (1,537) | (23,143) | (164,674) | (2,607) | (3,083) | – | (196,516) |
| Disposals | – | (322) | – | (6) | (43) | – | – | (371) |
| Surplus on revaluation | 1,063 | – | – | – | – | – | – | 1,063 |
| Transfers | – | – | 309 | 354 | – | – | (663) | – |
| Exchange realignment | (777) | (13) | (262) | (2,366) | (229) | (77) | (1,775) | (5,499) |
| At 31 December 2018, net of accumulated depreciation | 72,919 | 4,726 | 26,616 | 1,637,335 | 10,140 | 11,662 | 48,388 | 1,811,786 |
| At 31 December 2018: | | | | | | | | |
| Cost | 74,262 | 6,472 | 62,180 | 1,914,082 | 20,579 | 22,299 | 48,388 | 2,148,262 |
| Accumulated depreciation | (1,343) | (1,746) | (35,564) | (276,747) | (10,439) | (10,637) | – | (336,476) |
| Net carrying amount | 72,919 | 4,726 | 26,616 | 1,637,335 | 10,140 | 11,662 | 48,388 | 1,811,786 |

## 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 2017** | | | | | | | | |
| At 1 January 2017: | | | | | | | | |
| Cost | – | 4,950 | 95,858 | 2,033,820 | 10,172 | 8,379 | 2,269 | 2,155,448 |
| Accumulated depreciation | – | (3,069) | (35,860) | (172,483) | (6,733) | (6,370) | – | (224,515) |
| Net carrying amount | – | 1,881 | 59,998 | 1,861,337 | 3,439 | 2,009 | 2,269 | 1,930,933 |
| At 1 January 2017, net of accumulated depreciation | – | 1,881 | 59,998 | 1,861,337 | 3,439 | 2,009 | 2,269 | 1,930,933 |
| Additions | 53,758 | 1,613 | 15,935 | 280,207 | 3,810 | 6,579 | 41,436 | 403,338 |
| Transfer from investment property | 23,400 | – | – | – | – | – | – | 23,400 |
| Depreciation provided during the year | (335) | (1,449) | (25,324) | (138,339) | (1,475) | (1,372) | – | (168,294) |
| Disposals | – | – | – | – | (5) | – | – | (5) |
| Transfers | – | – | 3,426 | 9,062 | – | – | (12,488) | – |
| Exchange realignment | – | 10 | – | (144) | 160 | 53 | (369) | (290) |
| At 31 December 2017, net of accumulated depreciation | 76,823 | 2,055 | 54,035 | 2,012,123 | 5,929 | 7,269 | 30,848 | 2,189,082 |
| At 31 December 2017: | | | | | | | | |
| Cost | 77,158 | 6,588 | 115,219 | 2,323,221 | 14,360 | 15,141 | 30,848 | 2,582,535 |
| Accumulated depreciation | (335) | (4,533) | (61,184) | (311,098) | (8,431) | (7,872) | – | (393,453) |
| Net carrying amount | 76,823 | 2,055 | 54,035 | 2,012,123 | 5,929 | 7,269 | 30,848 | 2,189,082 |

As at 31 December 2018, the net carrying amounts of the Group's furniture, fixtures and office equipment held under finance lease was HK$49,000 (2017: HK$68,000). As at 31 December 2017, the net carrying amount of the Group's motor vehicles held under finance leases was HK$762,000.

As at 31 December 2018, certain of the Group's property, plant and equipment with a net carrying amount of HK$1,427,753,000 (2017: HK$594,947,000) were pledged to secure senior notes (note 27) and banking facilities and other borrowings granted to the Group (note 28).

## 14. INVESTMENT PROPERTY

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | – | 19,000 |
| Transfer from/(to) owner-occupied property | 24,000 | (23,400) |
| Net gain from a fair value adjustment | 1,000 | 4,400 |
| Carrying amount at 31 December | 25,000 | – |

The Group's investment property is a commercial property in Hong Kong. The Group's investment property was revalued on 31 December 2018 based on valuation performed by Vigers Appraisal and Consulting (International) Limited, an independent firm of professionally qualified valuers, at HK$25,000,000. Each year, the Company's management decides to appoint which external valuer to be responsible for the external valuation of the Group's property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and 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 2018 using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Recurring fair value measurement for a commercial property | – | – | 25,000 | 25,000 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: 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 2017 | 19,000 |
| Net gain from a fair value adjustment | 4,400 |
| Transfer to owner-occupied property | (23,400) |
| Carrying amount at 31 December 2017 and at 1 January 2018 | — |
| Transfer from owner-occupied property | 24,000 |
| Net gain from a fair value adjustment | 1,000 |
| Carrying amount at 31 December 2018 | 25,000 |

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

| | **Valuation technique** | **Significant unobservable inputs** | **Range** |
|---|---|---|---|
| | | | 2018 |
| Commercial property | Direct comparison method | Estimated price per sq. ft. | 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. GOODWILL

| | HK$'000 |
|---|---|
| At 1 January 2017, 31 December 2017 and at 1 January 2018 | — |
| Acquisition of subsidiaries (note 38) | 81,489 |
| Cost and carrying amount at 31 December 2018 | 81,489 |

## 15. GOODWILL (CONTINUED)

### 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 19.5-year period approved by senior management. The forecast period represented the remaining lease term of the power plant of Genrent Peru Group. The discount rate applied to the cash flow projections was 16.4%.

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

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

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

## 16. OTHER INTANGIBLE ASSETS

| | Grid and related development rights HK$'000 | Concession right HK$'000 | Total HK$'000 |
|---|---|---|---|
| **31 December 2018** | | | |
| Cost at 1 January 2018, net of accumulated amortisation | — | — | — |
| Acquisition of subsidiaries *(note 38)* | — | 56,300 | 56,300 |
| *Addition – acquired separately* | 32,635 | — | 32,635 |
| Amortisation provided during the year | — | (2,700) | (2,700) |
| Exchange realignment | — | 61 | 61 |
| At 31 December 2018 | 32,635 | 53,661 | 86,296 |
| At 31 December 2018: | | | |
| Cost | 32,635 | 56,300 | 88,935 |
| Accumulated amortisation | — | (2,639) | (2,639) |
| Net carrying amount | 32,635 | 53,661 | 86,296 |

## 17. INTERESTS IN JOINT VENTURES

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Share of net assets | **762,918** | — |

In January 2018, the Company and CITIC Pacific Limited ("CITIC Pacific"), through their respective subsidiaries, agreed to establish Tamar VPower Energy Fund I, L.P. (the "Fund"). Tamar VPower Holdings Limited, indirectly owned as to 50% by each of the Company and CITIC Pacific, has a wholly-owned subsidiary to act as the general partner, the special limited partner and the management company, respectively, of the Fund. The Company has committed an aggregate amount of US$105,000,000 (equivalent to HK$819,000,000) to subscribe for interest in the Fund through its own indirect wholly-owned subsidiary and the special limited partner of the Fund. As at 31 December 2018, the Group invested approximately HK$756,600,000 in the Fund.

