Gas to Power

Enlightening the Future

VPower Group International Holdings Limited

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

2016 Annual Report

Stock Code: 1608

We Are Here to **Power The Future**

We believe VPower's gas-fired engine-based Power Generation System (PGS) can address the utility-grade Distributed Power Generation (DPG) market's call for lower cost, clean energy and fast-delivery of reliable distributed power.

Company Profile

VPower Group International Holdings Limited (VPower) (SEHK:1608) is one of the world's leading large gen-set system integration providers and one of Southeast Asia's largest private gas-fired engine-based distributed power generation (DPG) station owners and operators.

We deliver much-in-demand electricity to keep industries running and power the growth of fast-developing regions through (1) designing, integrating and selling gen-sets and power generation systems that run on either natural gas or diesel, (2) designing, investing in, building, leasing and in collaboration with off-takers, operating DPG stations. Together, they make up our two principal business segments: (1) System Integration (SI) business and (2) Investment, Building and Operating (IBO) business.

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 & 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 designs and integration capabilities and the market network developed over the past 20 years to effectively manage the risks and improve the efficiency of our IBO business's expansion into new markets, and to continue to deliver DPG stations with (F-A-C-T) benefits-Fast Track, Adaptable, Cost Effective and Technologically Advanced-to build long term value for our shareholders, our partners and our customers.

Contents

Myanmar, Kyauk Phyu II installed capacity 49.9MW

Following the commissioning of Kyauk Phyu I in March 2015, which includes a 230kV power substation built from "plug-and-play" modules, VPower won the bid for the extension of the award-winning fast-track DPG station.

Kyauk Phyu II commenced operation in March 2016. VPower deployed 20-foot ISO-containerized Power Generation Systems (PGSs) (1.56MW per unit), which involve substantially lower transportation costs and require less land space than the 40-foot ISO-containerized PGSs (also 1.56MW per unit) deployed in Kyauk Phyu I.

2016 Key Launches

Taking our total installed capacity in Indonesia to 198.7MW

Indonesia, Jambi installed capacity 56.4MW

VPower's DPG stations can be equipped with medium-speed gas-fired engine-based PGSs which are installed in power houses. Medium-speed engine-based PGSs are larger in size, but are more fuel efficient and can produce up to 9.4MW per unit.

The Jambi DPG station commenced operation in October 2016.


VPOWER
VPOWER

2016 Key Launches

Largest gas-fired DPG station in Myanmar

Myanmar, Myingyan installed capacity 149.8MW

VPower's largest DPG station in terms of installed capacity at 149.8MW, the Myingyan gas-fired engine-based DPG station demonstrates the flexibility and adaptability of distributed power, supplying to both the state-own steel mill adjacent to the site and the national grid. The project took under 5 months from confirmation to operation.

Chairman's Statement

Samson LAM,

Co-Founder & Executive Chairman

On behalf of the Board of Directors (the "**Board**") of VPower Group International Holdings Limited ("**VPower**" or the "**Company**"), I am pleased to present you our annual report for the year ended 31 December 2016 (the "**Year under Review**" or "**FY2016**"), being our first annual report since the public listing of the Company in November last year.

ACHIEVEMENT

The year of 2016 posts a year of substantial milestones and achievements for both the Group and myself personally.

On 24 November 2016, the shares of the Company were successfully listed for trading on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") ("**IPO**"), raising a total proceed of approximately HK$1.6 billion before expenses by issuing 560 million shares under its global offering. On the personal basis, thanks to the recognition of our peers in the Hong Kong industrial sector, I was privileged to be awarded the Hong Kong Young Industrialist 2016 by the Federation of Hong Kong Industries on 2 November 2016.

The IPO broadened our shareholders/investors base as well as our fund raising channel and the IPO proceeds empower our sustainable growth, in particular accelerating the development of our new IBO projects and strengthening our leading position in the market. In addition, the IPO has broaden our shareholder/investor base and fund raising channels, and established a platform to access the international capital markets to further our future business growth. With well recognition of our achievements, we have attracted high quality strategic investors like CRRC Corporation Limited (Stock code: 1766) and CITIC Limited (Stock code: 267) as our beneficial shareholders. These strategic investors are also prospects of further collaboration in our future business development, more importantly in the responding to the China's Belt and Road Initiative.

Being a Hong Kong headquarters company with primarily a Hong Kong management team, our IPO success also serves to reassure the Hong Kong industrial capabilities operating in a global platform, an achievement which we consider beyond our corporate responsibilities.

During the year, while maintaining a stable growth for our SI business, we have made a remarkable progress in our IBO business development. Driven by the strong revenue growth of IBO business of 89.2% (2015: 71.3%), the gross profit contribution from the IBO segment of 54.3% (2015: 41.3%) has surpassed the profit contribution of the SI segment in 2016. With a higher mix of IBO business which generated recurring revenue and high growth potential, we have successfully expanded and extended from a mere electricity system integrator to the largest private gas-fired engine-based DPG power station owner and operator delivering electricity to Southeast Asia markets. Our ability in synergizing our SI segment and IBO segment which enabling us in realizing this achievement in a short time frame evidenced our senior management team's clear strategy and vision in the industry and execution capabilities. And it spearheads our company slogan – We Power Your Vision.

At this front, I also consider our building up a clear yet dynamic organization structure in confronting the ever fluid market in the fast track distributed power generation an achievement. With our joint CEOs in a two-in-a-box structure (one with extensive experiences in the power sector while one in the environmental infrastructure), it allows the Company to have a comprehensive management skill set to manage the dynamic opportunities and risk profiles that the company face daily, yet to build a solid path for further expansion into the business of environment, particularly the eco-energy sector using different forms of clean and renewable fuel source.

GROUP PERFORMANCE

During the year, IBO business continued to be the Group's major growth driver. The increase in the revenue and gross profit was mainly attributable to our new IBO projects, including two projects in Myanmar and one in Indonesia, which commenced operation during the year, and made partial financial contribution to our 2016 performance. As these are 5-year contracts hence we would expect a full-year financial contribution to follow.

Accordingly, as of end of 2016, we have a total of 256MW installed capacities in the IBO segment with a total of 106MW in Indonesia and Myanmar having a full year operation and financial contribution in 2016.

For the year ended 31 December 2016, the Group's revenue surged by 26.2% (2015: 30.4%) to HK$1,531.0 million. From 2013 to 2016, the revenue has grown at a compound annual growth rate ("**CAGR**") of approximately 38.5%. The strong growth in the IBO business boosted the Group's overall gross profit margin from 28.4% in 2015 to 32.5% in 2016.

Net profit for the year ended 31 December 2016 reported a significant increase of 57.2% to HK$222.0 million, when compared with the net profit for the year ended 31 December 2015 of HK$141.2 million. Excluding the one-off listing expenses, the Group's net profit surged by 82.7% to HK$263.2 million. The Board proposed a final dividend of HK2.57 cents per share for the year of 2016.

OUTLOOK

The general market outlook matches our expectations. The market fundamentals remain strong as a result of the structural power deficit which continues to drive demand, particularly in our existing operating markets — Indonesia, Myanmar and Bangladesh. In general, we see a strong market outlook substantiating our 5-pillar business development strategies in our existing markets, new markets, new form of fuel, research and development, and acquisitions.

We are also seeing increasing customer demand for larger-scale and longer-term flexible and fast track distributed power solutions. With our existing over 500MW of installed capacity and over 300MW capacity in construction and development, we remain confident in achieving our expected total installed capacity by year end, another major milestone we consider.

Among the projects in construction and development in our existing operating markets are Indonesia's 90MW of new capacity and renewable power projects in 2017. The expected next 5-year growth in Indonesia comes from the government's active approach in pushing forward its 35,000MW fast track power program, after a stalemate of 2016. For Myanmar, the strong market drive continues to come from the new government's strong desire in increasing its rate of electrification for its residents and industries, with us pursuing 60MW of distributed power stations and re-powering projects.

For our new market, the synergy among our SI business and IBO business is producing noticeable results, as envisaged. The new markets are presenting solid project opportunities to us, within which is our potential collaboration with a long-term SI customer in co-developing the 80MW heavy fuel oil ("**HFO**") power station in Peru. We also found similar pleasing results from the Latin America, Middle East and Africa markets, where our SI customers are bringing along investment opportunities as well as project developments to our IBO business of over 200MW in our existing market.

Regarding the new markets in Southeast Asia, we are benefiting from China's Belt and Road initiative where new funding is provided by Asian Infrastructure Investment Bank and The Silk Road Fund etc. to finance infrastructure investments in the countries covered under the initiative. Power shortage remains a major problem for these countries and our fast-track and flexible distributed power generation solutions provide an ideal solution for their immediate needs. In view of the above favorable policies and industry trend, we expect the IBO business to remain as our major growth engine in the coming years in these new markets.

We are seeing a strong movement in the push for gas-fired distributed power in China. China market represents not only a new IBO market for us but also a new platform for our distributed power with different forms of fuel source and our promotion of optimization of energy efficiency by the adoption of combined heat and power generation. Under China's 13th Five-Year Plan for energy, the power industry will undergo a new era with focus on low carbon footprint and different energy mix. We are expecting to deliver a strong performance in both the SI business and IBO business in the China market, responding to the new demand for different power mix generated from the growth in the data centers and communication sector, enhancement of environment, lower carbon footprint, and government policies incentivizing the use of combined heat and power generation.

We are making inroads in expanding into power generation by different form of fuel such as liquefied natural gas, biogas, HFO and renewable fuel source. The potential 80MW Peru HFO project attests to our success in this area and provides the basic platform for further growth in this area. The strong push of using liquefied natural gas is evidenced by our response to the various requests for proposal from the government of Yangon of Myanmar and Sulawesi of Indonesia. The strong determination under the recent 13th Five-Year Plan of China in addressing the issues of proper treatment of biogas, agricultural and animal waste would provide a strong driver for our SI business and IBO business, with over 50MW installed capacity potential development in our existing market.

We are seeing good opportunities in acquisition due to some consolidation of smaller players in the industry. As such, we intend to enter into a formal relationship with our strategic cornerstone shareholder, CITIC Pacific, in forming a joint venture company for joint investment and co-development of clean and renewable distributed power generation projects.

With the above strategic and substantial development activities, together with the full year financial impact of our IBO projects which came into official operation in 2016, we will continue to maintain a strong growth momentum going forward, leading to another outstanding year.

ACKNOWLEDGEMENT

In closing, on behalf of the Board, I would like to extend my sincere gratitude to all of our shareholders, clients, vendors, investors and business partners for their past unconditional trust and continuous support. And, of course last but not the least, without our professional and dedicated team of colleagues, we would not be able to release the full value of the Company, for which I would personally extend my deepest appreciation here.

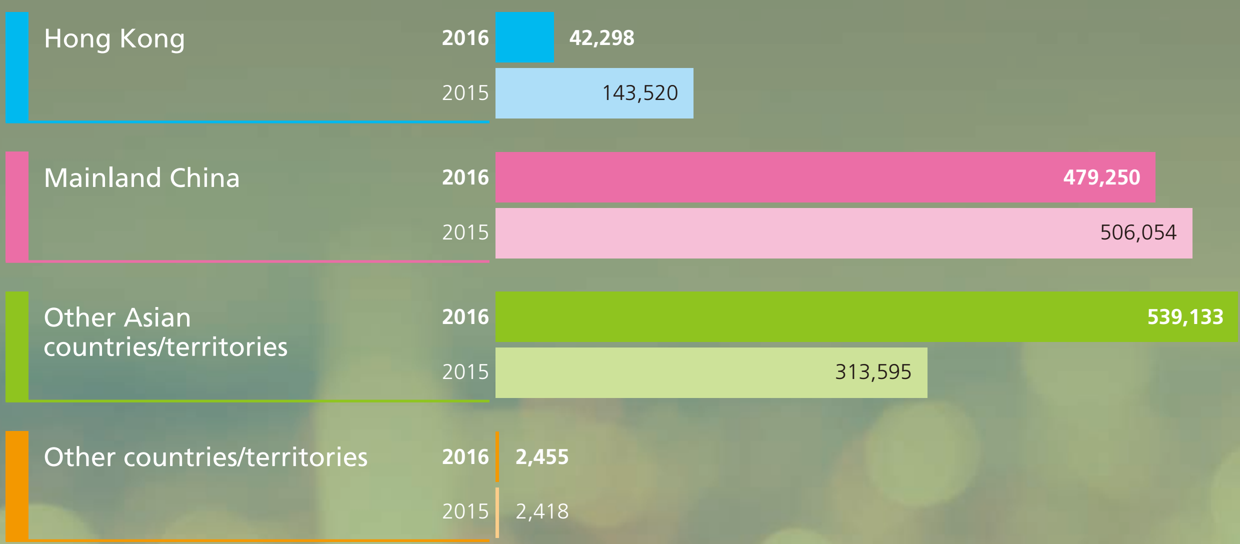
LAM Yee Chun
Executive Chairman
28 March 2017

Financial
Highlights

Revenue — SI (HK$'000)

	2016	2015
Hong Kong	**42,298**	143,520
Mainland China	**479,250**	506,054
Other Asian countries/territories	**539,133**	313,595
Other countries/territories	**2,455**	2,418
Total	**1,063,136**	965,587

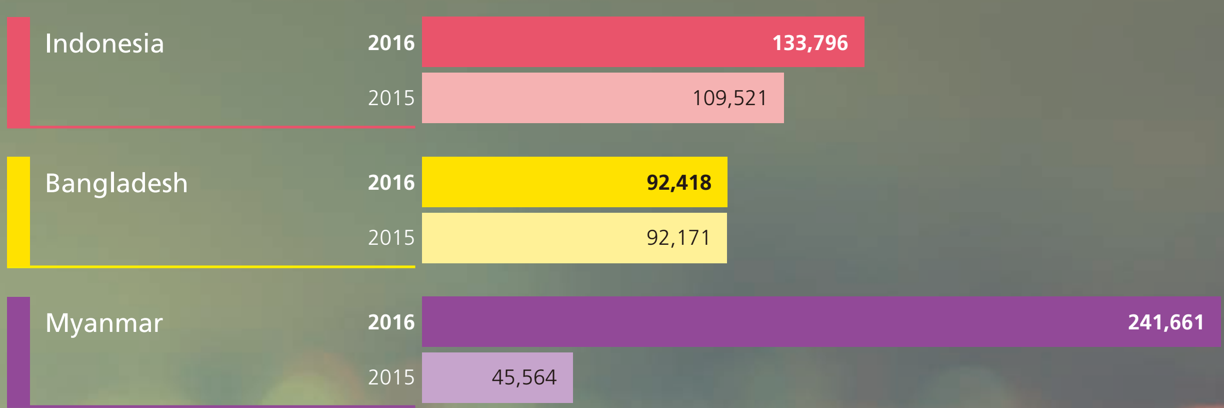
Revenue by geographical locations - SI (HK$'000)



Revenue — IBO (HK$'000)

	2016	2015
Indonesia	**133,796**	109,521
Bangladesh	**92,418**	92,171
Myanmar	**241,661**	45,564
	467,875	247,256

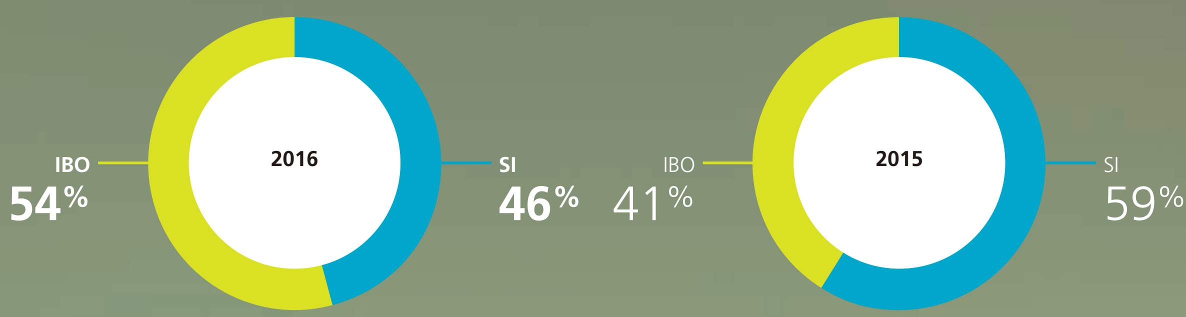
Revenue by geographical locations - IBO (HK$'000)