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

| Name | Registered capital | Place of registration and business | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Tamar VPower Energy Fund I, L.P. | US$193,823,487 | Cayman Islands | 50 | 50 | 50 | Investment |

The above investment is indirectly held by the Company.

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

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:

| | 2018 HK$'000 |
|---|---|
| Cash and cash equivalents | **37,234** |
| Other current assets | **1,489,652** |
| Current assets | **1,526,886** |
| Non-current assets | **71,992** |
| Current liabilities | **(1,049)** |
| Non-current financial liabilities, excluding trade and other payables and provisions | **(71,992)** |
| Net assets | **1,525,837** |
| 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 and carrying amount of the investment | **762,918** |
| Revenue | **47,305** |
| Interest income | **290** |
| Profit and total comprehensive income for the year | **12,597** |

## 18. INVENTORIES

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Raw materials | **149,176** | 237,686 |
| Work in progress | **1,387** | 7,926 |
| Finished goods | **913,163** | 329,548 |
| Spare parts and consumables | **185,704** | 137,291 |
| | **1,249,430** | 712,451 |

## 19. TRADE AND BILLS RECEIVABLES

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Trade receivables | **1,071,126** | 791,134 |
| Bills receivables | **2,510** | — |
| Impairment | **(2,559)** | (10,236) |
| | **1,071,077** | 780,898 |

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 365 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

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

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Within 30 days | **568,030** | 465,079 |
| 31 to 60 days | **96,709** | 80,008 |
| 61 to 90 days | **65,707** | 56,005 |
| 91 to 180 days | **140,350** | 67,029 |
| 181 to 360 days | **124,817** | 91,074 |
| Over 360 days | **75,464** | 21,703 |
| | **1,071,077** | 780,898 |

## 19. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

| | 2018 | | | 2017 |
|---|---|---|---|---|
| | **SI Segment HK$'000** | **IBO Segment HK$'000** | **Total HK$'000** | HK$'000 |
| At beginning of year | **1,694** | **8,542** | **10,236** | 2,075 |
| Effect of adoption of HKFRS 15 | **(747)** | **—** | **(747)** | — |
| Effect of adoption of HKFRS 9 | **—** | **(4,949)** | **(4,949)** | — |
| At beginning of year (restated) | **947** | **3,593** | **4,540** | 2,075 |
| Impairment losses, net *(note 7)* | **280** | **(1,583)** | **(1,303)** | 8,053 |
| Exchange realignment | **(87)** | **(591)** | **(678)** | 108 |
| At end of year | **1,140** | **1,419** | **2,559** | 10,236 |

### Impairment under HKFRS 9 for the year ended 31 December 2018

*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 and contract assets are written off if past due for more than one year and are not subject to enforcement activity.

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 2018**

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

*IBO Segment*

An impairment analysis is performed at each reporting date by considering the probability of default of counterparty. The Group also takes into account the forward-looking information to reflect the debtors' probability of default under the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2018, the probability of default applied ranged from 0.01% to 1.7% and the loss given default was estimated to be 100%.

*Bills receivables*

The Group applies a general approach in calculating ECLs for bills 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.

## 19. TRADE AND BILLS RECEIVABLES (CONTINUED)

### Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade and bills receivables of HK$10,236,000 with a carrying amount before provision of HK$10,236,000.

The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties and none of the receivables was expected to be recovered.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

| | 2017<br>HK$'000 |
|---|---|
| Neither past due nor impaired | 585,568 |
| 1 to 30 days past due | 69,816 |
| 31 to 90 days past due | 28,776 |
| Over 90 days past due | 96,738 |
| | 780,898 |

Trade and bills receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Trade and bills receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in their credit quality and the balances were still considered fully recoverable.

## 20. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSETS

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Prepayments | **44,794** | 22,165 |
| Deposits paid for purchases of property, plant and equipment | **162,084** | 466,319 |
| Deposits and other receivables | **374,711** | 143,001 |
| Contract assets (note) | **6,022** | — |
| Loan receivables | **22,620** | 291,950 |
| | **610,231** | 923,435 |
| Current portion included in prepayments, deposits, other receivables and other assets | **(445,939)** | (314,838) |
| Non-current portion | **164,292** | 608,597 |

The loan receivables are unsecured, bear interest at rates ranging from London Interbank Offered Rate ("LIBOR") plus 2% per annum to 7.5% per annum (2017: LIBOR plus 2% per annum to LIBOR plus 7.5% per annum) and are repayable based on terms stipulated in the loan agreements.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default. Since the deposits, other receivables and loan receivables are related to receivables are not past due, the expected credit loss rates are assessed to be minimal.

Note:

| | 31 December 2018 HK$'000 | 1 January 2018 HK$'000 | 31 December 2017 HK$'000 |
|---|---|---|---|
| Contract assets arising from sale of engine-based electricity generation units | 6,732 | 5,015 | — |
| Impairment | (710) | (747) | — |
| | 6,022 | 4,268 | — |

Contract assets are initially recognised for revenue earned from the sale of engine-based electricity generation units and the provision of related installation/construction services as the receipt of consideration is conditional on successful completion of installation/construction services. Included in contract assets are retention receivables. Upon completion of installation/construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. During the year ended 31 December 2018, HK$2,000 was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 19 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

| | HK$'000 |
|---|---|
| Within one year | **4,341** |
| More than one year | **1,681** |
| Total contract assets | **6,022** |

## 20. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

Note: (Continued)

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

| | 2018 HK$'000 |
|---|---|
| At beginning of year | – |
| Effect of adoption of HKFRS 15 | 747 |
| Impairment losses *(note 7)* | 2 |
| Exchange realignment | (39) |
| At end of year | 710 |

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

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

As at 31 December 2018

| | |
|---|---|
| Expected credit loss rate | 10.5% |

| | HK$'000 |
|---|---|
| Gross carrying amount | 6,732 |
| Expected credit losses | 710 |

## 21. DUE FROM RELATED COMPANIES

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

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

### 31 December 2018

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

### 31 December 2017

| | At 31 December 2017 HK$'000 | Maximum amount outstanding during the year HK$'000 | At 1 January 2017 HK$'000 |
|---|---|---|---|
| Orient Profit Investment Limited* | 96 | 96 | 96 |
| VPower Technology Company Limited* | — | 8,817 | 6,423 |
| | 96 | | 6,519 |

* These related companies are controlled by either one of the Controlling Shareholders.

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

## 22. DERIVATIVE FINANCIAL INSTRUMENT

| | Asset 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Option contract | – | 90,386 |

As at 31 December 2017, the Group held an option contract to subscribe for equity interest in Genrent Peru holding a power generation project. The change in the fair value of the option contract amounting to HK$90,386,000 was credited to the consolidated statement of profit or loss during the year ended 31 December 2017.

## 23. RESTRICTED CASH

The Group is required to place in designated bank accounts with the collection amounts from its business operation in Peru as guarantee deposits for the purpose of the repayment of principal and interest of the senior notes, the details of which are set out in note 27 to the financial statements.

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Notes | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| Cash and bank balances | | **670,891** | 947,672 |
| Time deposits | | **114** | 251,589 |
| | | **671,005** | 1,199,261 |
| Less: Pledged deposits for banking facilities and bank borrowings | 28 | **(48,443)** | (165,759) |
| Less: Restricted cash | 23 | **(81,209)** | — |
| Cash and cash equivalents | | **541,353** | 1,033,502 |

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

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Hong Kong dollars | **11,783** | 213,278 |
| Euro | **48,901** | 51,893 |
| Renminbi ("RMB") | **70,736** | 60,964 |
| United States dollars ("USD") | **397,739** | 700,842 |
| Others | **12,194** | 6,525 |
| | **541,353** | 1,033,502 |

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. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 25. TRADE AND BILLS PAYABLES

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

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **148,424** | 162,087 |
| 1 to 2 months | **92,171** | 98,801 |
| 2 to 3 months | **4,473** | 96,348 |
| Over 3 months | **149,733** | 546,839 |
| | **394,801** | 904,075 |

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

## 26. OTHER PAYABLES AND ACCRUALS

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Due to EPC Contractors | **94,354** | 998,146 |
| Sundry payables | **73,899** | 62,051 |
| Accruals | **58,871** | 36,264 |
| Receipts in advance | **—** | 19,482 |
| Deferred income | **—** | 27,128 |
| Contract liabilities | **73,884** | — |
| Loan payables | **265,367** | — |
| | **566,375** | 1,143,071 |
| Current portion included in other payables and accruals | **(492,884)** | (832,025) |
| Non-current portion | **73,491** | 311,046 |

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 2018 of HK$94,354,000 (2017: HK$998,146,000) were repayable by instalments up to March 2020 (2017: March 2020).

Sundry payables have an average term of 30 days.

Contract liabilities are short-term advances received from customers for sale of engine-based electricity generation units.

The loan payables to the non-controlling shareholders and a subsidiary of a joint venture are unsecured, bear interest at rates ranging from 4.3% per annum to 7.5% per annum and are repayable based on terms stipulated in the loan agreements.

## 27. SENIOR NOTES

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

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **HK$'000** | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Finance lease payables *(note 29)* | **10.07–14.51** | **2019** | **27** | 9.75–14.51 | 2018 | 239 |
| Portions of bank loans due for repayment within one year or on demand — secured | **5.16–5.36** | **2019** | **659,070** | 4.23–4.42 | 2018 | 110,343 |
| Portions of bank loans due for repayment within one year or on demand — unsecured | **2.00–5.57** | **2019** | **1,382,436** | 1.00–3.69 | 2018 | 206,360 |
| Portions of bank loans due for repayment after one year which contain repayment on demand clause *(note)* — secured | **4.93–5.02** | **2020–2021** | **342,966** | — | — | — |
| Other borrowings — secured | **—** | **—** | **—** | 5.20 | 2018 | 215,450 |
| | | | **2,384,499** | | | 532,392 |
| **Non-current** | | | | | | |
| Finance lease payables *(note 29)* | **10.07–14.51** | **2020** | **23** | 10.07–14.51 | 2019–2020 | 53 |
| Portions of bank loans due for repayment after one year — secured | **—** | **—** | **—** | 4.23–4.42 | 2019 | 659,070 |
| Portions of bank loans due for repayment after one year – unsecured | **4.78–5.29** | **2020–2021** | **406,386** | 3.69 | 2019–2020 | 197,528 |
| Other borrowings — secured | **6.2** | **2020–2022** | **179,025** | — | — | — |
| | | | **585,434** | | | 856,651 |
| | | | **2,969,933** | | | 1,389,043 |

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

*Note:*

Certain term loans of the Group containing repayment on demand clauses as at 31 December 2018 with a carrying amount of HK$454,976,000 (2017: Nil) have been classified in total as current liabilities. Accordingly, portions of the bank loans due for repayment after one year as at 31 December 2018 with a carrying amount of HK$342,966,000 (2017: Nil) have been classified as current liabilities. For the purpose of the above analysis, the loans are included within current interest-bearing bank borrowings and analysed into bank loans repayable within one year or on demand.

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

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Within one year | **2,041,533** | 532,392 |
| In the second year | **514,145** | 717,459 |
| In the third to fifth years, inclusive | **414,255** | 139,192 |
| | **2,969,933** | 1,389,043 |

(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$565,771,000 (2017: HK$594,947,000) as at 31 December 2018 (note 13);

(ii) the pledge of certain of the Group's cash deposits amounting to HK$48,443,000 (2017: HK$165,759,000) as at 31 December 2018 (note 24);

(iii) the pledge of certain trade receivables of a subsidiary of the Group; and

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

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

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Hong Kong dollars | **409,178** | 225,744 |
| Euro | **62,559** | 178,144 |
| RMB | **50** | 79 |
| USD | **2,498,146** | 984,863 |
| IDR | **—** | 213 |
| | **2,969,933** | 1,389,043 |

## 29. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and photocopiers for its business. These leases are classified as finance leases and have remaining lease terms of two years (2017: ranging from one to three years).