Profit attributable to owners of the Company (HK$'000)

2016	**222,013**
2015	141,223

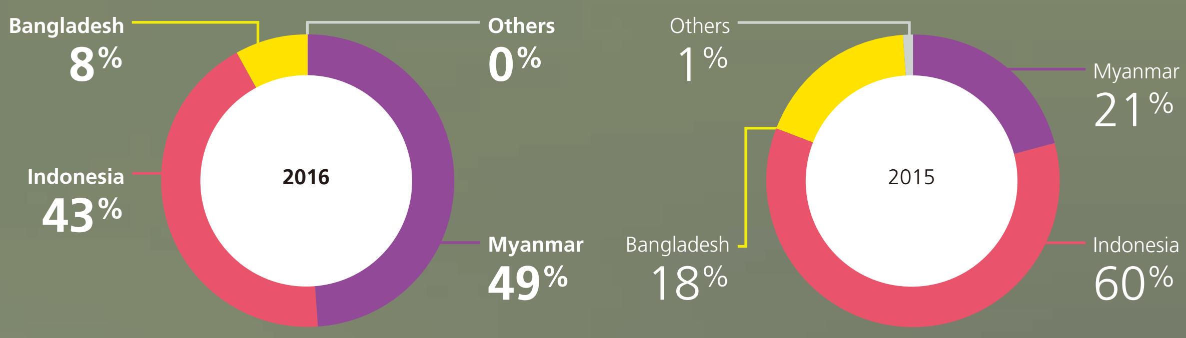
% of total gross profit



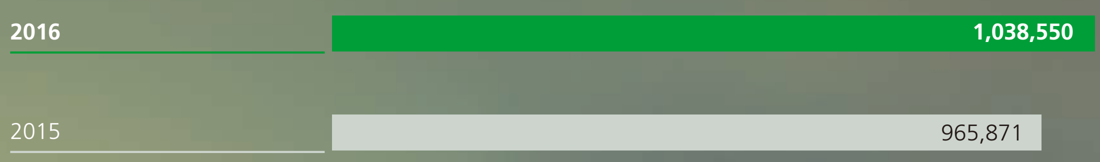
Basic earnings per share

2016	**HK10.79 cents**
2015	HK7.06 cents

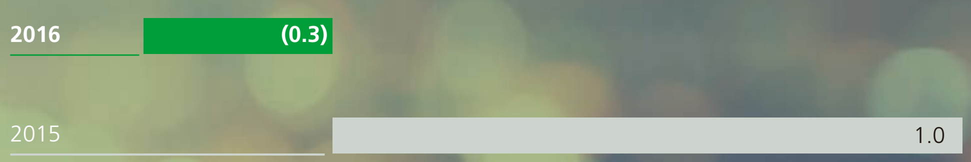
Property, plant and equipment



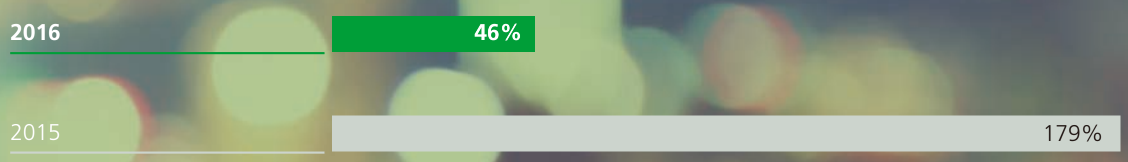
Total debt (HK$'000)



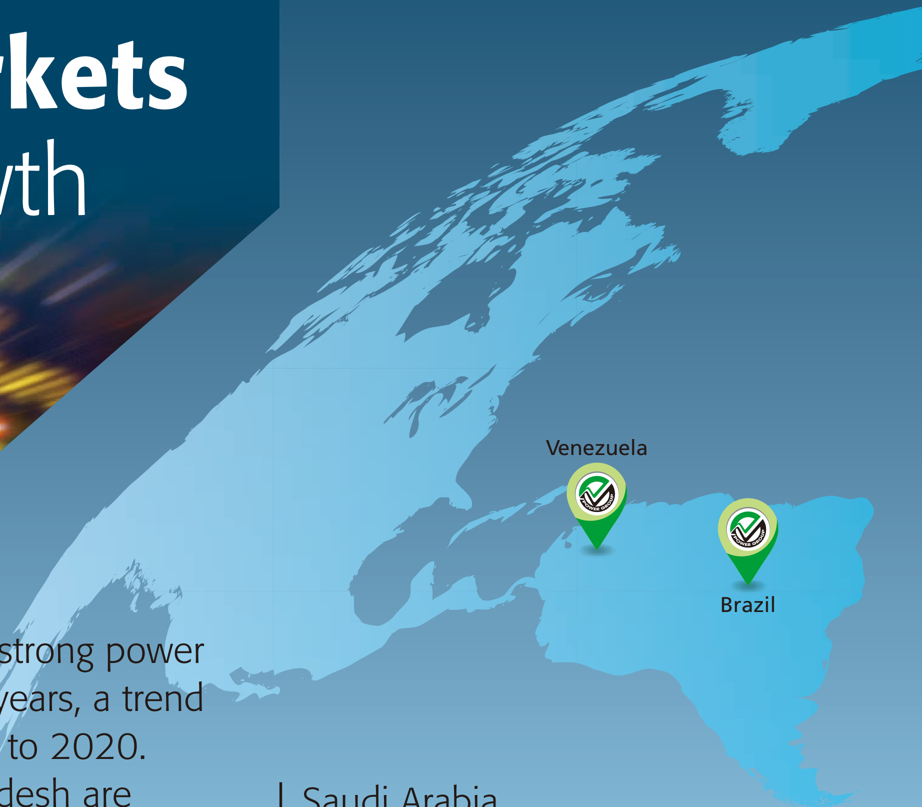
Net gearing ratio



Total debt to equity ratio



Power Markets Strong Growth in Demand



Southeast Asia has experienced strong power demand growth in the past few years, a trend which is set to continue through to 2020. Indonesia, Myanmar and Bangladesh are three of such markets with strong growth in power demand, given their low electrification rates and high transmission losses even relative to other Southeast Asian markets.

Power coming from DPG only accounts for approximately 14% to 21% of the total capacity installed in these markets. VPower has strategically positioned its DPG business to continue to play a major role in meeting the electricity needs of these and other Southeast Asian countries.

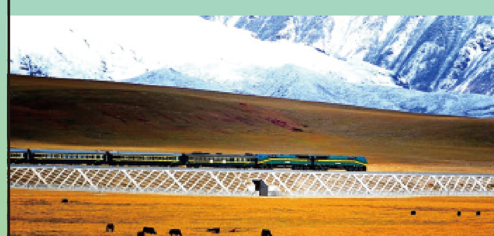
In Africa, VPower continues to develop selected markets by levering its experience. As a whole, the Africa market is expecting an average annual growth of over 6% over the next few years.

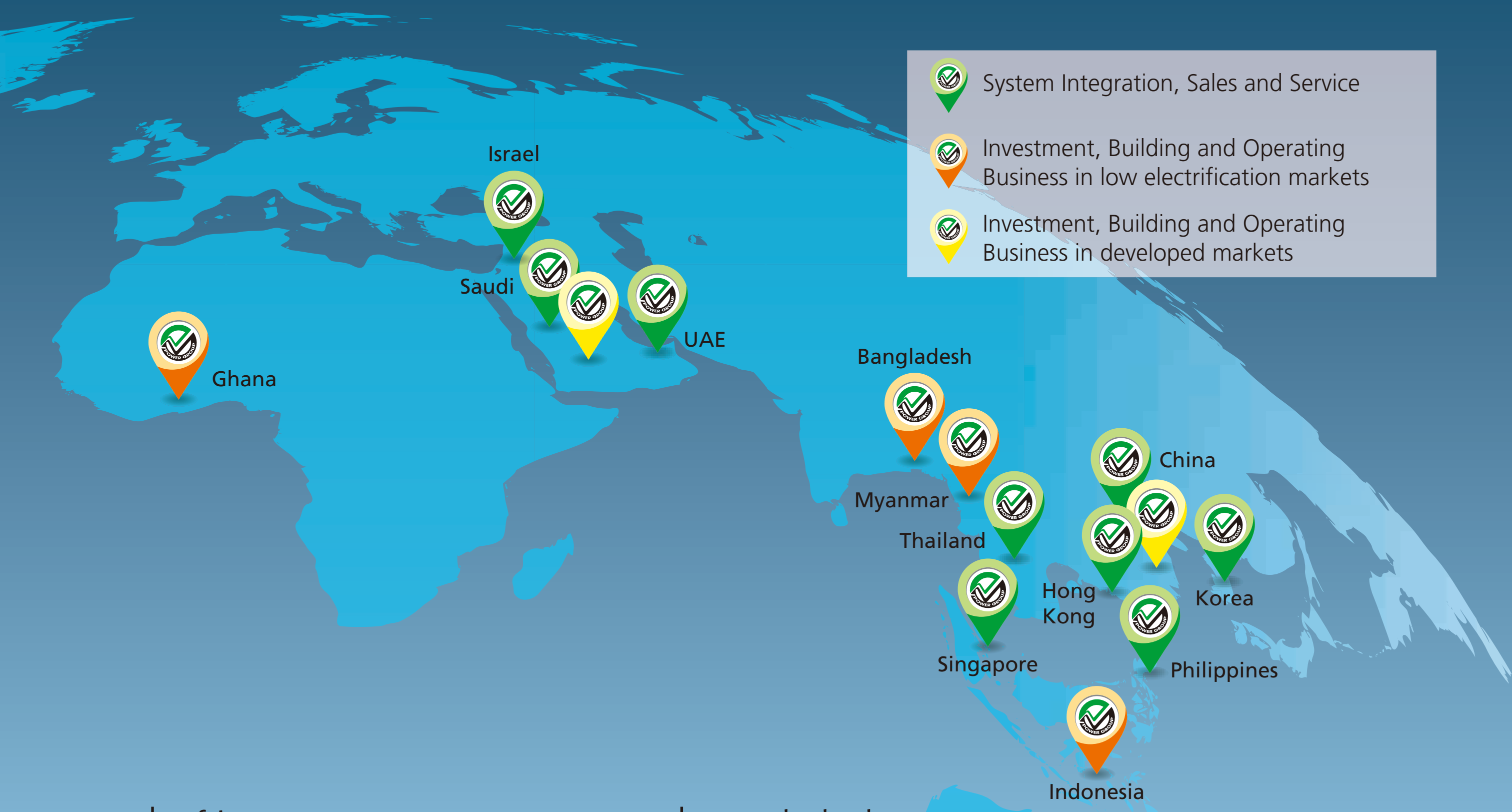
Saudi Arabia

Having unveiled significant investment plans in power generation and a drive to improve the overall efficiency of the power sector, Saudi Arabia is looking to power its rapid urbanization, while reducing dependency on oil for power generation at the same time.

China

The growing application of DPG and micro-grids in China, particularly in the area of agricultural and animal waste to treatment to gas, and to power sector, is expected to support the growing market for gen-sets and PGSs.





Africa

Africa's average electrification rate is around 40%, with a transmission loss of almost 12%. In Ghana where we believe there is a suitable DPG market, the transmission loss is higher at around 20%.

Bangladesh

At an electrification rate of over 60%, Bangladesh has the second lowest electrification rate in Southeast Asia after Myanmar.

Myanmar

Myanmar is one of the most underdeveloped power markets, a leading producer of natural gas in Southeast Asia and the fastest growing market in Southeast Asia for gas-fired DPG.

Indonesia

Indonesia is the largest DPG market in Southeast Asia with 8.6GW capacity in 2015. Since Indonesia is an archipelago with rich natural gas resources, gas-fired DPG is expected to play an important role in addressing the electricity shortage in Indonesia.

Dual Model Strategy

System Integration for a Global Market

VPower sells its gen-sets and PGSs under its SI business to customers who prefer owning PGSs. VPower's SI customers include industry-grade and utility-grade DPG stations, governmental, residential and commercial buildings, data centers, hotels, construction works, mining operations, railway projects and telecommunications projects.

VPower leverages the technical expertise and network developed under our SI business to reduce the risks and increase the efficiency of its IBO business expansion into new markets.

20+ Year Track Record

No.1 Gen-set System Integration Provider in Asia

No.5 Gen-set System Integration Provider Globally

Key Growth Driver

- Increasing need to supplement non-dispatchable power
- Growing electricity demand in emerging markets
- Growing demand by data centers for reliable electricity
- Increasing availability of biogas
- Growing demand for distributed power and development of micro-grids

No. 1

Largest private gas-fired engine-based DPG station owner and operator in Southeast Asia, Indonesia and Myanmar

Driven by

- Rapid industrialization and more liberal economic policies
- Need to cover for intermittent nature of hydropower
- Announced government plans to invest in infrastructure in low electrification markets
- Planned adjustments to the supply fuel mix to provide more clean energy or reduce dependence on oil in developed markets

VPower derives operational synergies between its SI and IBO businesses, through which it can improve its economies of scale, reputation as a market leader, bargaining power and industry understanding.

In addition, the timely market intelligence gathered by our IBO business allows our SI business to better manage its supply chain and to tailor product design to current market needs.

Dual Model Strategy

Invest, Build and Operate for a Global Market

Management
Discussion and Analysis

BUSINESS OVERVIEW

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, utilizing our proprietary system designs and integration capabilities. We are one of the world's leading large gen-set system integration providers; and ii) investment, building and operating ("**IBO**") business, in which we invest in, build and lease and operate distributed power stations, in collaboration with off-takers, to deliver electricity to our present market. We are one of the largest private gas-fired engine-based distributed power station owners and operators in Southeast Asia.

Riding on the following strengths we had laid a sound foundation that paves way for further business expansion and future success:

1) Leveraging our leadership positions in SI and IBO business, we can deliver our solutions with "F-A-C-T" benefits to our customers and business partners. i.e. Fast Track, Adaptable, Cost Effective and Technologically Advanced.

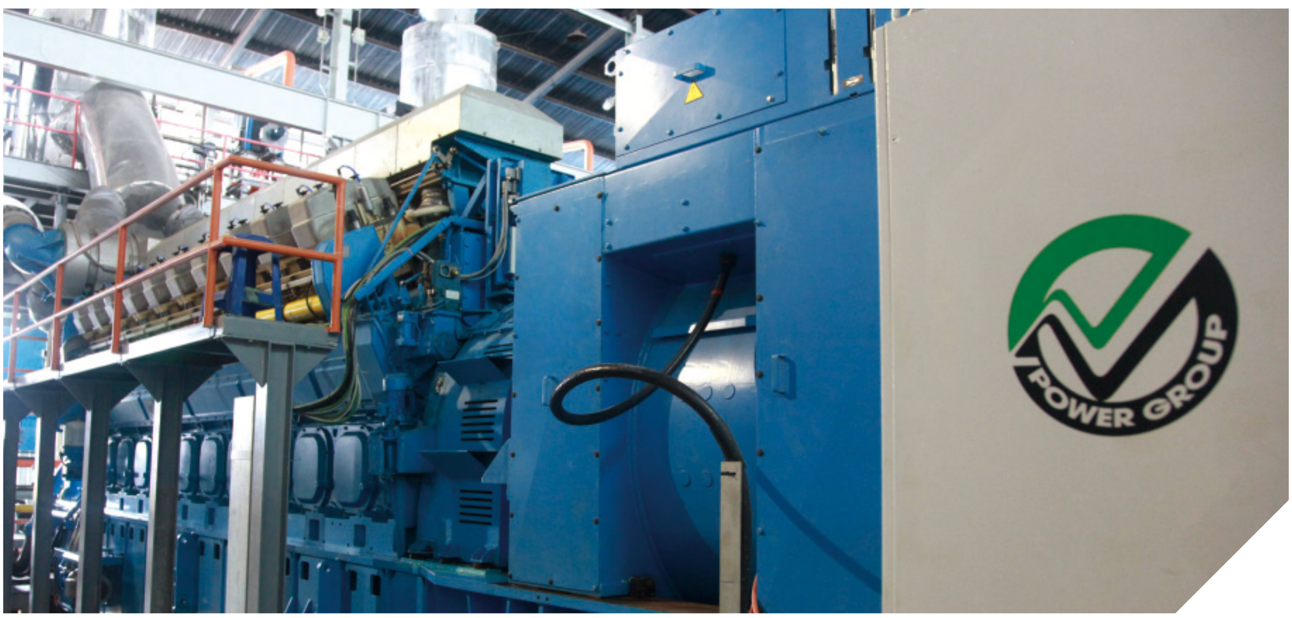
2) We have strategic partnerships with some of the world's most reputable suppliers and contractors, such as MTU Friedrichshafen GmbH ("**MTU**"), Bergen Engines AS ("**Bergen**"), CRRC (Hong Kong) Co. Limited ("**CRRC**") and China National Technical Import & Export Corporation ("**CNTIC**"), to co-create value in our industry.

3) Our IBO business generates recurring revenue with high visibility and promising growth prospects.

4) Our SI and IBO businesses share expertise know-how, creating operational synergies, business opportunities and enhancing economies of scale.

5) Young, fuel-efficient and technologically advanced power generation system ("**PGS**") fleet delivers high competitive value in IBO business.

6) Highly experienced management and technical teams allow for fast execution of projects.



FINANCIAL HIGHLIGHTS

		Year Ended 31 December		
		2016	2015	% of Change
		HK$'000	*HK$'000*	
Revenue	— SI	**1,063,136**	965,587	10.1%
	— IBO	**467,875**	247,256	89.2%
	— Total	**1,531,011**	1,212,843	26.2%
Gross profit	— SI	**227,313**	201,760	12.7%
	— IBO	**270,501**	142,228	90.2%
	— Total	**497,814**	343,988	44.7%
Net profit for the year		**222,013**	141,223	57.2%
Adjusted net profit for the year		**263,237**	144,115	82.7%
Basic earnings per share		**HK10.79 cents**	HK7.06 cents	52.8%
Diluted earnings per share		**HK10.79 cents**	HK7.06 cents	52.8%
Proposed final dividend		**HK2.57 cents**	N/A	N/A

- The Group's adjusted net profit for the year (excluding one-off listing expenses) increased by 82.7% to HK$263.2 million (2015: HK$144.1 million), mainly driven by a 89.2% increase in revenue contributed from IBO business.

- Gross profit increased by 44.7% to HK$497.8 million (2015: HK$344.0 million), mainly driven by a 90.2% increase in gross profit contributed from IBO business, resulting from increase in sales mix of IBO business which has higher gross profit margin, representing 54.3% (2015: 41.3%) of our total gross profit.

- Gross profit margin advanced to 32.5% (2015: 28.4%) with SI and IBO slightly increased to 21.4% (2015: 20.9%) and 57.8% (2015: 57.5%), respectively.

- IBO installed capacity in operation increased by 95.9% to 507.1MW as at 31 December 2016 (2015: 258.8MW).

Business Review

SI Business

According to Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent global market research and consulting company, which conducted market research and prepared a report on the gen-set system integration and distributed power generation ("**DPG**") market (the "**F&S Report**"), the global market for gen-sets will grow at a CAGR of approximately 8.7% from 2015 to 2020. The markets in Africa & Middle East and Asia Pacific are expected to experience a faster growth at a CAGR of approximately 11.0% and 9.8% respectively, mainly attributable to i) escalating electricity demand in emerging markets; ii) rapidly growing data center market; iii) increasing demand to supplement renewable energy generation; and iv) the rapid development of gas-fired DPG stations in China and emerging countries driven by the improving natural gas supplies and transition to clean energy.

Our sales mainly cover the fast growing applications including industry-grade and utility-grade DPG stations, governmental, residential and commercial buildings, hotels, data centers, telecommunication projects and railway projects in Africa, Middle East and Asia Pacific region. With our encouraging progress in expanding market penetration in the application of marine vessels and bio-gas market, SI business segment recorded a revenue of HK$1,063.1 million in 2016 (2015: HK$965.6 million), representing a year-on-year increase of 10.1%. In 2016, we sold gen-sets and PGS with an aggregate capacity of 470.2 MW (2015: 407.6 MW), representing a year-on-year increase of approximately 15.4% due to an increase in demand in the market. The solid growth of SI business further strengthened our world leading position as a large gen-set system integration provider. With our SI and IBO business complementing each other, we can further enhance our economies of scale, bargaining power, industry understanding, thus creating better competitive advantages.

IBO Business

From 2010 to 2015, Southeast Asia has experienced strong growth in power demand and this trend is set to continue through to 2020. However, there is underinvestment in both generation and network infrastructure in many emerging markets as a result of sub-optimal power supply planning and execution and the lack of access to capital. The gap between power supply and strong demand offers the opportunities for the DPG markets in regions, including Southeast Asia, Africa and the Middle East. According to the F&S Report, DPG installed capacity is expected to increase from 23.9GW to 39.7GW at a CAGR of approximately 10.7% from 2015 to 2020. Gas-fired DPG installed capacity is expected to grow at a CAGR of approximately 20.7%, outstripping overall growth of DPG installed capacity driven by the widespread availability, the cost effectiveness and environmental friendliness of natural gas as compared with other fossil fuels. From 2015 to 2020, gas-fired DPG installed capacity in Indonesia and Myanmar is expected to grow at CAGR of approximately 19.4% and 24.2% respectively.

Over the past few years, we have accumulated extensive experience and developed closer partnerships with the ultimate off-takers in our existing IBO markets. Our well-established platform with gen-set supplier MTU, subcontractors CRRC and CNTIC, local partners and the ultimate off-takers (PT. PLN (Persero) ("**PLN**") of Indonesia and Electric Power Generation Enterprise ("**EPGE**") of Myanmar, both of which are state-owned entities) has enabled us to efficiently capture business opportunities and deliver F-A-C-T benefits to DPG projects. In 2016, we have made a remarkable progress in further strengthening our leading market position in Indonesia and

Myanmar by adding a DPG station of 56.4 MW in Indonesia and two DPG stations of 199.7 MW, in aggregate, in Myanmar. As at 31 December 2016, we had 8 (2015: 5) DPG stations in commercial operation in Indonesia, Myanmar and Bangladesh, with an aggregate installed capacity of 507.1MW (2015: 258.8MW). The following table shows our current DPG stations in operation as at 31 December 2016:

Projects	Installed Capacity (MW)(1)	Contract Capacity (MW)(2)	Minimum Contracted Capacity (MW)(3)	Fuel Type	Start of Operations	Contract Length Including Renewals (months)	Ultimate Off-taker
Teluk Lembu I	20.3	12.0	9.6	Gas	December 2012	52	PLN
Teluk Lembu II	65.8	50.0	50.0	Gas	June 2014	60	PLN
Palembang	56.2	50.0	40.0	Gas	May 2015	30	PLN
Jambi	56.4	50.0	40.0	Gas	October 2016	60	PLN
Indonesia subtotal	**198.7**	**162.0**	**139.6**				
Kyauk Phyu I	49.9	45.0	35.3	Gas	March 2015	80	EPGE
Kyauk Phyu II	49.9	45.0	35.6	Gas	March 2016	60	EPGE
Myingyan	149.8	133.0	103.1	Gas	June 2016	60	EPGE
Myanmar subtotal	**249.6**	**223.0**	**174.0**				
Pagla, Bangladesh	**58.8**	**50.0**	**N.A.**	Diesel	September 2014(4)	60	Bangladesh Power Development Board
Total	507.1	435.0	313.6				

Notes:

(1) Installed capacity refers to the maximum power generating capacity of the DPG station based on aggregate capacity of PGSs installed.

(2) Contract capacity refers to the power generating capacity of the DPG stations that we are required to provide by contract. Typically, installed capacity is 10% to 20% more than contract capacity, which allows us to switch off individual PGSs for regular maintenance on-site.

(3) Minimum contracted capacity:

- For continuous DPG stations where our PGSs typically operate 24 hours a day, our operating or off-take agreements incorporate a take-or-pay obligation, which requires a minimum guaranteed off-take amount by the off-taker, which is the minimum contracted capacity. The minimum contracted capacity is typically 80% to 100% of the contract capacity.
- For peak-shaving DPG stations where our PGSs typically operate only during peak-demand hours, our operating or off-take agreements incorporate a capacity-based provision, the off-taker pays a fixed dollar amount to reserve a minimum power generation capacity at all times, which is the minimum contracted capacity.

(4) The 60-month operating agreement for Pagla started from 24 November 2013 and ends on 23 November 2018. The Pagla DPG station commenced commercial operations with our newly installed ISO-containerized PGSs on 15 September 2014.

In 2016, IBO business segment recorded a revenue of HK$467.9 million (2015: HK$247.3 million), representing a year-on-year increase of 89.2%. The increase in IBO revenue was primarily contributed by the following IBO projects:

— commencement of operation of 49.9 MW Kyauk Phyu II project in Myanmar in March 2016;

— commencement of operation of 149.8 MW Myingyan project in Myanmar in June 2016;

— commencement of operation of 56.4 MW Jambi project in Indonesia in October 2016; and

— 2016 full year operation of 56.2 MW Palembang and 49.9 MW Kyauk Phyu I projects, which commenced operations in second quarter and first quarter of 2015 respectively.

Research and development

Recognising the importance of the ability to continuously develop advanced products and power solutions to meet the ever-changing needs of the power market, we are committed to the pursuit of technology innovation and system enhancement to offer the latest power solutions.

Our research and development team will continue to focus on

i) Development of combined heat and power ("**CHP**") gas-fired power generation system to enable the reuse of residual heat generated from the system to produce steam or hot water for heating and cooling using an absorption chiller. Selling these byproducts from our DPG stations can increase our revenue and offer a more competitive pricing to off-takers.

ii) Development of power generation system using new forms of gas including liquefied natural gas ("**LNG**"), compressed natural gas ("**CNG**") or waste-derived fuel such as biogas, landfill gas and syn-gas, with the aim to overcome the limitation of gas-fired PGS locations where gas pipelines are not available. In order to improve the logistics of LNG and strengthen supply chain of future LNG projects, the Group will work with relevant industry partners to formulate fast and affordable supply chain of LNG transportation, storage and regasification facilities to broaden the reach of future IBO projects.

iii) Continuous improvement in the quality, functionality, efficiency, reliability and cost structure of our existing gen-sets and DPG stations. For example, the Group has targeted to improve our PGS fuel efficiency by 10% including Organic Rankine Cycle system and also upgrade our ISO-containerized 20-foot PGS with a maximum power output from 1.56 MW to 2.0 MW.

Our technological leadership and key strategic relationships with reputable engine manufacturers have enabled us to maintain our leading position in the industry with a first-mover advantage on the development of CHP, LNG and CNG-fired PGSs and DPG stations.

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 2016, the Group recorded a revenue of approximately HK$1,531.0 million, representing an increase of 26.2% as compared with approximately HK$1,212.8 million of the previous year. The increase in revenue was mainly due to the growth of IBO business. Please refer to IBO Business as set out in the paragraph headed "Business Review" for the significant increase in IBO 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			
	2016		2015	
	HK$'000	***% of total revenue***	*HK$'000*	*% of total revenue*
Hong Kong	**42,298**	**2.8**	143,520	11.8
Mainland China	**479,250**	**31.3**	506,054	41.7
Other Asian countries/territories(1)	**539,133**	**35.2**	313,595	25.9
Other countries/territories(2)	**2,455**	**0.2**	2,418	0.2
Total	**1,063,136**	**69.5**	965,587	79.6

Notes:

(1) Other Asian countries/territories include Singapore, Israel, South Korea, the United Arab Emirates ("UAE"), the Philippines, Malaysia, Indonesia, Bangladesh and Macau.

(2) Other countries/territories include South Africa, the United States, other countries in Africa and Mexico.

Our contracts for our IBO business are primarily denominated in U.S. dollars and Indonesian Rupiah ("IDR"). The table below sets forth a revenue 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			
	2016		2015	
	HK$'000	***% of total revenue***	*HK$'000*	*% of total revenue*
Indonesia	**133,796**	**8.7**	109,521	9.0
Bangladesh	**92,418**	**6.0**	92,171	7.6
Myanmar	**241,661**	**15.8**	45,564	3.8
Total	**467,875**	**30.5**	247,256	20.4

Information about major customers

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

	2016	2015
	HK$'000	*HK$'000*
Customer A	**458,766**	212,526
Customer B	**275,935**	N/A*
Customer C	**241,661**	N/A*
Customer D	**N/A***	297,586
	976,362	510,112

* Nil or less than 10% of revenue

Notes:

(1) Customer A is a manufacturer and supplier of electrical supply equipment (including gen-sets, synchronizing panels, power meters and engine controllers) headquartered in Singapore.

(2) Customer B is a manufacturer and supplier of engine related products (including bearings, valves, pumps and camshafts) headquartered in the PRC.

(3) Customer C is a state-owned utilities company in Myanmar.

(4) Customer D is a PRC state-owned enterprise specialized in undertaking overseas construction works including overseas EPC power projects.

The following table shows our gross profit contribution and proportion of our fixed assets of our IBO businesses in Indonesia, Bangladesh and Myanmar to total assets of the Group for the year ended:

	Gross Profit Contribution (%) Year ended 31 December		**Fixed Assets to Total Assets (%) As at 31 December**	
	2016	2015	**2016**	2015
Indonesia	**11.5**	16.9	**16.4**	19.9
Bangladesh	**13.2**	18.7	**3.0**	6.1
Myanmar	**29.6**	5.8	**18.9**	6.8

The management of the Group continuously enforces the current business plan and project pipeline to minimise the assets or profit concentration risk, including but not limited to, expansion of the existing market with low gross profit contribution as well as exploring new market countries.

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 utilize contractors to operate and maintain our DPG stations.

For the years ended 31 December 2015 and 2016, our cost of sales was HK$868.9 million and HK$1,033.2 million, respectively, due to the increase in our IBO business.

Gross profit and gross profit margin

	Year ended 31 December			
	2016		2015	
	HK$'000	***gross profit margin %***	*HK$'000*	*gross profit margin %*
SI	**227,313**	**21.4**	201,760	20.9
IBO	**270,501**	**57.8**	142,228	57.5
Total	**497,814**	**32.5**	343,988	28.4

Gross profit of the Group was approximately HK$497.8 million, representing an increase of 44.7% as compared with approximately HK$344.0 million of the previous year. Gross profit margin for this year increased from 28.4% to 32.5% which was mainly attributable to the increase in sales mix of IBO business.

Profit before tax

Profit before tax for the year ended 31 December 2016 was approximately HK$253.1 million, representing an increase of 54.0% as compared with HK$164.4 million of the previous year. The increase was mainly due to the increase in number of IBO projects which significantly increased the revenue contributed by the IBO business.

Other income and gains

In 2016, other income and gains of the Group amounted to approximately HK$54.0 million, representing an increase of 17.6% as compared with approximately HK$45.9 million of the previous year. The increase was mainly attributable to net foreign exchange gain primarily due to the Euro depreciation in 2016.

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 2016, selling and distribution expenses of the Group decreased by 4.4% from approximately HK$25.1 million in 2015 to HK$24.0 million in 2016. It was mainly attributable to the decrease in commission expense.

Administrative expenses

Administrative expenses primarily consist of administrative service fees paid to an intermediate off-taker and an administrative service provider of our DPG station in Bangladesh, staff costs, legal and 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 2016, administrative expenses of the Group were approximately HK$201.4 million, an increase of 53.3% over the previous year of approximately HK$131.4 million. It was mainly due to (i) an increase in legal and professional fees mainly due to the listing expenses; (ii) an increase in office and other expenses as we expanded our business;

(iii) an increase in insurance expenses as a result of entering into new projects in respect of our new DPG stations under our IBO business, and (iv) an increase in staff costs, traveling and related expenses mainly due to the growth of our DPG stations under our IBO business.