## 29. FINANCE LEASE PAYABLES (CONTINUED)

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

| | **Minimum lease payments 2018 HK$'000** | Minimum lease payments 2017 HK$'000 | **Present value of minimum lease payments 2018 HK$'000** | Present value of minimum lease payments 2017 HK$'000 |
|---|---|---|---|---|
| Amounts payable: | | | | |
| Within one year | **31** | 252 | **27** | 239 |
| In the second year | **24** | 32 | **23** | 28 |
| In the third to fifth years, inclusive | **—** | 26 | **—** | 25 |
| Total minimum finance lease payments | **55** | 310 | **50** | 292 |
| Future finance charges | **(5)** | (18) | | |
| Total net finance lease payables | **50** | 292 | | |
| Portion classified as current liabilities *(note 28)* | **(27)** | (239) | | |
| Non-current portion *(note 28)* | **23** | 53 | | |

## 30. PROVISION FOR RESTORATION

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| At 1 January | **6,002** | 3,135 |
| Additional provision | **29,537** | 2,867 |
| Amount utilised during the year | **(810)** | — |
| At 31 December | **34,729** | 6,002 |
| Portion classified as current liabilities | **(3,249)** | (3,672) |
| Non-current portion | **31,480** | 2,330 |

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.

## 31. DEFERRED TAX

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

| Deferred tax liabilities | Depreciation allowances in excess of related depreciation HK$'000 | Withholding tax HK$'000 | Intangible assets acquired in business combination HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2017 | — | 3,758 | — | 3,758 |
| Deferred tax charged to the consolidated statement of profit or loss during the year *(note 10)* | 411 | 1,717 | — | 2,128 |
| At 31 December 2017 and at 1 January 2018 | **411** | **5,475** | **—** | **5,886** |
| Acquisition of subsidiaries *(note 38)* | **42,621** | **—** | **12,323** | **54,944** |
| Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)* | **20,653** | **2,491** | **(579)** | **22,565** |
| Gross deferred tax liabilities at 31 December 2018 | **63,685** | **7,966** | **11,744** | **83,395** |

| 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 2017 | 5,965 | — | 5,965 |
| Deferred tax charged to the consolidated statement of profit or loss during the year *(note 10)* | (636) | — | (636) |
| At 31 December 2017 and at 1 January 2018 | **5,329** | **—** | **5,329** |
| Acquisition of subsidiaries *(note 38)* | **9,289** | **41,814** | **51,103** |
| Deferred tax credited to the consolidated statement of profit or loss during the year *(note 10)* | **525** | **21,792** | **22,317** |
| Exchange realignment | **(10)** | **—** | **(10)** |
| Gross deferred tax assets at 31 December 2018 | **15,133** | **63,606** | **78,739** |

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:

| | HK$'000 |
|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | 15,465 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (20,121) |
| Net deferred tax liabilities | (4,656) |

## 31. DEFERRED TAX (CONTINUED)

As at 31 December 2018, the Group has tax losses of HK$3,387,000 (2017: HK$20,064,000) arising in Hong Kong, subject to the agreement by the Hong Kong Inland Revenue Department, that were available indefinitely for offsetting against the future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses due to unpredictability of future taxable profit streams.

As at 31 December 2018, the Group also has tax losses arising in Peru of S/93,763,000 (equivalent to approximately HK$217,787,000) (2017: Nil) that may be offset against future profits year after year until its final extinction, applying up to 50 percent of its taxable profit. Deferred tax assets of S/940,000 (equivalent to HK$2,173,000) (2017: Nil) had not been recognised in respect of these losses due to unpredictability of future taxable profit streams.

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.

## 32. SHARE CAPITAL

### Shares

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Authorised: | | |
| 5,000,000,000 ordinary shares of HK$0.1 each | **500,000** | 500,000 |
| Issued and fully paid: | | |
| 2,562,074,000 (2017: 2,561,594,000) ordinary shares of HK$0.1 each | **256,207** | 256,159 |

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

| | Note | **Number of ordinary shares** | **Nominal value of ordinary shares** |
|---|---|---|---|
| | | | HK$'000 |
| At 1 January 2017 | | 2,560,000,000 | 256,000 |
| Share options exercised | (a) | 1,594,000 | 159 |
| At 31 December 2017 and at 1 January 2018 | | 2,561,594,000 | 256,159 |
| Share options exercised | (b) | 480,000 | 48 |
| At 31 December 2018 | | 2,562,074,000 | 256,207 |

(a) The subscription rights attaching to 1,594,000 share options were exercised at the subscription price of HK$2.016 per share, resulting in the issue of 1,594,000 ordinary shares of HK$0.1 each for a total cash consideration, before expenses, of HK$3,213,000. An amount of HK$1,903,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

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

### 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 33 and 34 to the financial statements, respectively.

## 33. SHARE OPTION SCHEMES

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

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

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

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

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

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

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

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

## 33. 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:

| | 2018 Weighted average exercise price per share HK$ | 2018 Number of options '000 | 2017 Weighted average exercise price per share HK$ | 2017 Number of options '000 |
|---|---|---|---|---|
| At beginning of year | **2.016** | **4,968** | 2.016 | 6,670 |
| Forfeited during the year | **2.016** | **(56)** | 2.016 | (108) |
| Exercised during the year | **2.016** | **(480)** | 2.016 | (1,594) |
| At end of year | **2.016** | **4,432** | 2.016 | 4,968 |

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.15 per share (2017: HK$5.01 per share).

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

**2018**

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

2017

| Number of options '000 | Exercise price per share* HK$ | Exercise period |
|---|---|---|
| 620 | 2.016 | 24 November 2017 to 23 November 2020 |
| 2,185 | 2.016 | 24 November 2018 to 23 November 2021 |
| 2,163 | 2.016 | 24 November 2019 to 23 November 2022 |
| 4,968 | | |

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

## 33. SHARE OPTION SCHEMES (CONTINUED)

The Group recognised a share option expense of HK$2,086,000 (2017: HK$4,502,000) during the year ended 31 December 2018.

The 480,000 (2017: 1,594,000) share options exercised during the year resulted in the issue of 480,000 (2017: 1,594,000) ordinary shares of the Company and new share capital of HK$48,000 (2017: HK$159,000) and share premium of HK$1,506,000 (2017: HK$4,957,000), as further detailed in note 32 to the financial statements.