Other expenses, net

Net other expenses of the Group primarily consist of net loss on settlement of derivative financial instruments, fair value loss on an investment property and write-down of inventories to net realisable value. In 2016, net other expenses were approximately HK$4.5 million, which represented a decrease of 86.9% over the previous year of approximately HK$34.4 million. It was mainly due to a decrease in net loss on settlement of derivative financial instruments.

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 2016, finance costs was approximately HK$68.8 million, which represented an increase of 98.3% over the previous year of approximately HK$34.7 million. It is primarily due to an increase in payables under our engineering, procurement and construction ("**EPC**") contracts and increase in bank borrowings as well as increase in interest on other borrowings as we entered into two finance lease agreements in December 2015.

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 2016, income tax expense was approximately HK$31.1 million, an increase of 34.1% over the previous year of approximately HK$23.2 million, primarily due to an increase in our taxable income. Our effective tax rate was 12.3% and 14.1% for 2016 and 2015, respectively. The slight decrease in effective tax rate was primarily due to (i) a significant increase in overseas IBO business in 2016 than in 2015, which was subject to a lower tax rate than our SI business in Hong Kong, and (ii) which is partially offset by non-deductible listing expenses incurred in 2016.

Profit Attributable to Owners and Earnings per Share

In 2016, profit attributable to owners of the Company was approximately HK$222.0 million, representing an increase of approximately HK$80.8 million or approximately 57.2% as compared with approximately HK$141.2 million of the previous year. Excluding the one-off listing expenses, the Group's net profit surged by 82.7% to HK$263.2 million.

Basic earnings per share for the year ended 31 December 2016 was HK10.79 cents as compared with HK7.06 cents of the previous year.

Liquidity, Financial and Capital Resources

As at 31 December 2016, total current assets to the Group amounted to HK$3,058.4 million (2015: HK$1,766.5 million). In terms of financial resources as at 31 December 2016, cash and cash equivalents of the Group were HK$1,392.0 million (2015: HK$286.9 million).

As at 31 December 2016, total bank and other borrowings of the Group amounted to approximately HK$1,038.6 million (2015: HK$965.9 million), representing an increase of approximately 7.5% as compared to that of 31 December 2015. 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 2016, the Group's bank and other borrowings denominated in U.S. dollars and Euro were approximately HK$593.2 million (2015: HK$702.0 million) and approximately HK$415.4 million (2015: HK$175.7 million), respectively.

The Group's gearing ratio, which is calculated as a ratio of total interest-bearing bank and other borrowings to shareholders' equity was approximately 0.5 (2015: 1.8). As at 31 December 2016, the Group's current ratio was 1.8 (2015: 1.1).

As at 31 December 2015, certain of the Group's bank borrowings are guaranteed by Mr. LAM Yee Chun up to an aggregate guarantee amount of HK$984.3 million, which were released upon listing of the shares of the Company.

Pledge of Assets

As at 31 December 2016, the Group pledged certain property, plant and equipment with a net book value of approximately HK$641.1 million (2015: HK$682.1 million) to certain banks and a finance leasing company to secure bank and other borrowings.

Exposure on Foreign Exchange Fluctuations

Most of the Group's revenue and payments are mainly in U.S. dollars, IDR, Renminbi 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.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2016 (2015: Nil).

Capital Expenditures

For the year ended 31 December 2016, the Group invested HK$1,136.5 million (2015: HK$420.3 million) in property, plant and equipment and spent HK$1,133.7 million (2015: HK$415.4 million) mainly for new IBO projects relate to prospective DPG projects located in Indonesia and Myanmar. These capital expenditures were financed by equity issuances, operations, EPC payables and bank and other borrowings.

EMPLOYEES

As at 31 December 2016, the Group had 215 (2015: 187) employees. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set out the Mandatory Provident Fund Scheme for the Hong Kong's employees and has made contributions to the state-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has share option schemes to motivate valued employees.

Corporate
Social Responsibility

An entrepreneur plays an indispensable part in the communities through creating jobs for the society and keeping the business afloat. As one of the world's leading companies in distributed power generation, VPower is committed to sustainable development of communities. We trust that fulfilling social responsibility is an important task of a company that can enhance the well-being and the development of some of the communities as a whole in which our end customers live and work.

Mr. LAM Yee Chun (left), Executive Chairman of VPower Group International Holdings Limited.
Ms. CHAN Mei Wan (right), Vice Chairwoman of VPower Group International Holdings Limited.

Mr. LAM Yee Chun (right), Executive Chairman of VPower Group International Holdings Limited presented the donation to Mr. Billy KONG Churk-hoi, Executive Committee Deputy Chairman of The Community Chest of Hong Kong.

COMMUNITY CARING

To celebrate the Company's public listing on the Main Board of the Stock Exchange of Hong Kong on 24 November 2016, VPower Group International Holdings Limited had made a generous donation of HKD1,000,000 to the Community Chest of Hong Kong.

The Community Chest of Hong Kong was established in 1968 as an independent, non-profit making organization neither funded, nor operated by the Government. Each year, the Community Chest organizes fund-raising events to benefit over 150 member social welfare agencies that reach out to more than two million beneficiaries in Hong Kong.

To help the public social development of Myingyan, Myanmar, VPower had donated USD40,000 to No. (1) Steel Mill, with the aim of supporting the improvement of the overall welfare of the local community.

Myingyan is a city and district in the Mandalay Division of central Myanmar. As of 2014, the city had a population of 276,096 and the district had 1,055,957. It lies in the valley of the Ayeyarwady River, to the south of Mandalay, on the east bank of the river.

No.(1) Steel Mill Donation Ceremony

VPower Trailwalker Team

Oxfam Trailwalker is not only one of the largest fundraising sports events in Hong Kong, but also the highlight of our year project to fulfil our Corporate Social Responsibility. In 2016, VPower had been dedicated to support Oxfam Trailwalker.

VPower participated in this event to raise HKD51,000 to support Oxfam's various poverty alleviation and emergency relief projects.

Students from Vocational Training Council

VPOWER INTERNSHIP PROGRAMME

VPower Internship Programme (VIP) was established in 2016 and the first group of 4 interns was started their placement in February 2017. This program helps to build long-term partnerships with vocational institutions, to identify and nurture new talents, and to attract students to join VPower when they graduate. This community investment takes the initiative to create a win-win-win situation that benefits the students, the institutions and VPower.

The internship programme offers a full-time on the job training lasted for a 3-month period with remuneration once a year. By completing the placement, the students are not only helping us to meet our business needs, but will gain valuable work experience and a great sense of achievement as well.

This brief report only covers our corporate social responsibility in terms of people and community. More details regarding the Company's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations, will be shown in the full version of ESG report and will be available for public download at *www.hkex.com.hk* and *www.vpower.com* in July 2017.

Biographical Details of Directors and Senior Management

Mr. LAM Yee Chun,

aged 45, 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 20 years of experience in entrepreneurship, general management, project management, supply-chain management, system integration and operation and maintenance in the engine based power generation industry. As a project engineer for Cummins Hong Kong Ltd., in charge of power generation projects between 1993 and 1995, Mr. LAM has gained numerous experiences in design, practical works and operation. He has years of experiences in designing power generation system ("**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 husband of Ms. CHAN Mei Wan, the Vice Chairwoman of the Group and a Non-Executive Director of the Company.

Mr. LEE Chong Man Jason,

aged 47, 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 15 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 60, 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 20 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 (Stock Code: 895.HK), 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 (Stock Code: 8098.HK) 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 46, 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 20 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 44, 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. 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 15 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 wife of Mr. LAM, the Executive Chairman of the Group.

Dr. CHAN Ka Keung*,

aged 50, was appointed as a Non-Executive Director of the Company on 26 April 2016.

Dr. Chan has also been the director of Millennium Fortune Corporation, one of the Company's investors, since October 2015. He has been the chief executive officer of Nature Elements Capital Group since June 2009. Dr. Chan is responsible for setting the overall strategies, investment, management and operation of natural resource and clean energy businesses. Prior to joining Nature Elements Capital Group, Dr. Chan was managing director of Greater China of Climate Change Capital Group from February 2008 to June 2009. He was responsible for development, investment and management of clean energy and low carbon resource business. Prior to joining Climate Change Capital Group, Dr. Chan was managing director of the renewable energy business of CLP Holdings Limited ("**CLP**") from November 2005 to January 2008. He was responsible for development, investment, operation and management of CLP's renewable energy business in Asia. Dr. Chan was also director for business development (Great China) and director for corporate finance of CLP from November 2003 to January 2004 and from January 2004 to January 2008, respectively.

Dr. Chan obtained a bachelor of arts (first class honours) in electrical and information sciences and a doctor of philosophy (PhD) in electronic engineering, both from the University of Cambridge in July 1989 and July 1993, respectively. He has also obtained a bachelor of laws from University of London in August 2001 and an executive master in business administration (EMBA) from Tsinghua University in July 2007.

Mr. KWOK Man Leung*,

aged 48, was appointed as a Non-Executive Director of the Company on 11 April 2017. He is the executive vice president and a director of CITIC Pacific Limited ("**CITIC Pacific**"), a wholly-owned subsidiary of CITIC Limited (SEHK: 267), the largest conglomerate in China. Mr. KWOK joined CITIC Pacific in 1993, having over 20 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, Hong Kong and PRC property development, special steel manufacturing and energy generation. He is a non-executive director of Dah Chong Hong Holdings Limited (Stock Code: 1828.HK) and a director of Daye Special Steel Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000708).

Mr. David TSOI,

aged 69, 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 30 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 MelcoLot Limited (Stock Code: 8198.HK) since October 2001; Enviro Energy International Holdings Limited (Stock Code: 1102.HK) since July 2008; Universal Technologies Holdings Limited (Stock Code: 1026.HK) since June 2013; and Guru Online (Holdings) Limited (Stock Code: 8121.HK) since May 2014; and CRRC Corporation Limited (Stock Codes: 1766.HK) (formerly known as China South Locomotive & Rolling Stock Corporation Limited) from March 2008 to June 2014.

Mr. YEUNG Wai Fai Andrew,

aged 44, 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 deputy chairman and non-executive director of Qianhai Health Holdings Limited (Stock code: 911) since January 2017 and was an independent non-executive director of Goldenmars Technology Holdings Limited (Stock code: 3638) between June 2016 and September 2016, companies whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). He has been the deputy chief executive officer of Qianhai Corporate Finance Limited since November 2016. He had been the head of investment banking and advisory of Kim Eng Securities (Hong Kong) Limited from July 2015 to October 2016. Mr. YEUNG was an independent non-executive director of Eversol Corporation (Stock code: 3647.TT), which was delisted on the Taiwan GreTai Securities Market in October 2016, from June 2014 to June 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. Mr. YEUNG has over 16 years of experience in investment and private banking. 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.

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 39, 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 has been the group legal counsel and company secretary of Haitian International Holdings Limited (Stock Code: 1882.HK) since August 2010. He is responsible for preparing and reviewing a broad range of commercial agreements related to business operations covering product sales, equipment purchase, patent and trademark license and formation of joint venture. Mr. SUEN is also responsible for monitoring the group's compliance with applicable laws and regulations with focus on the Listing Rules. He has over 12 years of post-qualification experience. Prior to joining Haitian International Holdings Limited, he worked as a senior associate in an international law firm from August 2009 to August 2010 and as an associate of the same firm from March 2006 to August 2009. Prior to that, he was an assistant solicitor of a Hong Kong law firm from August 2003 to March 2006.

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 46, 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, capital allocation and investor relationship of the Group.

Mr. LIU has over 15 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 (Stock Code: 895.HK), 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 45, joined the Group in January 2015. He is the Chief Financial Officer of the Group and the Company Secretary of the Company. 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 and a member of the Institute of Internal Auditors of the United States of America since November 2007 with more than 15 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. Prior to that, Mr. CHAN was an internal audit manager of Transamerica Occidental Life Insurance Company from September 2007 to February 2010 and an internal audit manager of Wynn Resorts Limited from December 2004 to September 2007. Prior to joining Wynn Resorts Limited, he was employed by Ernst & Young from January 1997 to December 2004, his last position being a senior manager.

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

Mr. CHEUNG Yeung Earnest,

aged 43, 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, responsible for 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 & utilities sector in the corporate and institutional banking business prior to his departure.

Mr. CHEUNG is a chartered financial analyst registered at the CFA Institute of the United States of America since September 2004 and obtained a bachelor of science in management sciences (first class honours) from University of Warwick in July 1995.

Mr. LEE Siu Ming,

aged 41, 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 and corporate finance activities of the Group, including fund raisings, merge 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, Deustche 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 holds a Chartered Financial Analyst certification from the CFA Institute since 1999.

* On 11 April 2017, Dr. CHAN Ka Keung has resigned as a Non-Executive Director of the Company as he requires to devote more time to his business and personal engagements; and Mr. KWOK Man Leung was appointed as a Non-Executive Director of the Company.

Corporate Governance Report

The Board of Directors of the Company (the "**Board**") is committed to maintain 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. The Board's corporate governance policy is designed to achieve these objectives and is maintained through a framework of processes, policies and guidelines.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the period from 24 November 2016 to 31 December 2016.

BOARD OF DIRECTORS

Responsibilities of Directors

The Board, led by the Executive Chairman, is ultimately accountable for the Group's activities, strategies and financial performance, which includes developing, reviewing and monitoring the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, reviewing the financial statements and budget proposal of the Group, considering dividend policy, reviewing the effectiveness of the internal control systems.

The management team is responsible for the day-to-day management, administration and operation of the Group such as project investment direction, business planning and forecasting, merger and acquisition, marketing and customer services to drive business growth and market share of the Group. The Board gives clear directions to the management team as to their powers of management, and circumstances in which the management team should report back.

Newly appointed Directors will be arranged a comprehensive, formal and tailored induction which includes provision of key guidelines and documents relevant to their roles, responsibilities and ongoing obligations; a briefing on the Group's structure, businesses, risk management and other governance practices and meeting with other fellow Directors so as to help the newly appointed Directors familiarize with the management, business and governance policies and practices of the Group, and ensure that they have a proper understanding of the operations and businesses of the Group.

To ensure that Directors' contribution to the Board or committees remains informed, continuous professional development are provided for Directors to develop and refresh their knowledge, skills and understanding of the business and markets in which the Group operates. Directors are also provided with half-yearly updates of the Group's development, and information such as performance and key operational highlights to enable the Board and each Director to discharge their duties.

All Directors have participated in appropriate continuous professional development and provided the Company with their records of training they received for the year ended 31 December 2016.

All Directors participated in the training which included reading regulatory updates or information relevant to the Group or its business during the year ended 31 December 2016, such as Director's training organized by Clifford Chance in April 2016.

Directors	Training
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	✓
Non-executive Directors	
Ms. CHAN Mei Wan *(Vice Chairwoman)*	✓
Dr. CHAN Ka Keung	✓
Independent Non-executive Directors	
Mr. David TSOI	✓
Mr. YEUNG Wai Fai Andrew	✓
Mr. SUEN Wai Yu	✓

Every Director ensures that he or she gives sufficient time to the Company affairs. Each Director shall disclose to the Company at the time of his or her appointment the directorships held in other listed companies and other significant commitment. The Company has also requested the Directors to provide any change on such information timely and to disclose their time commitment.

Appropriate insurance cover on Directors' liabilities has been in force to protect the Directors of the Group from their risks arising from the businesses of the Group.

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 2016, 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 terms of reference for performing the corporate governance functions as set out in the Code were approved by the Board for adoption.

BOARD DIVERSITY

The Board adopted the Board Diversity Policy on 24 October 2016 setting out the approach to achieve diversity on the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance. In designing the Board's composition, Board diversity has been considered from several aspects, including but not limited to professional experience, skills, knowledge, cultural and educational background, ethnicity, age and gender.

BOARD COMPOSITION

The Board currently consists of four Executive Directors and five Non-executive Directors. Three of the five Non-executive Directors are independent to ensure that proposed strategies protect all shareholders' interests.

As at 31 December 2016, the Directors of the Company are set out as follows:

Executive Directors

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

Non-Executive Directors

Ms. CHAN Mei Wan *(Vice Chairwoman)*
Dr. CHAN Ka Keung

Independent Non-executive Directors

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

The Board must be satisfied that an Independent Non-Executive Director does not have any material relationship with the Group. The Board is guided by the criteria of independence as set out in the Listing Rules in determining the independence of Directors.

The Company received from each of the Independent Non-executive Directors confirmation in writing of their independence pursuant to Rule 3.13 of the Listing Rules and considered them as independent.

One-third of all the Directors are subject to retirement by rotation at every annual general meeting according to the Articles of Association of the Company (the "**Articles of Association**").

The term of office of all Non-Executive Directors (including Independent Non-executive Directors) shall expire on 24 November 2019.

CHAIRMAN OF THE BOARD AND CO-CHIEF EXECUTIVE OFFICERS

The Chairman of the Board is Mr. LAM Yee Chun. The Co-Chief Executive Officers are Mr. LEE Chong Man Jason and Mr. AU-YEUNG Tai Hong Rorce. The roles of the Chairman of the Board and the Co-Chief Executive Officers are separate and are not performed by the same individual. The Chairman 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 are responsible for managing the business of the Group and leading the management to implement strategies and objectives adopted by the Board.

BOARD MEETING

The Board normally meets regularly at least four times a year. The Directors can attend meetings in person or through electronic means of communication according to the Articles of Association.

Since the shares of the Company were listed on 24 November 2016, the Board met twice during the year ended 31 December 2016 and no general meeting has been held during the period. The attendance of each Director at the Board meetings during the year ended 31 December 2016 is set out as follows:

Directors	**No. of Meeting Attended/Held**
Executive Directors	
Mr. LAM Yee Chun *(Executive Chairman)*	2/2
Mr. LEE Chong Man Jason *(Co-Chief Executive Officer)*	2/2
Mr. AU-YEUNG Tai Hong Rorce *(Co-Chief Executive Officer)*	2/2
Mr. LO Siu Yuen	2/2
Non-executive Directors	
Ms. CHAN Mei Wan *(Vice Chairwoman)*	2/2
Dr. CHAN Ka Keung	2/2
Independent Non-executive Directors	
Mr. David TSOI	2/2
Mr. YEUNG Wai Fai Andrew	2/2
Mr. SUEN Wai Yu	2/2

Regular Board meetings of the year are scheduled in advance and at least 14 days' notice is given to all Directors to give them an opportunity to attend. Meeting agenda and accompanying meeting papers are sent to all relevant Directors at least 3 days before the date of a Board or committee meeting to enable the Directors to make informed decisions on matters to be raised at the meetings. All Directors are given an opportunity to include matters in the agenda for Board meetings.

In addition, Directors have full and timely access to all information on the Group and may seek independent professional advice at the Group's expense in carrying out their functions, after making a request to the Board.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). During the period from 24 November 2016 to 31 December 2016, having made all specific enquiries with all Directors, all Directors have confirmed that they fully complied with the required standard set out in the Model Code.

The Board has also established written guidelines for relevant employees, including certain employees of the Company, certain Directors or employees of its subsidiaries who are considered to be likely to possess inside information relating to the Company or its securities (the "**Relevant Employees**"), in respect of their dealings in the Company's securities.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31 December 2016, which give a true and fair view of the state of affairs of the Group at that date and of the Group's results and cash flows for the year then ended and are prepared on the going concern basis according to statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's financial statements timely.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 73 to 79 of this Annual Report.

BOARD COMMITTEES

The Board has set up the following Board committees to oversee aspects of the Group's affairs:

Audit Committee

The Audit Committee was formed on 24 October 2016. The members of the Audit Committee are Mr. David TSOI (Chairman of the Audit Committee), Ms. CHAN Mei Wan (Non-executive Director) and Mr. YEUNG Wai Fai Andrew (Independent Non-executive Director). The Chairman of the Audit Committee has the appropriate professional qualification as required by the Listing Rules.

There was no Audit Committee meeting for the year ended 31 December 2016 since the shares of the Company were listed on 24 November 2016 and the First Audit Committee meeting was held on 28 March 2017. The terms of reference for the Audit Committee are aligned with the code provision set out in the Corporate Governance Code. Given below are the main duties of the Audit Committee:

(a) to consider the appointment of external auditor and any questions of resignation or dismissal;

(b) to discuss with the external auditor before the audit commences, the nature and scope of the audit;

(c) to review half-year and annual financial statements before submission to the Board;

(d) to discuss problems and reservations arising from the audit, and any matters the external auditor may wish to discuss; and

(e) to consider and review the Group's risk management and internal controls systems.

Remuneration Committee

The Company established a Remuneration Committee on 24 October 2016. The Remuneration Committee is chaired by Mr. YEUNG Wai Fai Andrew (Independent Non-Executive Director) with Ms. CHAN Mei Wan (Non-Executive Director) and Mr. SUEN Wai Yu (Independent Non-Executive Director) as members.

There was no Remuneration Committee meeting for the year ended 31 December 2016 since the shares of the Company were listed on 24 November 2016 and the First Remuneration Committee meeting was held on 28 March 2017.

The terms of reference of the Remuneration Committee are aligned with code provision set out in the Corporate Governance Code. Given below are main duties of the Remuneration Committee:

(a) to consider the Group's policy and structure of remuneration of the Directors and senior management;

(b) to determine specific remuneration packages of all Executive Directors and senior management;

(c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board periodically;

(d) to review compensation payable to Executive Directors and senior management relating to any loss or termination of their office or appointment; and

(e) to review compensative arrangements relating to dismissal or removal of Directors for misconduct.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration committee reviewed the remuneration policy and structure of the Company and remuneration packages of the Executive Directors and the senior management. Details of the remuneration of each Director and 5 highest paid employees for the year ended 31 December 2016 are set out in notes 8 and 9 to the financial statements, respectively. For the year ended 31 December 2016, the remuneration of the non-director senior management is listed as below by band:

Band of Remuneration (HK$)	Number of Persons
HK$1,000,001 to HK$2,000,000	3

Nomination Committee

The Company established a Nomination Committee on 24 October 2016. The Nomination Committee is chaired by Mr. SUEN Wai Yu (Independent Non-Executive Director) with Mr. LAM Yee Chun (Executive Chairman) and Mr. David TSOI (Independent Non-Executive Directors) as members.

There was no Nomination Committee meeting for the year ended 31 December 2016 since the shares of the Company were listed on 24 November 2016 and the First Nomination Committee meeting was held on 28 March 2017. The terms of reference of Nomination Committee are aligned with the code provision set out in the Corporate Governance Code. Given below are the main duties of the Nomination Committee:

(a) to review the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Group's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to receive nominations from shareholders or Directors when such are tendered and to make recommendations to the Board on the candidacy of the nominees, having regard to the Board's compositional requirements and suitability of the nominees;

(d) to assess the independence of Independent Non-Executive Directors and review the Independent Non-Executive Directors' confirmations on their independence; and make disclosure of its review results in the corporate governance report. Where the Board proposes a resolution to elect an individual as an Independent Non-Executive Director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he/she should be elected and the reasons why they consider him/her to be independent;

(e) to make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors; and

(f) to consider other topics and review other documents as may be reasonably requested by the Board periodically.

Auditor's Remuneration

The fees in respect of audit and non-audit services provided to the Company and its subsidiaries by the external auditor of the Company for FY2016 are set out below:

	HK$'M
Audit services	4.9
Non-audit services	
Services provided in connection with initial public offering of the Company	11.7
Others	0.2
	16.8

Internal Control

The Board has overall responsibility for the effectiveness of the internal control systems and monitors the internal control systems through the Internal Audit Department of the Group. The Board has conducted a review of the effectiveness of the internal control system 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 Board established an Employee Suggestion Box Scheme for employees to raise concerns, in confidence with the audit committee about possible improprieties in any matter related to the Group. The Board concluded that in general, the Group had set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance.

Policy and Procedures on Disclosure of Inside Information

The Board has adopted the Policy and Procedures on Disclosure of Inside Information which contains the guidelines to the officers (referring to Directors or Company Secretary) and all the Relevant Employees of the Group to ensure that the inside information of the Group is to be disseminated to the public in an equal and timely manner according to the applicable laws and regulations. The Policy and Procedures on Disclosure of Inside Information is available on the Company's website.

Company Secretary

The Company Secretary of the Company supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Chairman and Co-Chief Executive Officers on governance matters and facilitates induction and professional development of Directors.

The appointment and removal is subject to approval of the Board. Although the Company Secretary reports to the Chairman and Co-Chief Executive Officers, all Directors have access for advice and service of the Company Secretary. Mr. CHAN Kam Shing has been appointed as the Company Secretary since 26 April 2016 and has day-to-day knowledge of the Group's affairs. During the year ended 31 December 2016, Mr. CHAN has received no less than fifteen hours of relevant professional training to refresh his skills and knowledge.

COMMUNICATION WITH SHAREHOLDERS

The Board is committed to maintaining an ongoing communication with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The annual general meetings ("**AGMs**") of the Company provide a good forum for communication between the Board and shareholders. Notices of the AGMs are despatched to all shareholders at least 20 clear business days prior to such AGMs. The chairmen of all Board Committees are invited to attend the AGMs. The Chairman of the Board and the Chairmen of all the Board Committees are available to answer questions at the AGMs. Auditor is also invited to attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

There was no AGM for the year ended 31 December 2016 and the first 2017 AGM will be held on 29 May 2017.

Shareholders Rights

Shareholders' Rights set out below is a summary of certain rights of the shareholders of the Company which are governed by the provisions of the Articles of Association and applicable laws, rules and regulations.

Pursuant to Articles 58 of the Company's Articles of Association, an extraordinary general meetings shall be convened on the written requisition of any one or more members of the Company deposited at the registered office specifying the objects of the meeting and signed by the shareholders, provided that such shareholders held at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company as at the date of deposit which carries the right of voting at general meetings of the Company. If the Directors do not within twenty-one days from the date of deposit of the requisition proceed duly to convene the meeting, the shareholders themselves may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the shareholders as a result of the failure of the Directors shall be reimbursed to them by the Company.

There are no provision allowing shareholders to put forward proposals at general meetings under the Articles of Association of the Company.

Shareholders who wish to put forward proposals may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

As regards, proposing a person for election as a Director, please refer to the procedures available on the Company website.

Investor Relations and Communication with Shareholders

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. Members of the Board can meet and communicate with shareholders at the AGM of the Company.

Our corporate website www.vpower.com contains corporate information, corporate governance practice, announcements and circulars issued by the Company, enabling the Company's shareholders to have timely and updated information of the Group. Shareholders Communication Policy adopted by the Board on 24 October 2016 is also posted on our corporate website. The Company's shareholders can email their enquiries to info@vpower.com or call at +852 2687 6517.

Compliance with the relevant laws and regulations that have a significant impact on the Company.

The Company has set up proper procedures to ensure adherence to the relevant laws and regulations which have a significant impact on the Group in conduct of its business, including but not limited to Personal Data (Privacy) Ordinance, Employment Ordinance in Hong Kong.

The Group also complies with the Rules Governing the Listing of Securities or The Stock Exchange of Hong Kong Limited ("**Listing Rules**"), the Hong Kong Companies Ordinance and the Securities and Futures Ordinance ("**SFO**").

Relationships with Stakeholders

The Company appreciates that our employees, customers and business associates are keys to our sustainability journey. We strive to build a better community through engaging our employees, providing quality services for our customers, collaborating with business partners and supporting our community.

The Company places significant emphasis on human capital. The Company provides a fair workplace through promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as opportunities for career advancement based on employees' merits and performance.

To enhance customer satisfaction and promote a customer-oriented culture within the Company, we value the feedback from customers through daily communication and regular meetings.

We proactively collaborate with our business partners (including suppliers and contractors) to deliver quality sustainable products and services.

Sustainability and Environmental Policy

The Company is committed to the sustainable development of the environment and our society. The Company appreciates the potential climate impact due to building development and operation, and strives to enhance the environmental performance of its properties through eco-friendly design, operational measures as well as energy efficiency and carbon emission reduction. Further information of its sustainability and environmental policies can be found in the full version of ESG report available on the Group's corporate website at www.vpower.com.

Constitutional Documents

Save for the adoption of the amended and restated memorandum and articles of association of the Company for the purpose of the listing of the shares of the Company on the Stock Exchange on 24 October 2016, there had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2016.

Directors' Report

GLOBAL OFFERING AND LISTING OF SHARES OF THE COMPANY

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 February 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**").

The Company completed its global offering and the shares of the Company were first listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 24 November 2016. 560,000,000 ordinary shares of the Company at HK$2.88 each were issued in the global offering. Net proceeds from the global offering was approximately HK$1.52 billion (after deducting the underwriting fees and commissions and other listing-related expenses).

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 consolidated financial statements. 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 2016 is set out in the section headed "Management Discussion and Analysis" on pages 22 to 31 of this annual report. This discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the Group's financial position at that date are set out in the financial statements on pages 80 to 83.

The Board resolved to recommend the payment of a final dividend of HK2.57 cents per share for the year ended 31 December 2016 to shareholders whose name appear on the register of members of the Company on 8 June 2017, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Monday, 29 May 2017 (the "**2017 AGM**"). The proposed divided will be paid on or about Tuesday, 20 June 2017 following approval at the 2017 AGM of the Company.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend the 2017 AGM, the register of members of the Company will be closed during the period from Wednesday, 24 May 2017 to Monday, 29 May 2017, 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 2017 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 by not later than 4:30 p.m. on Tuesday, 23 May 2017.

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, 5 June 2017 to Thursday, 8 June 2017 (both days inclusive), during which period no transfer of share(s) of the Company will be effected. In order to qualify for the proposed final dividend, all transfer document(s), accompanied by the relevant share certificate(s), must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 2 June 2017.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company were listed on 24 November 2016 on the Main Board of the Stock Exchange. The total net proceeds from the listing which involved the issue of 560,000,000 ordinary shares of HK$0.10 each of the Company amounted to approximately HK$1.52 billion (after deducting all listing related expenses). During the period between the Listing Date and 31 December 2016, the net proceeds from the listing were utilised in in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The balance of fund would be utilised according to the use disclosed in the Prospectus. The Group held the unutilised net proceeds in short-term deposits with licensed institutions in Hong Kong.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements, is set out on page 173. This summary does not form part of the audited financial statements.

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 27 and 28 to the financial statements.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 24 November 2016 to 31 December 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles, 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.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution amounted to HK$1,590.2 million, of which HK$65.8 million has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1.1 million in Hong Kong.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the aggregate percentage of sales attributable to the Group's five largest customers was approximately 75% of the Group's total revenue and the percentage of sales attributable to the Group's largest customer was approximately 30%.

For the year ended 31 December 2016, the aggregate percentage of purchases attributable to the Group's five largest suppliers was approximately 88% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier was approximately 73%.

None of the directors, any of their 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

Save as disclosed under the section headed "Share Option Schemes", no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

ARRANGEMENTS TO PURCHASE SHARES

Other than the share option schemes disclosed under the section headed "Share Option Schemes", 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 to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS

The directors of the Company who held office during the year ended 31 December 2016 were:

Executive Directors

Mr. LAM Yee Chun *(Executive Chairman)*
(appointed on 22 February 2016)
Mr. LEE Chong Man Jason *(Co-Chief Executive Officer)*
(appointed on 26 April 2016)
Mr. AU-YEUNG Tai Hong Rorce *(Co-Chief Executive Officer)*
(appointed on 26 April 2016)
Mr. LO Siu Yuen
(appointed on 26 April 2016)

Non-Executive Directors *(all appointed with effect from 24 October 2016)*

Ms. CHAN Mei Wan *(Vice Chairwoman)*
Dr. CHAN Ka Keung

Independent Non-Executive Directors *(all appointed with effect from 24 October 2016)*

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

Pursuant to Article 84 of the articles of association of the Company ("**Articles of Association**"), one-third of the directors shall retire from office by rotation at each annual general meeting of the Company and will 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. LEE Chong Man Jason, and AU-YEUNG Tai Hong Rorce shall retire by rotation at the AGM and, being eligible, offer themselves for re-election.