At the end of the reporting period, the Company had 4,432,000 (2017: 4,968,000) share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 4,432,000 (2017: 4,968,000) additional ordinary shares of the Company and additional share capital of HK$443,000 (2017: HK$497,000) and share premium of HK$8,492,000 (2017: HK$9,519,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 4,355,000 share options outstanding under the Schemes, which represented approximately 0.17% of the Company's shares in issue as at that date.

## 34. SHARE AWARD SCHEME

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

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

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

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

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

## 34. SHARE AWARD SCHEME (CONTINUED)

During the year, the Group purchased 1,173,000 (2017: 11,181,000) of its own shares through the Trustee from open market. The total amount paid to acquire the shares was approximately HK$3,951,000 (2017: HK$54,171,000) and has been deducted from equity. As at 31 December 2018, such shares were classified as treasury shares of the Company as they were not yet vested.

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 2017 | — | — |
| Purchases of shares for the share award scheme | 11,181,000 | 54,171 |
| At 31 December 2017 and at 1 January 2018 | 11,181,000 | 54,171 |
| Purchases of shares for the share award scheme | 1,173,000 | 3,951 |
| At 31 December 2018 | 12,354,000 | 58,122 |

During the year, the Company did not award any shares to any eligible participant under the Share Award Scheme (2017: Nil).

## 35. 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").

### (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.

### (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.

## 35. RESERVES (CONTINUED)

### (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.

## 36. ASSETS HELD FOR SALE

During the year, the Company initiated a plan to dispose of the assets relating to its distributed power generation business in Indonesia. Negotiations for the sale in an advanced stage were in progress and the sale was considered highly probable and is expected to be completed within one year from the date of reclassification. Accordingly, the related power generation assets were classified as assets held for sale as at 31 December 2018.

## 37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

| | **2018** |
|---|---|
| Percentage of equity interest held by non-controlling interests: | |
| Genrent Peru Group | **49%** |

| | **2018**<br>**HK$'000** |
|---|---|
| Loss for the year allocated to non-controlling interests: | |
| Genrent Peru Group | **(3,440)** |
| Accumulated balance of non-controlling interests at the reporting date: | |
| Genrent Peru Group | **36,257** |

## 37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

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

| | 2018<br>Genrent Peru Group<br>HK$'000 |
|---|---|
| Revenue | 333,374 |
| Total expenses, net | (340,395) |
| Loss for the year and total comprehensive loss for the year | (7,021) |
| Current assets | 218,345 |
| Non-current assets | 923,397 |
| Current liabilities | (181,677) |
| Non-current liabilities | (886,183) |
| Net cash flows from operating activities | 126,486 |
| Net cash flows used in investing activities | (86,257) |
| Net cash flows used in financing activities | (35,301) |
| Net increase in cash and cash equivalents | 4,928 |

## 38. BUSINESS COMBINATION

In February 2018, the Group (i) exercised the option to subscribe for a 51% equity interest in Genrent Peru for an exercise consideration of US$4,600,000 (equivalent to approximately HK$35,880,000); and (ii) acquired a 51% equity interest in VPTM Iquitos for a consideration of S/510 (equivalent to approximately HK$1,000). Genrent Peru is principally engaged in the provision of distributed power solutions and VPTM Iquitos is principally engaged in the provision of operation and maintenance services. The Genrent Peru Acquisition was made as part of the Group's strategy to expand its market share of distributed power solutions in Latin America.

The Group has elected to measure the non-controlling interests at the non-controlling interests' proportionate share of identifiable net assets.

## 38. BUSINESS COMBINATION (CONTINUED)

The aggregate fair values of the identifiable assets and liabilities of the Genrent Peru Group as at the date of acquisition were as follows:

| | Notes | **Fair value recognised on acquisition** HK$'000 |
|---|---|---|
| Property, plant and equipment | 13 | 897,016 |
| Other intangible assets | 16 | 56,300 |
| Deferred tax assets | | 8,482 |
| Cash and bank balance | | 58,050 |
| Inventories | | 5,760 |
| Trade receivables | | 38,397 |
| Prepayments and other receivables | | 41,052 |
| Trade payables | | (12,537) |
| Accruals and other payables | | (189,495) |
| Senior notes | | (786,254) |
| Tax payable | | (15,092) |
| Deferred tax liabilities | 31 | (12,323) |
| Total identifiable net assets at fair value | | 89,356 |
| Non-controlling interest | | (44,578) |
| Goodwill on acquisition | 15 | 81,489 |
| | | 126,267 |
| Satisfied by: | | |
| Cash consideration | | 1 |
| Loan receivables due from the Genrent Peru Group | | 35,880 |
| Derivative financial instrument in respect of an option contract | | 90,386 |
| | | 126,267 |

The fair values of the trade receivables and prepayments and other receivables as at the date of acquisition amounted to HK$38,397,000 and HK$41,052,000, respectively. The gross contractual amounts of trade receivables and prepayments and other receivables were HK$38,397,000 and HK$41,052,000, respectively, of which no other receivables are expected to be uncollectible.

Goodwill arose in the acquisition of the Genrent Peru Group because the considerations paid for the acquisition effectively included amounts in relation to the benefits of expected synergies from combining the respective operations of the Genrent Peru Group and the Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the Genrent Peru Acquisition is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | (1) |
| Cash and bank balances acquired | 58,050 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 58,049 |

Since the acquisition, the Genrent Peru Group contributed HK$333,374,000 to the Group's revenue and loss of HK$6,696,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$2,448,834,000 and HK$202,341,000, respectively.

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Major non-cash transactions

(a) 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$38,836,000 (2017: HK$270,815,000).

(b) The Group entered into lease agreements in respect of its office premises and power generation assets under operating leases. Pursuant to the terms and conditions of the lease agreements, the Group is required to restore the office premises and the power generation sites to the conditions as stipulated in the lease agreements. During the year ended 31 December 2018, the Group has accrued and capitalised the estimated restoration cost of HK$29,537,000 (2017: HK$2,867,000) when such obligation has arisen.

(c) During the year ended 31 December 2017, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$434,000.

### Changes in liabilities arising from financing activities

| | **Bank and other loans** HK$'000 | **Finance lease payables** HK$'000 |
|---|---|---|
| At 1 January 2017 | 1,038,504 | 46 |
| Changes from financing cash flows | 352,600 | (189) |
| Non-cash changes: | | |
| Increase in debt establishment costs payable | (5,851) | — |
| Amortisation of debt establishment costs | 3,498 | — |
| New finance leases | — | 434 |
| Foreign exchange movement | — | 1 |
| At 31 December 2017 and at 1 January 2018 | 1,388,751 | 292 |
| Changes from financing cash flows | **1,589,875** | **(234)** |
| Non-cash changes: | | |
| Increase in debt establishment costs payable | **(7,122)** | **—** |
| Amortisation of debt establishment costs | **10,511** | **—** |
| Foreign exchange movement | **(12,132)** | **(8)** |
| At 31 December 2018 | **2,969,883** | **50** |

## 40. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Guarantees given to banks in connection with facilities granted to Genrent Peru | **—** | 58,890 |
| Indemnities given to financial institutions for performance bonds issued in relation to power generation projects undertaken by the Group | **24,110** | — |

As at 31 December 2017, the banking facilities guaranteed by the Group to Genrent Peru were utilised to the extent of approximately HK$46,152,000.

## 41. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its power generation assets under operating lease arrangements.

The leases of power generation assets are negotiated for terms ranging from one to twenty years (2017: one to five years). Pursuant to the terms and conditions as stipulated in the lease agreements of power generation assets, the revenue is based on the actual capacity made available to the lessee. Accordingly, the Group did not have any future minimum lease receivables under non-cancellable operating leases at the end of the reporting period. As the future capacity of the leases could not be accurately determined as at the end of the reporting period, the relevant contingent rentals have not been disclosed.

### (b) As lessee

The Group leases its office premises, factory premises, staff quarters, a motor vehicle, a car park space, certain office equipment and a warehouse under operating lease arrangements. The leases are negotiated for terms ranging from one to four years (2017: one to three years).

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Within one year | **12,113** | 5,850 |
| In the second to fifth years, inclusive | **10,627** | 985 |
| | **22,740** | 6,835 |

## 42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following capital commitments at the end of the reporting period:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Power generation assets | **1,132,151** | 934,816 |

## 43. 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:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Related companies: | | |
| Rental expense paid to Orient Profit Investment Limited* | 960 | 960 |
| Income from contract assignment/novation to VPower Technology Chad Limited*^ | — | 6,592 |
| Sales of goods to VPower Technology Company Limited* | 2,508 | 1,148 |
| Interest income from a loan to a director# | 287 | — |

* These related companies are controlled by either one of the Controlling Shareholders.

^ The Group assigned/novated a distributed power generation contract to VPower Technology Chad Limited for a contingent consideration of HK$0.066 per kWh of electricity generated by the Chad Operation up to the expiry of the initial term of the distributed power generation contract on 31 August 2017.

# During the year, the Group offered a loan facility of HK$41,500,000 to one of the Company's directors. The loan was secured by 22,294,947 shares beneficially owned by the director, bore interest at 6% per annum and repayable in three years from the date of drawdown. The loan was fully repaid during the year with an interest income of HK$287,000 charged on the loan to the director.

The above transactions were entered into based on terms mutually agreed between the relevant parties.

### (b) Commitments with a related company

On 1 April 2015, a subsidiary of the Group entered into a tenancy agreement with Orient Profit Investment Limited to rent a residential property as director's quarter for Mr. Lam Yee Chun for a fixed annual rent of HK$960,000, for a term of three years. The tenancy agreement has been further renewed for nine months from 1 April 2018 to 31 December 2018 at a monthly rental of HK$80,000.

### (c) Compensation of key management personnel of the Group

Remuneration for key management personnel of the Group, including directors' and chief executives' remuneration as disclosed in note 8 to the financial statements, is as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Short term employee benefits | 24,236 | 24,039 |
| Post-employment benefits | 162 | 157 |
| Equity-settled share option expense | 1,029 | 2,157 |
| Total compensation paid to key management personnel | 25,427 | 26,353 |

## 44. 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:

**2018**

### Financial assets

| | Financial assets at amortised cost HK$'000 |
|---|---|
| Trade and bills receivables | 1,071,077 |
| Financial assets included in prepayments, deposits, other receivables and other assets | 385,032 |
| Due from related companies | 579 |
| Restricted cash | 81,209 |
| Pledged deposits | 48,443 |
| Cash and cash equivalents | 541,353 |
| | 2,127,693 |

### Financial liabilities

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Trade and bills payables | 394,801 |
| Financial liabilities included in other payables and accruals | 477,302 |
| Senior notes | 785,890 |
| Interest-bearing bank and other borrowings | 2,969,933 |
| | 4,627,926 |

## 44. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

**2017**

### Financial assets

| | Financial assets at fair value through profit or loss — held for trading HK$'000 | Loans and receivables HK$'000 | Total HK$'000 |
|---|---|---|---|
| Trade and bills receivables | — | 780,898 | 780,898 |
| Financial assets included in prepayments, deposits and other receivables | — | 422,486 | 422,486 |
| Due from a related company | — | 96 | 96 |
| Derivative financial instrument | 90,386 | — | 90,386 |
| Pledged deposits | — | 165,759 | 165,759 |
| Cash and cash equivalents | — | 1,033,502 | 1,033,502 |
| | 90,386 | 2,402,741 | 2,493,127 |

### Financial liabilities

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Trade and bills payables | 904,075 |
| Financial liabilities included in other payables and accruals | 1,070,787 |
| Interest-bearing bank and other borrowings | 1,389,043 |
| | 3,363,905 |

## 45. 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, trade and bills payables, amounts due from related companies, and the current portions of financial assets included in prepayments, deposits, other receivables and other assets, financial liabilities included in other payables and accruals, senior notes and interest-bearing bank and other borrowings 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 portions of financial assets included in prepayments, deposits, other receivables and other assets, 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 approximate to their carrying amounts.

## 45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group enters into derivative financial instruments with creditworthy counterparties with no recent history of default. Derivative financial instruments, including option and forward currency contracts, are measured using valuation techniques similar to option and forward pricing 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 2018 and 2017, these was no outstanding forward currency contract. As at 31 December 2017, the carrying amount of option contract was the same as its fair value.

Below is a summary of significant unobservable inputs to the valuation of derivative financial instrument as at 31 December 2017:

| | Valuation technique | Significant unobservable input | Range |
|---|---|---|---|
| Derivative financial instrument | Black-Scholes-Merton option pricing model | Equity value: Growth rate for revenue | 2% to 15% |
| | | Equity value: Discount rate | 10.2% |

A significant increase/(decrease) in the growth rate to revenue in isolation would result in a significant increase/(decrease) in the fair value of the derivative financial instrument. A significant increase/(decrease) in the discount rate in isolation would result in a significant (decrease)/increase in the fair value of the derivative financial instrument.