Details of the Directors standing for re-election at the 2017 AGM are set out in the circular to the shareholders of the Company 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 36 to 43 of the annual report.

DIRECTORS' SERVICE CONTRACTS

On 24 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 24 October 2016, each of the Non-Executive directors has 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.

On 24 October 2016, each of the Independent Non-Executive Directors has 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.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting of the Company 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

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Other than the continuing connected transactions as stated in the section headed "Continuing Connected Transactions" of this report, 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 2016 or at any time during the year ended 31 December 2016.

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, to the extent permitted by Cayman law. 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 2016, the interests and short positions of each director and chief executive of the Company and their associates 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**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have taken under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV 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**")	Interest of a controlled corporation	1,806,633,881 *(Note 3)*	398,000	1,807,031,881	70.59%
LEE Chong Man Jason ("**Mr. LEE**")	Beneficial owner	—	395,000	395,000	0.02%
AU-YEUNG Tai Hong Rorce	Beneficial owner	22,294,947	395,000	22,689,947	0.89%
LO Siu Yuen	Beneficial owner	15,606,463	390,000	15,996,463	0.63%
CHAN Ka Keung ("**Dr. CHAN**")	Interest of a controlled corporation	63,978,881 *(Note 4)*	—	63,978,881	2.50%
CHAN Mei Wan	Beneficial owner	—	390,000	390,000	0.02%

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 executives of the Company held any short positions in the shares and underlying shares of the Company as at 31 December 2016.

2. Based on the Company's issued share capital of 2,560,000,000 shares as at 31 December 2016 (assuming no exercise of any options that have been granted under the Pre-IPO Share Option Scheme).

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 be interested in the 1,806,633,881 shares of the Company held by Energy Garden Limited.

4. Dr. CHAN owns an aggregate of 4.9% of Nature Elements Asia Renewable Energy and Cleantech Fund L.P. (by holding 100% of its general partner and one of the limited liability partners) which holds the entire issued capital of Millennium Fortune Corporation. Therefore, Dr. Chan is deemed to be interested in 63,978,881 shares of the Company held by Millennium Fortune Corporation.

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 in the section headed "Share Option Schemes" above.

(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 Limied

Save as disclosed above, as at 31 December 2016, none of the directors or the chief executive of the Company had any interests or short positions in any shares and underlying shares 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.

The total number of shares of the Company which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 6,670,000 shares, representing approximately 0.26% of the issued share capital of the Company as at 31 December 2016. All the options under the Pre-IPO Share Option Scheme were granted to grantees on 1 November 2016 and no further options 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.

The following table discloses movements in the Company's share options outstanding during the year:

Grantee	Date of grant (dd.mm.yyyy)	Exercise price per share HK$	Number of shares to be issued upon exercise of the share options			Exercise period (dd.mm.yyyy)
			As at 01.01.2016	Granted during the year	As at 31.12.2016	
Directors						
LAM Yee Chun	01.11.2016	2.016	—	133,000	133,000	24.11.2017 – 23.11.2020
	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	24.11.2017 – 23.11.2020
	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	01.11.2016	2.016	—	132,000	132,000	24.11.2017 – 23.11.2020
	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	24.11.2017 – 23.11.2020
	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	24.11.2017 – 23.11.2020
	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			—	1,968,000	1,968,000	
Consultants	01.11.2016	2.016	—	58,000	58,000	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	—	1,536,000	1,536,000	24.11.2017 – 23.11.2020
	01.11.2016	2.016	—	1,507,000	1,507,000	24.11.2018 – 23.11.2021
	01.11.2016	2.016	—	1,489,000	1,489,000	24.11.2019 – 23.11.2022
Sub-total				4,702,000	4,702,000	
Grand-total				6,670,000	6,670,000	

The directors have estimated the values of the share options granted during the year, calculated using the binomial model as at the date of grant of the options:

Grantees	Number of options granted during the year	Theoretical value of share options
LAM Yee Chun	398,000	507,731
LEE Chong Man Jason	395,000	503,904
AU-YEUNG Tai Hong	395,000	503,904
LO Siu Yuen	390,000	497,525
CHAN Mei Wan	390,000	497,525
Consultants	170,000	213,659
Employees	4,532,000	5,697,899

The binomial model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options include those relating to factors such as the risk-free interest rate, expected life, expected volatility and expected dividend. The measurement date used in the valuation calculations was the date on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

As at 31 December 2016, the Company had 6,670,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive HK$13.4 million (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy (note 2.4 to the financial statements) amounted to HK$8.4 million.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

No options granted under the Pre-IPO Share Option Scheme were exercised or cancelled during the year ended 31 December 2016.

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 Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 256,000,000 Shares, representing 10% of the Company's issued share capital as at the date of this annual report. The maximum number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to any one person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised in general. However, at the time of granting any option, the Board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations including (without limitation) those in relation to the minimum period of the options to be held and/or the performance targets to be achieved as the Board may determine in its absolute discretion. Participants of the Share Option Scheme are required to pay HK$1 and submit to the Company a duly signed offer letter as the consideration for the grant. 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 the 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 2016, no option had been granted by the Board under the Share Option Scheme.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 28 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed under the section headed "Continuing Connected Transactions" of this report, 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 2016 or at any time during the year ended 31 December 2016.

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 2016, so far as is known to the directors and the chief executive of the Company, the interests and short positions of the substantial shareholders/other persons 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	70.57%
Konwell Developments Limited ("**Konwell**")	Interest of a controlled corporation	1,806,633,881 *(Note 3)*	70.57%
Sunpower Global Limited ("**Sunpower**")	Interest of a controlled corporation	1,806,633,881 *(Note 4)*	70.57%
LAM Yee Chun ("**Mr. LAM**")	Interest of a controlled corporation	1,806,633,881 *(Note 5)*	70.57%
	Beneficial owner	398,000 *(Note 5)*	0.02%
	Interest of spouse	390,000 *(Notes 5 & 6)*	0.02%
CHAN Mei Wan ("**Ms. CHAN**")	Beneficial owner	390,000 *(Note 6)*	0.02%
	Interest of spouse	1,807,031,881 *(Notes 5 & 6)*	70.59%
CITIC Group Corporation ("**CITIC Group**")	Interest of a controlled corporation	204,800,000 *(Note 7)*	8.00%
CITIC Polaris Limited ("**CITIC Polaris**")	Interest of a controlled corporation	204,800,000 *(Note 7)*	8.00%
CITIC Glory Limited ("**CITIC Glory**")	Interest of a controlled corporation	204,800,000 *(Note 7)*	8.00%
CITIC Limited ("**CITIC**")	Interest of a controlled corporation	204,800,000 *(Note 7)*	8.00%
CITIC Pacific Limited ("**CITIC Pacific**")	Interest of a controlled corporation	204,800,000 *(Note 7)*	8.00%
Master Wise Holdings Corp. ("**Master Wise**")	Interest of a controlled corporation	204,800,000 *(Note 7)*	8.00%
Next Admiral Limited ("**Next Admiral**")	Beneficial owner	204,800,000	8.00%

Notes:

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

2. Based on the Company's issued share capital of 2,560,000,000 shares as at 31 December 2016 (assuming no exercise of any options that have been granted under the Pre-IPO Share Option Scheme).

3. Konwell held 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 held 58.57% of the total issued share capital of Konwell and therefore, Konwell is deemed to have interest in the 1,806,633,881 shares held by Energy Garden.

5. Mr. LAM directly held 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 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.

6. Ms. CHAN is interested in options granted under the Share Option Scheme to subscribe for 390,000 shares of the Company. Ms. Chan is the spouse of Mr. LAM. Under the SFO, Ms. CHAN is deemed to be interested in the same number of shares in the Company in which her spouse is interested.

7. CITIC Group held 100% of CITIC Polaris and CITIC Glory, which in turn controlled 32.53% and 25.60% of CITIC, respectively. CITIC held 100% of CITIC Pacific, which in turn held 100% of Master Wise. Master Wise held 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 2016, 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.

CONTINUING CONNECTED TRANSACTIONS

The Group had entered into a number of transactions with connected parties which, upon the listing of the shares of the Company on the Stock Exchange, became connected persons of the Company under the Listing Rules. On this basis, these transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules. Details of the continuing connected transactions are as follows:

1. On 1 April 2005, 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 Flat D, G/F, Silver Crest, 75 Nga Tsin Wai Road, Kowloon Tong, Hong Kong for a fixed annual rent of HK$672,000 with a fixed term of ten years. On 1 April 2015, the Rental Agreement was renewed for three years with a fixed annual rent of HK$960,000.

Orient Profit is wholly-owned by Ms. CHAN Mei Wan, a controlling shareholder of the Company. Hence, it is an associate of our controlling shareholder and became a connected person of the Company upon the listing of its shares on the Stock Exchange by virtue of Rule 14A.07(4) of the Listing Rules.

The rental service provided by Orient Profit to VH under the Rental Agreement constitutes a continuing connected transaction of the Company upon the listing of the shares on the Stock Exchange. As the highest applicable percentage ratios (other than the profits ratio) calculated by reference to Rule 14.07 of the Listing Rules for the rental service are, on an annual basis, less than 0.1%, the Rental Agreement was a de minims continuing connected transaction of the Company exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under Rule 14A.33 of the Listing Rules by virtue of Rule 14A.76(1) of the Listing Rules.

2. 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, 19.2% by Ms. CHAN Mei Wan, 9.6% by Mr. LEE Chong Man Jason, 9.6% by Ms. TANG Wenjing, and 4.0% by CRRC (Hong Kong) Co. Limited. Hence, it is an associate of the controlling shareholders of the Company and became a connected person of the Company upon the listing of its shares on the Stock Exchange by virtue of Rule 14A.07(4) of the Listing Rules.

   As the highest applicable percentage ratios (other than the profits ratio) calculated by reference to Rule 14.07 of the Listing Rules for the annual caps are, on an annual basis, less than 5% and the total consideration is less than HK$3,000,000, the Master Supply Agreement was a de minims continuing connected transaction of the Company exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under Rule 14A.33 of the Listing Rules by virtue of Rule 14A.76(1) of the Listing Rules.

3. Project Income Agreement

   In December 2015, VPower Technology Limited novated the contract for the Chad Project to VPower Technology Chad (the "**Novation Agreement**"). In consideration of VPower Technology Limited novating the operating agreement for the Chad Project to VPower Technology Chad, VPower Technology Chad agreed to share a portion of the revenue derived from the Chad Project ("**Shared Revenue**") with VPower Technology Limited. On 30 May 2016, VPower Technology Limited and VPower Technology Chad entered into a project income agreement (the "**Project Income Agreement**") to formalize and set out the terms for the revenue sharing arrangement.

Principal terms of the Project Income Agreement

The Shared Revenue shall be calculated based on the formula below:

Shared Revenue = HK$0.066 x kWh generated by the Chad Project for the Relevant Period

The Shared Revenue shall be paid in respect of the period from the date of the Novation Agreement (being 23 December, 2015) up to the expiry of the initial term of the Chad Project in September 2017, and shall be in two installments per year in arrears, with each period starting on the first day of January and July and ending on the last day of June and December respectively (the "**Relevant Period**"), save that the Relevant Period for the first payment of the Shared Revenue shall cover the period from 23 December 2015 up to 30 June 2016 (both dates inclusive).

The actual amount of the Shared Revenue will depend on the amount of electricity produced by the Chad Project for the Relevant Period.

Our Directors consider that it is fair and reasonable for the Company to continue to share the revenue derived from the Chad Project, which is commensurate with the resources and efforts devoted by the Group in obtaining and setting up the Chad Project and in novating the Chad Project to VPower Technology Chad. The Shared Revenue was determined with reference to the fee level charged by comparable and independent intermediate off-takers to the Group.

Since the Project Income Agreement was entered into as a result of the Novation Agreement, it was a one-off transaction before the Listing and any payment of the Shared Revenue by VPower Technology Chad thereunder that will continue to take place after the Listing is merely performance thereof, and such transactions, if any, will not constitute a continuing connected transaction under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of significant related party transactions undertaken in the normal course of business of the Group are provided under note 33 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 paragraphs headed "Connected Transactions" 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 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 CONTROLING SHARHOLDERS" 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 per cent. 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 annual report.

EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2016 and up to the date of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is preparing an environment, social and governance report (the "**ESG Report**") in accordance with the Environmental, Social and Governance Reporting Guide published by the Stock Exchange and is expected to be published on or before 31 July 2017.

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the forthcoming annual general meeting of the Company and be eligible to offer themselves for re-appointment. A resolution to re-appoint Ernst & Young as auditor of the Company and to authorise the directors of the Company to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board
LAM Yee Chun
Chairman

Hong Kong, 28 March 2017

Risk Management

RISK MANAGEMENT FRAMEWORK

The Group has established an Enterprise Risk Management framework to assess, mitigate, monitor key business, investment, financial, operational and compliance risks effectively. The framework enables us to adopt a systematic approach to identifying and managing risks across the organization, and to evaluate 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 will be presented to the Audit Committee and the Board per half-yearly. Significant changes in key risks are handled and reported to 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 changing business environment. These risk factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown below which may not be material now but could become material in future.

Risk Management

Key risks currently being managed include:

RISK CATEGORY: STRATEGIC RISKS	
RISK AREA	**EXAMPLES OF MITIGATING MEASURES**
IBO Contracts are always short-term in nature (i.e. always 5 years or less), no guarantee that all IBO contracts can be renewed successfully.	• Pursue long term IBO contracts within the industry; • Expand market share to redeploy resources to another place
Limited number of ultimate off-takers for IBO business. Off-takers may encounter financial difficulties, political difficulties or reduce the price at which it purchases electricity	• Diversify to different market

RISK CATEGORY: OPERATIONAL & HUMAN RESOURCES RISKS	
RISK AREA	**EXAMPLES OF MITIGATING MEASURES**
Loss of Physical Power Plan assets due to disaster or political unrest. Our operations in Indonesia, Bangladesh, Myanmar, and other countries are at significant risk for natural disasters or political unrest.	• Ensure comprehensive insurance coverage over disaster and political unrest.
A prolonged loss of key staff may affect the operation of the company which in turn jeopardize the profit of the company.	• Succession planning for key positions; • Review on our compensation policy regularly.
Limited operation history for Investment, Building and Operating ("IBO") business. Inadequate operation experiences may induce operation failure.	• Establish standard operation procedures to train up operation staff; • Monitor each power plant operation regularly by Plant Support & Operation ("PSO") in Headquarter; • Conduct power plant audit regularly to ensure proper compliance to the operation procedures.
Unexpected equipment failures or accidents lead to power production curtailments or shutdowns, personal injuries or damage to the environment, resulting in litigation and reputational damage. Distributed Power Generation ("DPG") Stations are susceptible to equipment failures or accidents.	• Perform regular safety and maintenance check; • Encourage reporting and monitoring of hazards and potential problem; • Provide staff and contractors with systematic professional, technical and safety training.

RISK CATEGORY: FINANCE, REGULATORY & COMPLIANCE RISKS	
RISK AREA	**EXAMPLES OF MITIGATING MEASURES**
Currency fluctuations in Emerging Markets & PRC may adversely affect our revenues and costs. We have operations in multiple jurisdictions using different currencies. This may expose to transaction and translation (exchange rate) risks.	• Investment committee adopt the hedging policy and regularly review the macroeconomic environment which affect the currency fluctuation; • Hedge currency exposures in line with the group treasury and capital management policy; • Natural hedge by matching currency of revenue, cost and debt; • Enter into Currency Forward Contract.
Tax risks relating to multinational operations, including policies to ensure compliance with overseas tax laws by the local partner. For DPG stations, intermediate off-takers agreed to indemnify us for any tax liability.	• When entering new market, tax planning review will be performed; • Finance department perform ongoing assessment and monitoring.
Failure by customers to make payment to us or payment disputes or delays occur. Trade receivable days increased due to growth of IBO business relative to System Integration ("SI") business, as invoices issued under IBO business deemed due 90 days after invoice date and IBO business experiences a less regular settlement pattern and relatively longer credit terms.	• Diversification to different markets, continue with existing risk mitigation strategies; • Strengthen the process of billing and collection.