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

*Assets measured at fair value:*

The Group did not have any financial assets measured at fair value as at 31 December 2018.

**As at 31 December 2017**

| | 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 instrument | — | — | 90,386 | 90,386 |

## 45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy (Continued)

*Assets measured at fair value: (Continued)*

The movements in fair value measurements within Level 3 during the year are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **90,386** | — |
| Exercised during the year (note 38) | **(90,386)** | — |
| Fair value gain recognised in the statement of profit or loss included in other income and gains | **–** | 90,386 |
| At 31 December | **–** | 90,386 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 (2017: Nil).

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 (2017: Nil).

## 46. 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. The purpose is to manage the currency 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.

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### 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 does not use derivative financial instruments to hedge against its interest rate risk. The Group mitigates this risk by closely monitoring the movements in interest rates and reviewing its available credit facilities and their utilisation regularly.

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$6,977,000 (2017: HK$2,933,000) as a result of higher/lower interest expenses on bank borrowings.

### 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 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 |
|---|---|---|
| **2018** | | |
| If the Hong Kong dollar weakens against the Euro | **5** | **(9,101)** |
| If the Hong Kong dollar strengthens against the Euro | **(5)** | **9,101** |
| If the Hong Kong dollar weakens against the IDR | **5** | **6,653** |
| If the Hong Kong dollar strengthens against the IDR | **(5)** | **(6,653)** |
| **2017** | | |
| If the Hong Kong dollar weakens against the Euro | 5 | (35,212) |
| If the Hong Kong dollar strengthens against the Euro | (5) | 35,212 |
| If the Hong Kong dollar weakens against the IDR | 5 | 6,237 |
| If the Hong Kong dollar strengthens against the IDR | (5) | (6,237) |

## 46. 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 as at 31 December 2018*

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 2018. The amounts presented are gross carrying amounts for financial assets.

| | 12-month ECLs | Lifetime ECLs | |
|---|---|---|---|
| | Stage 1 HK$'000 | Simplified approach HK$'000 | HK$'000 |
| Trade and bills receivables* | 2,510 | 1,071,126 | 1,073,636 |
| Contract assets included in prepayments, deposits, other receivables and other assets | — | 6,732 | 6,732 |
| Financial assets included in prepayments, deposits, other receivables and other assets | | | |
| — Normal ** | 385,032 | — | 385,032 |
| Restricted cash | | | |
| — Not yet past due | 81,209 | — | 81,209 |
| Due from related companies | | | |
| — Not yet past due | 579 | — | 579 |
| Pledged deposits | | | |
| — Not yet past due | 48,443 | — | 48,443 |
| Cash and cash equivalents | | | |
| — Not yet past due | 541,353 | — | 541,353 |
| | 1,059,126 | 1,077,858 | 2,136,984 |

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 19 and 20 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".

*Maximum exposure as at 31 December 2017*

The credit risk of the Group's financial assets, which comprise trade and bills receivables, deposits and other receivables, amounts due from related companies, pledged deposits and cash and cash equivalents, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

At the end of the reporting period, the Group had certain concentrations of credit risk as 15% (2017: 24%) and 65% (2017: 65%) of the Group's trade receivables were due from the Group's largest debtor and the five largest debtors, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 19 to the financial statements.

## 46. 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 and other borrowings. 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:

| | **2018** | | | |
|---|---|---|---|---|
| | **No fixed terms of repayment/ on demand/ less than 1 year HK$'000** | **1 to 5 years HK$'000** | **Over 5 years HK$'000** | **Total HK$'000** |
| Trade and bills payables | **394,801** | **—** | **—** | **394,801** |
| Financial liabilities included in other payables and accruals | **421,117** | **85,073** | **—** | **506,190** |
| Senior notes | **56,565** | **286,856** | **1,055,141** | **1,398,562** |
| Interest-bearing bank and other borrowings *(note)* | **2,524,752** | **639,359** | **—** | **3,164,111** |
| | **3,397,235** | **1,011,288** | **1,055,141** | **5,463,664** |

| | 2017 | | |
|---|---|---|---|
| | No fixed terms of repayment/ on demand/ less than 1 year HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
| Trade and bills payables | 904,075 | — | 904,075 |
| Financial liabilities included in other payables and accruals | 764,255 | 328,625 | 1,092,880 |
| Interest-bearing bank and other borrowings | 591,298 | 891,989 | 1,483,287 |
| | 2,259,628 | 1,220,614 | 3,480,242 |

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk (continued)

*Note:*

Included in the above interest-bearing bank and other borrowings of the Group as at 31 December 2018 are term loans with a carrying amount of HK$454,976,000 (2017: Nil). 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** | **1 to 5 years** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| As at 31 December 2018 | 135,235 | 374,241 | 509,476 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to continue to provide returns for shareholders and benefits for other stakeholders.

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 2018 and 31 December 2017.

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

## 47. 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:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | **332,311** | 331,007 |
| **CURRENT ASSETS** | | |
| Prepayments and other receivables | **557** | 2,382 |
| Due from a subsidiary | **1,588,467** | 1,426,839 |
| Cash and cash equivalents | **2,724** | 163,703 |
| Total current assets | **1,591,748** | 1,592,924 |
| **CURRENT LIABILITIES** | | |
| Other payables and accruals | **618** | 1,783 |
| **NET CURRENT ASSETS** | **1,591,130** | 1,591,141 |
| Net assets | **1,923,441** | 1,922,148 |
| **EQUITY** | | |
| Share capital | **256,207** | 256,159 |
| Reserves *(note)* | **1,667,234** | 1,665,989 |
| Total equity | **1,923,441** | 1,922,148 |