RISK CATEGORY: BUSINESS & MARKET RISK	
RISK AREA	**EXAMPLES OF MITIGATING MEASURES**
Face significant competition in gas-fired DPG industry and broader power generation industry. For SI business, competitors include other manufacturers of engine or gen-sets. For IBO, competitors include utilities or DPG stations generating power from fossil fuels and renewable energy.	• Penetrating new markets and working with new partners. Carry out Merger and Acquisition for new market share and strengthening supply chain.

RISK CATEGORY: INVESTMENT RISK	
RISK AREA	**EXAMPLES OF MITIGATING MEASURES**
Potential over-paying in acquiring assets or companies as part of our strategic initiatives. Decisions to acquire or develop assets could turn out in hindsight to be incorrect, or could be adversely affected by unexpected external factors, leading to financial loss.	• Select targets with strong strategic and operational background; • Perform detailed financial modeling and analysis; • Wherever possible and appropriate, structure and execute a deal with a strong partner; • Perform rigorous due diligence; • Decision made after getting consensus by investment committee.

The Internal Audit Department, newly established in December 2016 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. Quarterly 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

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 80 to 172, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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.

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 matters (continued)

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$55,440,000, representing 4% of the total revenue of the Group, for the sales of engine-based electricity generation units and spare parts (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. The determination of revenue recognition for the Inventory Sale Transactions is significant to our audit due to (i) the magnitude of the transactions involved; and (ii) the significant judgement made by management to determine that the above transactions were not linked transactions and the significant risks and rewards of ownership of the engine-based electricity generation units and spare parts had been transferred to the sub-contractor and hence the recognition criteria for the related revenue were met. The Group's accounting policies and disclosures of accounting judgement on revenue recognition of engine-based electricity generation units and spare parts 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.); (ii) evaluating whether the Group has transferred to the sub-contractor of the EPC Contractor the significant risks and rewards of ownership of the inventories by reference to the rights and obligations of the parties to the contracts; and (iii) assessing whether the Group retained continuing involvement to the degree usually associated with ownership or effective control over the goods sold 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
Impairment assessment of loans and receivables	
As at 31 December 2016, the aggregate carrying amount of loans and receivables was HK$2,484.7 million and represented 49% of the Group's total assets. Impairment assessment of loans and receivables is performed by management when there are indicators of impairment by considering factors such as the probability of insolvency or significant financial difficulties of debtors and default or significant delay in payments. The impairment assessment is significant to our audit due to (i) the magnitude of the carrying amounts involved; and (ii) significant estimates involved in determining the future cash flows from such receivables based on, among others, ageing of these receivable balances, customers' and debtors' creditworthiness, past repayment history and historical write-off experience. The Group's accounting policies and disclosures of accounting estimates on impairment assessment of loans and receivables and impairment of trade and bills receivables are included in notes 2.4, 3 and 15 to the consolidated financial statements, respectively.	We assessed management's impairment assessment by (i) sample checking the ageing of the receivable balances, past repayment history and historical write-off experience; and assessing customers' and debtors' creditworthiness by reference to their financial information and project plans, where appropriate; (ii) considering whether any debtor or group of debtors was experiencing significant financial difficulty, default or delinquency in interest or principal payments; and (ii) reviewing subsequent settlements of the loans and receivables.

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 2016, the carrying amount of inventories was HK$545.8 million and represented 11% of the Group's total assets. Assessment of net realisable value of inventories is performed by management with reference to aged analysis of the Group's inventories, projections of expected future saleability/usability of inventories and management experience and judgement. The impairment assessment is significant to our audit due to (i) the magnitude of the carrying amount involved; and (ii) significant judgements and estimates involved in determining the net realisable values with reference to, amongst others, expectation of future saleability/usability and estimated future cash flows from the sales/utilisation of inventories. The Group's accounting policies, disclosures of assessment of net realisable value of inventories and write-down of inventories to net realisable value are included in notes 2.4, 3 and 7 to the consolidated financial statements, respectively.	We assessed management's assessment of net realisable value of inventories by (i) test checking the ageing of its inventories balances and past sales/utilisation history; (ii) comparing the estimated selling prices and estimated selling costs to the historical data; and (iii) reviewing subsequent sales/utilisation of inventories.

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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 Leung, Chi Kit.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

28 March 2017

Consolidated
Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	5	**1,531,011**	1,212,843
Cost of sales		**(1,033,197)**	(868,855)
Gross profit		**497,814**	343,988
Other income and gains	5	**53,997**	45,946
Selling and distribution expenses		**(23,973)**	(25,061)
Administrative expenses		**(201,401)**	(131,402)
Other expenses, net		**(4,463)**	(34,359)
Finance costs	6	**(68,836)**	(34,697)
PROFIT BEFORE TAX	7	**253,138**	164,415
Income tax expense	10	**(31,125)**	(23,192)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**222,013**	141,223
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK10.79 cents**	HK7.06 cents
Diluted		**HK10.79 cents**	HK7.06 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	**222,013**	141,223
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(11,137)**	(5,532)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(11,137)**	(5,532)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**210,876**	135,691

Consolidated
Statement of Financial Position

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,930,933**	910,964
Investment property	14	**19,000**	19,600
Deposits	16	**11,039**	57,062
Deferred tax assets	26	**5,965**	2,109
Total non-current assets		**1,966,937**	989,735
CURRENT ASSETS			
Inventories	17	**545,810**	563,016
Trade and bills receivables	15	**708,206**	714,935
Prepayments, deposits and other receivables	16	**102,496**	30,798
Due from related companies	18	**6,519**	29,318
Tax recoverable		**12,438**	10,224
Pledged deposits	19	**290,945**	131,317
Cash and cash equivalents	19	**1,392,009**	286,874
Total current assets		**3,058,423**	1,766,482
CURRENT LIABILITIES			
Trade and bills payables	20	**408,398**	739,936
Other payables and accruals	21	**556,304**	281,547
Due to a director	18	**—**	6,138
Derivative financial instrument	22	**—**	114
Interest-bearing bank and other borrowings	23	**716,588**	555,688
Tax payable		**26,165**	10,308
Provision for restoration	25	**1,420**	775
Total current liabilities		**1,708,875**	1,594,506
NET CURRENT ASSETS		**1,349,548**	171,976
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,316,485**	1,161,711

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Other payables	21	**726,800**	207,117
Interest-bearing bank and other borrowings	23	**321,962**	410,183
Provision for restoration	25	**1,715**	1,033
Deferred tax liabilities	26	**3,758**	3,883
Total non-current liabilities		**1,054,235**	622,216
Net assets		**2,262,250**	539,495
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**256,000**	—
Reserves	29	**2,006,250**	539,495
Total equity		**2,262,250**	539,495

Lam Yee Chun
Director

Au-Yeung Tai Hong Rorce
Director

Consolidated
Statement of Changes in Equity

Year ended 31 December 2016

	Notes	Share capital HK$'000	Share premium account HK$'000	Merger reserve HK$'000 (note 29(a))	Capital reserve HK$'000 (note 29(b))	Share option reserve HK$'000 (note 29(c))	Asset revaluation reserve HK$'000	Statutory reserve funds HK$'000 (note 29(d))	Exchange fluctuation reserve HK$'000 (note 29(e))	Retained profits HK$'000	Total equity HK$'000
At 1 January 2015		—	—	(40)	18,854	—	15,999	10,556	9,752	174,706	229,827
Profit for the year		—	—	—	—	—	—	—	—	141,223	141,223
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	(5,532)	—	(5,532)
Total comprehensive income for the year		—	—	—	—	—	—	—	(5,532)	141,223	135,691
Issue of shares of a subsidiary		—	—	313,429	—	—	—	—	—	—	313,429
Capital contributions from the Controlling Shareholders		—	—	48	—	—	—	—	—	—	48
Interim 2015 dividend	11	—	—	—	—	—	—	—	—	(139,500)	(139,500)
At 31 December 2015 and at 1 January 2016		**—**	**—**	**313,437**	**18,854**	**—**	**15,999**	**10,556**	**4,220**	**176,429**	**539,495**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**222,013**	**222,013**
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(11,137)**	**—**	**(11,137)**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(11,137)**	**222,013**	**210,876**
Issue of shares pursuant to the Reorganisation	27	**200,000**	**—**	**(328,895)**	**128,895**	**—**	**—**	**—**	**—**	**—**	**—**
Issue of shares under initial public offering	27	**56,000**	**1,556,800**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,612,800**
Share issue expenses		**—**	**(51,715)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(51,715)**
Equity-settled share option arrangement	28	**—**	**—**	**—**	**—**	**796**	**—**	**—**	**—**	**—**	**796**
Interim 2016 dividend	11	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(50,002)**	**(50,002)**
At 31 December 2016		**256,000**	**1,505,085***	**(15,458)***	**147,749***	**796***	**15,999***	**10,556***	**(6,917)***	**348,440***	**2,262,250**

* These reserve accounts comprise the consolidated reserves of HK$2,006,250,000 (2015: HK$539,495,000) in the consolidated statement of financial position as at 31 December 2016.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**253,138**	164,415
Adjustments for:			
Finance costs	6	**68,836**	34,697
Bank interest income	5	**(2,128)**	(2,301)
Loan interest income	5	**(201)**	—
Other interest income	5	**(2,252)**	(3,827)
Sales deposits forfeited	5	**(4,597)**	(2,993)
Gain on disposal of items of property, plant and equipment, net	5	**(1)**	(177)
Depreciation	7	**115,451**	71,443
Fair value loss on an investment property	7	**600**	300
Fair value gain on derivative financial instrument – transaction not qualifying as hedge	7	**(114)**	(8,046)
Impairment of trade receivables	7	**—**	1,217
Reversal of impairment of trade receivables	7	**(818)**	(475)
Write-off of items of property, plant and equipment	7	**844**	—
Write-down of inventories to net realisable value	7	**3,139**	2,971
Equity-settled share option expense	28	**796**	—
		432,693	257,224
Decrease/(increase) in inventories		**8,351**	(266,528)
Decrease/(increase) in trade and bills receivables		**7,363**	(439,233)
Decrease in prepayments, deposits and other receivables		**1,424**	25,389
Increase/(decrease) in trade and bills payables		**(344,722)**	466,781
Increase in other payables and accruals		**44,010**	1,557
Cash generated from operations		**149,119**	45,190
Interest element of finance lease rental payments		**(4)**	(4)
Hong Kong profits tax paid		**(5,799)**	(20,993)
Overseas taxes paid		**(15,153)**	(8,323)
Net cash flows from operating activities		**128,163**	15,870

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,536**	2,912
Purchases of items of property, plant and equipment		**(337,386)**	(147,519)
Increase in deposits paid for purchases of property, plant and equipment		**—**	(5,406)
Proceeds from disposal of items of property, plant and equipment		**1**	—
Advance of loan to a business partner		**(77,500)**	—
Increase in pledged deposits		**(160,899)**	(9,400)
Decrease/(increase) in amounts due from related companies		**22,799**	(96)
Increase in an amount due from a director		**—**	(3,415)
Decrease in an amount due from a shareholder		**—**	700
Net cash flows used in investing activities		**(551,449)**	(162,224)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27	**1,612,800**	—
Share issue expenses		**(51,715)**	—
Proceeds from issue of shares of a subsidiary		**—**	313,429
Capital contributions from the controlling shareholders		**—**	48
New bank borrowings		**1,672,566**	1,499,868
New other borrowings		**—**	263,500
Repayment of bank borrowings		**(1,601,565)**	(1,318,118)
Capital element of finance lease rental payments		**(36)**	(103)
Increase in amounts due to related companies		**—**	2,375
Repayment to a business partner		**—**	(118,945)
Repayment to a director		**(6,138)**	—
Decrease in an amount due to a shareholder		**—**	(42,738)
Repayment to a shareholder		**—**	(101,706)
Dividend paid		**(50,002)**	(125,938)
Interest paid		**(45,878)**	(21,013)
Net cash flows from financing activities		**1,530,032**	350,659
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,106,746**	204,305
Cash and cash equivalents at beginning of year		**286,874**	83,377
Effect of foreign exchange rate changes, net		**(1,611)**	(808)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,392,009**	286,874

	Notes	2016 HK$'000	2015 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**515,889**	186,608
Non-pledged time deposits with original maturity of less than three months when acquired		**876,120**	100,266
		1,392,009	286,874

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 2019-25, 20/F., Tower 1, Metroplaza, 223 Hing Fong Road, Kwai Chung, New Territories, 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 distributive power solutions, including the design, investment in, building, lease and operation of distributive 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.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 November 2016 (the "Listing").

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2016	2015	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	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

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2016	2015	Principal activities
偉能機電設備(深圳)有限公司*#	People's Republic of China ("PRC")/ Mainland China	HK$12,500,000	**100**	100	Manufacture of power generation systems
Radiant Horizon Limited*	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
VPower Group Holdings Limited	Hong Kong	HK$10,000	**100**	100	Investment holding and provision of distributive power solutions
VPower Group Holdings (Asia) Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
VPower Group Holdings (Africa) Limited*	British Virgin Islands/ Hong Kong	US$1	**100**	100	Inactive
VPower Group Holdings (Singapore) Pte. Limited*	Singapore	SG$10,000	**100**	100	Investment holding
VPower Holdings (Singapore) Pte. Limited	Singapore	SG$10,000	**100**	100	Provision of distributive power solutions
Assets Guru Limited*	British Virgin Islands/ Hong Kong	US$1	**100**	100	Inactive
Paragon Vision Limited*	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
VPower Operation and Services Limited	Hong Kong	HK$1	**100**	100	Provision of management services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

* 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.

\# This subsidiary is registered as a wholly-foreign-owned enterprise under PRC law.

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

2.1 REORGANISATION AND BASIS OF PRESENTATION

Pursuant to the reorganisation of the Company in connection with the Listing (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 1 September 2016. The companies now comprising the Group were under the common control of Mr. Lam Yee Chun and Ms. Chan Mei Wan (the "Controlling Shareholders") before and after the Reorganisation. Accordingly, these financial statements have been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the earliest period presented. Details of the Reorganisation are set out in the paragraphs headed "Reorganization" in the section headed "History, Reorganization and Corporate Structure" in the prospectus of the Company dated 14 November 2016.

The consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year ended 31 December 2016 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2016 has been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

2.2 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. 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 2016. 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.

2.3 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 1 included in *Annual Improvements 2014–2016 Cycle*	*First-time Adoption of Hong Kong Financial Reporting Standards*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 12 included in *Annual Improvements 2014–2016 Cycle*	*Disclosure of Interests in Other Entities*[1]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to HKAS 28 included in *Annual Improvements 2014–2016 Cycle*	*Investments in Associates and Joint Ventures*[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 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 the employee's tax obligtaion 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 Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

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 standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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 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. 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. The Group expects to adopt HKFRS 16 on 1 January 2019. The Group expects that certain portion of the operating lease commitments will be required to be recognised as right-of-use assets and lease liabilities upon adoption of HKFRS 16. The Group will perform a more detailed analysis upon the adoption of HKFRS 16.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment property), 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 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) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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	18% to $33^1/_3$%
Motor vehicles	18% 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Research and development costs

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

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

Leases

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

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.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. 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.

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 of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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 the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

The Group 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

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.

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

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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.

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. 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.

Current versus non-current classification

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

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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, 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, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

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

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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

Revenue recognition

Revenue 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) Distributive power solutions

The Group derives revenue from contracts that provide customers with distributive 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

(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 distributive 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) Rental income

Rental income is recognised on a time proportion basis over the lease terms.

(e) 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.

Share-based payments

The Company operates share option schemes 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, further details of which are given in note 28 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension schemes

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

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiary is 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

The functional currencies of certain overseas subsidiaries 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.

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 recognition

The Group recognises revenue for the sales of generator cores. Based on the Group's past experience and the nature of contracts undertaken by the Group, management makes judgement to determine the point at which they consider the significant risks and rewards of ownership of the underlying goods have been substantially transferred to the customer and hence the recognition criteria for the related revenue are met in accordance with the accounting policy for revenue recognition in note 2.4 to the financial statements.