## 47. 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$'000 *(note 35(c))* | Shares held under the share award scheme HK$'000 *(note 34)* | Retained earnings/ (accumulated loss) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2017 | 1,505,085 | 128,895 | 796 | — | (44,556) | 1,590,220 |
| Profit and total comprehensive income for the year | — | — | — | — | 225,687 | 225,687 |
| Issue of shares upon exercise of share options | 4,957 | — | (1,903) | — | — | 3,054 |
| Equity-settled share option arrangement | — | — | 4,502 | — | — | 4,502 |
| Purchases of shares for the share award scheme | — | — | — | (54,171) | — | (54,171) |
| Final 2016 dividend | — | — | — | — | (65,792) | (65,792) |
| Interim 2017 dividend | — | — | — | — | (37,511) | (37,511) |
| At 31 December 2017 and at 1 January 2018 | 1,510,042 | 128,895 | 3,395 | (54,171) | 77,828 | 1,665,989 |
| Profit and total comprehensive income for the year | — | — | — | — | 84,552 | 84,552 |
| Issue of shares upon exercise of share options | 1,506 | — | (586) | — | — | 920 |
| Equity-settled share option arrangement | — | — | 2,086 | — | — | 2,086 |
| Purchases of shares for the share award scheme | — | — | — | (3,951) | — | (3,951) |
| Final 2017 dividend | — | — | — | — | (44,887) | (44,887) |
| Interim 2018 dividend | — | — | — | — | (37,475) | (37,475) |
| At 31 December 2018 | 1,511,548 | 128,895 | 4,895 | (58,122) | 80,018 | 1,667,234 |

### 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.

## 48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

# FIVE YEAR FINANCIAL SUMMARY

## A SUMMARY OF RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| REVENUE | **2,420,749** | 1,746,016 | 1,531,011 | 1,212,843 | 929,781 |
| Cost of sales | **(1,714,007)** | (1,169,189) | (1,033,197) | (868,855) | (681,338) |
| Gross profit | **706,742** | 576,827 | 497,814 | 343,988 | 248,443 |
| Other income and gains | **40,164** | 190,246 | 53,997 | 45,946 | 50,378 |
| Selling and distribution expenses | **(25,794)** | (29,091) | (23,973) | (25,061) | (35,722) |
| Administrative expenses | **(272,561)** | (205,031) | (201,401) | (131,402) | (88,495) |
| Other expenses, net | **(32,489)** | (98,620) | (4,463) | (34,359) | (18,968) |
| Finance costs | **(191,359)** | (76,999) | (68,836) | (34,697) | (14,640) |
| Share of profits and losses of joint ventures | **6,298** | – | – | – | – |
| PROFIT BEFORE TAX | **231,001** | 357,332 | 253,138 | 164,415 | 140,996 |
| Income tax expense | **(30,096)** | (26,014) | (31,125) | (23,192) | (20,250) |
| PROFIT FOR THE YEAR | **200,905** | 331,318 | 222,013 | 141,223 | 120,746 |
| Attributable to: | | | | | |
| Owners of the Company | **213,288** | 331,924 | 222,013 | 141,223 | 120,746 |
| Non-controlling interests | **(12,383)** | (606) | – | – | – |
| | **200,905** | 331,318 | 222,013 | 141,223 | 120,746 |

# FIVE YEAR FINANCIAL SUMMARY

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **7,394,227** | 5,926,607 | 5,025,360 | 2,756,217 | 1,596,406 |
| TOTAL LIABILITIES | **(4,777,873)** | (3,465,885) | (2,763,110) | (2,216,722) | (1,366,579) |
| | **2,616,354** | 2,460,722 | 2,262,250 | 539,495 | 229,827 |
| EQUITY | | | | | |
| Equity attributable to owners of the Company | **2,570,200** | 2,461,316 | 2,262,250 | 539,495 | 229,827 |
| Non-controlling interests | **46,154** | (594) | – | – | – |
| | **2,616,354** | 2,460,722 | 2,262,250 | 539,495 | 229,827 |

# FIVE YEAR FINANCIAL SUMMARY

## KEY FINANCIAL RATIOS

| | As of and for the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| **Profitability ratios** | | | | | |
| Return on equity[(1)] | **7.9%** | 14.0% | 15.8% | 36.7% | 70.9% |
| Return on total assets[(2)] | **3.0%** | 6.1% | 5.7% | 6.5% | 10.6% |
| **Liquidity ratios** | | | | | |
| Current ratio[(3)] | **1.4** | 1.4 | 1.8 | 1.1 | 0.8 |
| Quick ratio[(4)] | **1.0** | 1.1 | 1.5 | 0.8 | 0.5 |
| Liabilities to assets ratio[(5)] | **0.6** | 0.6 | 0.5 | 0.8 | 0.9 |
| **Capital adequacy ratios** | | | | | |
| Net gearing ratio[(6)] | **117.9%** | 7.7% | (28.5)% | 101.5% | 138.8% |
| Interest coverage[(7)] | **2.2** | 5.6 | 4.7 | 5.7 | 10.6 |
| EBITDA interest coverage[(8)] | **3.2** | 7.8 | 6.4 | 7.8 | 12.5 |

*Notes:*

(1) Return on equity is calculated based on profit for the year divided by the arithmetic mean of the opening and closing balances of total equity in the relevant year and multiplied by 100%.

(2) Return on total assets is calculated based on profit for the year divided by the arithmetic mean of the opening and closing balances of total assets in the relevant year and multiplied by 100%.

(3) Current ratio is calculated based on total current assets divided by total current liabilities.

(4) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities.

(5) Liabilities to assets ratio is calculated based on total liabilities divided by total assets.

(6) Net gearing ratio is calculated based on the percentage of total borrowings (excluding loan from a shareholder) less cash and cash equivalents, restricted cash and pledged deposits to total equity.

(7) Interest coverage is calculated by dividing profit before tax and finance costs by finance costs.

(8) EBITDA interest coverage is calculated by dividing earnings before interest, tax, depreciation and amortisation by finance costs.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-Executive Directors

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

### Independent Non-Executive Directors

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

## BOARD COMMITTEES

### Audit Committee

Mr. David TSOI *(Chairman)*
Mr. YEUNG Wai Fai Andrew
Ms. CHAN Mei Wan

### Remuneration Committee

Mr. YEUNG Wai Fai Andrew *(Chairman)*
Ms. CHAN Mei Wan
Mr. SUEN Wai Yu

### Nomination Committee

Mr. SUEN Wai Yu *(Chairman)*
Mr. LAM Yee Chun
Mr. David TSOI

## COMPANY SECRETARY

Mr. CHAN Kam Shing

## AUTHORISED REPRESENTATIVES

Mr. AU-YEUNG Tai Hong Rorce
Mr. LO Siu Yuen

## AUDITOR

Ernst & Young

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Citibank, N.A.
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
United Overseas Bank Limited

# CORPORATE INFORMATION

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 2701-05, 27/F
Office Tower 1
The Harbourfront
18-22 Tak Fung Street
Hung Hom
Kowloon
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## COMPANY WEBSITE

www.vpower.com

## STOCK CODE

1608