Significant judgements are required to determine the point of revenue recognition. The judgements are made based on past experience and knowledge of the complexity and installation of generator cores.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Revenue recognition (continued)

During the year ended 31 December 2016, the Group recognised revenue of approximately HK$55,440,000 (2015: HK$297,586,000) for the sales of engine-based electricity generation units and spare parts 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 the significant risks and rewards of ownership of the engine-based electricity generation units and spare parts 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 and spare parts amounted to approximately HK$12,133,000 (2015: HK$86,446,000) for the year ended 31 December 2016.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

The Group maintains an allowance for estimated impairment of receivables arising from the inability of its customers and debtors to make the required payments. The Group makes its estimates based on, inter alia, the ageing of its receivable balances, customers' and debtors' creditworthiness, past repayment history and historical write-off experience. If the financial condition of its customers and debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. As at 31 December 2016, the aggregate carrying amount of loans and receivables was HK$2,484,704,000 (2015: HK$1,177,302,000).

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 2016, the carrying amount of inventories was HK$545,810,000 (2015: HK$563,016,000).

4. OPERATING SEGMENT INFORMATION

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

(a) the 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 distributive power generation stations to provide distributive 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, tax recoverable, 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 an amount due to a director, derivative financial instrument, 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 2016

	SI HK$'000	IBO HK$'000	**Total** **HK$'000**
Segment revenue:			
Sales to external customers	1,063,136	467,875	**1,531,011**
Intersegment sales	4,906	—	**4,906**
	1,068,042	467,875	**1,535,917**
Reconciliation:			
Elimination of intersegment sales			**(4,906)**
Revenue			**1,531,011**
Segment results	204,318	201,696	**406,014**
Reconciliation:			
Elimination of intersegment results			**(300)**
Bank interest income			**2,128**
Corporate and unallocated expenses, net			**(85,868)**
Finance costs			**(68,836)**
Profit before tax			**253,138**
Segment assets	995,742	2,320,987	**3,316,729**
Reconciliation:			
Corporate and unallocated assets			**1,708,631**
Total assets			**5,025,360**
Segment liabilities	435,378	1,243,944	**1,679,322**
Reconciliation:			
Corporate and unallocated liabilities			**1,083,788**
Total liabilities			**2,763,110**
Other segment information:			
Reversal of impairment of trade receivables	(818)	—	**(818)**
Write-off of items of property, plant and equipment	92	752	**844**
Write-down of inventories to net realisable value	3,139	—	**3,139**
Depreciation	2,662	112,789	**115,451**
Capital expenditure	2,844	1,133,658	**1,136,502**

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015

	SI HK$'000	IBO HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	965,587	247,256	**1,212,843**
Intersegment sales	(1,468)	—	**(1,468)**
	964,119	247,256	**1,211,375**
Reconciliation:			
Elimination of intersegment sales			**1,468**
Revenue			**1,212,843**
Segment results	162,743	95,043	**257,786**
Reconciliation:			
Elimination of intersegment results			**(1,145)**
Bank interest income			**2,301**
Corporate and unallocated expenses, net			**(59,830)**
Finance costs			**(34,697)**
Profit before tax			**164,415**
Segment assets	1,149,340	1,146,071	**2,295,411**
Reconciliation:			
Corporate and unallocated assets			**460,806**
Total assets			**2,756,217**
Segment liabilities	761,064	460,058	**1,221,122**
Reconciliation:			
Corporate and unallocated liabilities			**995,600**
Total liabilities			**2,216,722**
Other segment information:			
Impairment of trade receivables	1,217	—	**1,217**
Reversal of impairment of trade receivables	(475)	—	**(475)**
Write-down of inventories to net realisable value	2,185	786	**2,971**
Depreciation	2,637	68,806	**71,443**
Capital expenditure	4,905	415,373	**420,278**

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2016 **HK$'000**	2015 HK$'000
Hong Kong	**42,298**	143,520
Mainland China	**479,250**	506,054
Asian countries	**1,007,008**	560,851
Other countries	**2,455**	2,418
	1,531,011	1,212,843

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

(b) Non-current assets

	2016 **HK$'000**	2015 HK$'000
Hong Kong	**32,569**	79,369
Mainland China	**3,689**	3,444
Asian countries	**1,924,223**	904,106
	1,960,481	986,919

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about major customers

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

	2016 HK$'000	2015 HK$'000
Customer A	**458,766**	212,526
Customer B	**275,935**	N/A*
Customer C	**241,661**	N/A*
Customer D	**N/A***	297,586
	976,362	510,112

* Nil or less than 10% of revenue

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for trade discounts; and the fees earned from the provision of distributive power solutions, including the design, investment in, building, lease and operation of distributive power generation stations.

An analysis of revenue, and other income and gains is as follows:

	2016 HK$'000	2015 HK$'000
Revenue		
Sale of goods	**1,063,136**	965,587
Provision of distributive power solutions	**467,875**	247,256
	1,531,011	1,212,843

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	2016 HK$'000	2015 HK$'000
Other income		
Bank interest income	**2,128**	2,301
Loan interest income	**201**	—
Other interest income	**2,252**	3,827
Income from contract assignment/novation	**9,341**	9,250
Rental income	**840**	872
Government grants*	**296**	3,031
Sales deposits forfeited	**4,597**	2,993
Insurance claim	**—**	3,023
Others	**400**	4,042
	20,055	29,339
Gains		
Fair value gain on derivative financial instrument	**114**	8,046
Gain on disposal of items of property, plant and equipment, net	**1**	177
Foreign exchange differences, net	**33,827**	8,384
	33,942	16,607
	53,997	45,946

* Various government grants have been received by a subsidiary as the subsidiary was qualified as a high-technology enterprise in the PRC. There were no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 HK$'000	2015 HK$'000
Interest and other finance costs on letters of credit, bank loans and overdrafts	**25,387**	21,027
Interest on finance leases	**4**	4
Interest on other borrowings	**13,902**	942
Interest on loan from a shareholder	**—**	277
	39,293	22,250
Amortisation of debt establishment cost	**1,717**	103
Notional interest on other payables	**27,826**	12,344
	68,836	34,697

7. PROFIT BEFORE TAX

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		**818,659**	747,588
Cost of services provided		**202,536**	111,497
Auditor's remuneration		**4,865**	3,842
Depreciation*	13	**115,451**	71,443
Lease receipts under operating leases in respect of power generation assets:			
Contingent rents recognised as income		**(467,875)**	(247,256)
Minimum lease payments under operating leases in respect of land and buildings		**8,264**	6,492
Employee benefit expense (including directors' and chief executives' remuneration (note 8))^:			
Wages, salaries, bonuses, allowances and benefits in kind		**63,351**	51,378
Equity-settled share option expense		**796**	—
Pension scheme contributions (defined contribution schemes)		**2,184**	1,843
Less: Amount capitalised		**—**	(78)
		66,331	53,143
Net loss on settlement of derivative financial instruments#		**698**	28,585
Fair value loss on an investment property#		**600**	300
Fair value gain on derivative financial instrument – transaction not qualifying as hedge		**(114)**	(8,046)
Impairment of trade receivables#	15	**—**	1,217
Reversal of impairment of trade receivables#	15	**(818)**	(475)
Write-off of items of property, plant and equipment#	13	**844**	—
Write-down of inventories to net realisable value#		**3,139**	2,971
Equity-settled share option expense	28	**796**	—

* Included in the cost of sales for the year was depreciation charges of HK$112,991,000 (2015: HK$65,683,000).

^ Employee benefit expense incurred on research and development activities for the year amounted to HK$3,616,000 (2015: HK$3,009,000).

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 (the "Listing Rules"), 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:

	2016 HK$'000	2015 HK$'000
Fees	**198**	—
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**10,873**	10,450
Equity-settled share option expense	**236**	—
Pension scheme contributions	**90**	90
	11,199	10,540
	11,397	10,540

During the year, 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 28 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.

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

(a) Independent non-executive directors

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

	2016 HK$'000	2015 HK$'000
Mr. Tsoi David*	**22**	—
Mr. Yeung Wai Fai Andrew*	**22**	—
Mr. Suen Wai Yu*	**22**	—
	66	—

* Mr. Tsoi David, Mr. Yeung Wai Fai Andrew and Mr. Suen Wai Yu were appointed as independent non-executive directors of the Company on 24 October 2016.

There were no other emoluments payable to the independent non-executive directors during the year (2015: 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
2016					
Executive directors:					
Mr. Lam Yee Chun*	**22**	**3,781**	**48**	**18**	**3,869**
Mr. Lee Chong Man Jason*#	**22**	**1,974**	**47**	**18**	**2,061**
Mr. Au-Yeung Tai Hong Rorce*#	**22**	**1,946**	**47**	**18**	**2,033**
Mr. Lo Siu Yuen*	**22**	**1,520**	**47**	**18**	**1,607**
Non-executive directors:					
Ms. Chan Mei Wan^	**22**	**1,652**	**47**	**18**	**1,739**
Dr. Chan Ka Keung^	**22**	**—**	**—**	**—**	**22**
	132	**10,873**	**236**	**90**	**11,331**
2015					
Mr. Lam Yee Chun	—	3,708	—	18	3,726
Mr. Lee Chong Man Jason	—	1,878	—	18	1,896
Mr. Au-Yeung Tai Hong Rorce	—	1,868	—	18	1,886
Mr. Lo Siu Yuen	—	1,380	—	18	1,398
Ms. Chan Mei Wan	—	1,616	—	18	1,634
	—	10,450	—	90	10,540

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

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

* Mr. Lam Yee Chun, Mr. Lee Chong Man Jason, Mr. Au-Yeung Tai Hong Rorce and Mr. Lo Siu Yuen were appointed as executive directors of the Company on 22 February 2016, 26 April 2016, 26 April 2016 and 26 April 2016, respectively.

^ Ms. Chan Mei Wan and Dr. Chan Ka Keung were appointed as non-executive directors of the Company on 26 April 2016.

Mr. Lee Chong Man Jason and Mr. Au-Yeung Tai Hong Rorce were appointed as the chief executives of the Company on 26 April 2016.

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 (2015: Nil).

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the year (2015: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2015: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2015: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2016 **HK$'000**	2015 HK$'000
Salaries, bonuses, allowances and benefits in kind	**1,904**	1,403
Equity-settled share option expense	**46**	—
Pension scheme contributions (defined contribution scheme)	**18**	18
	1,968	1,421

9. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

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	
	2016	2015
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	1	—
	1	1

During the year, share options were granted to a 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 28 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% (2015: 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.

10. INCOME TAX (CONTINUED)

	2016 HK$'000	2015 HK$'000
Current – Hong Kong		
Charge for the year	**19,157**	3,522
Overprovision in prior years	**(61)**	—
Current – Elsewhere		
Charge for the year	**17,646**	22,028
Overprovision in prior years	**(1,636)**	—
Deferred (note 26)	**(3,981)**	(2,358)
Total tax charge for the year	**31,125**	23,192

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:

	2016 HK$'000	2015 HK$'000
Profit before tax	**253,138**	164,415
Tax at the Hong Kong statutory tax rate of 16.5% (2015: 16.5%)	**41,768**	27,128
Different tax rates enacted by specific countries/jurisdictions	**(872)**	(1,243)
Withholding taxes	**6,999**	5,399
Adjustments in respect of current tax of previous periods	**(1,697)**	—
Income derived from the IBO segment which was claimed offshore and not subject to tax under Hong Kong jurisdiction	**(75,975)**	(36,162)
Other income not subject to tax	**(1,221)**	(1,641)
Expenses not deductible for tax	**62,964**	29,596
Tax losses not recognised	**390**	116
Others	**(1,231)**	(1)
Tax charge at the Group's effective tax rate	**31,125**	23,192

11. DIVIDENDS

Interim dividend of HK$50,002,000 (2015: HK$139,500,000) was declared by Crest Pacific to the then shareholders during the year.

	2016 HK$'000	2015 HK$'000
Dividend proposed after the end of the reporting period:		
Proposed final — HK2.57 cents (2015: Nil) per ordinary share	**65,792**	—

The proposed final dividend of HK2.57 cents per ordinary share 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$222,013,000 (2015: HK$141,223,000), and the weighted average number of ordinary shares of 2,058,142,077 (2015: 2,000,000,000) in issue during the year, on the assumption that the Reorganisation had been completed on 1 January 2015.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented. The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2015.

13. PROPERTY, PLANT AND EQUIPMENT

	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 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	4,049	40,053	954,249	8,854	7,654	6,946	1,021,805
Accumulated depreciation	(1,999)	(17,176)	(79,296)	(6,397)	(5,973)	—	(110,841)
Net carrying amount	2,050	22,877	874,953	2,457	1,681	6,946	910,964
At 1 January 2016, net of accumulated depreciation	2,050	22,877	874,953	2,457	1,681	6,946	910,964
Additions	919	48,870	1,075,109	2,044	976	8,584	1,136,502
Depreciation provided during the year	(1,082)	(18,684)	(94,137)	(963)	(585)	—	(115,451)
Write-off	—	—	(819)	(16)	(9)	—	(844)
Transfers	—	6,935	6,271	55	—	(13,261)	—
Exchange realignment	(6)	—	(40)	(138)	(54)	—	(238)
At 31 December 2016, net of accumulated depreciation	1,881	59,998	1,861,337	3,439	2,009	2,269	1,930,933
At 31 December 2016:							
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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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 2015							
At 1 January 2015:							
Cost	1,356	29,762	605,603	6,796	7,773	3,413	654,703
Accumulated depreciation	(895)	(7,914)	(28,142)	(5,791)	(5,499)	—	(48,241)
Net carrying amount	461	21,848	577,461	1,005	2,274	3,413	606,462
At 1 January 2015, net of accumulated depreciation	461	21,848	577,461	1,005	2,274	3,413	606,462
Additions	2,703	14,720	394,068	2,248	—	6,539	420,278
Depreciation provided during the year	(1,112)	(13,149)	(55,905)	(736)	(541)	—	(71,443)
Disposals	—	(656)	(43,531)	—	—	—	(44,187)
Transfers	—	114	2,892	—	—	(3,006)	—
Exchange realignment	(2)	—	(32)	(60)	(52)	—	(146)
At 31 December 2015, net of accumulated depreciation	2,050	22,877	874,953	2,457	1,681	6,946	910,964
At 31 December 2015:							
Cost	4,049	40,053	954,249	8,854	7,654	6,946	1,021,805
Accumulated depreciation	(1,999)	(17,176)	(79,296)	(6,397)	(5,973)	—	(110,841)
Net carrying amount	2,050	22,877	874,953	2,457	1,681	6,946	910,964

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2015, the net carrying amount of the Group's motor vehicle held under finance lease was HK$300,000. As at 31 December 2016, the net carrying amount of the Group's furniture, fixtures and office equipment held under finance leases was HK$38,000 (2015: HK$50,000).

As at 31 December 2016, certain of the Group's property, plant and equipment with a net carrying amount of HK$641,067,000 (2015: HK$682,126,000) were pledged to secure banking facilities and other borrowings granted to the Group (note 23).

14. INVESTMENT PROPERTY

	2016 **HK$'000**	2015 HK$'000
Carrying amount at 1 January	**19,600**	19,900
Net loss from a fair value adjustment	**(600)**	(300)
Carrying amount at 31 December	**19,000**	19,600

The Group's investment property is a commercial property in Hong Kong. The Group's investment property was revalued on 31 December 2016 based on valuation performed by Vigers Appraisal and Consulting (International) Limited, an independent firm of professionally qualified valuers, at HK$19,000,000 (2015: HK$19,600,000). Each year, the Company's management decides to appoint which external valuer to be responsible for the external valuation of the Group's property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment property is leased to a third party under an operating lease, further summary details of which are included in note 31(a) to the financial statements.

As at 31 December 2015, the Group's investment property with a carrying value of HK$19,600,000 was pledged to secure general banking facilities granted to the Group (note 23).

14. INVESTMENT PROPERTY (CONTINUED)

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 2016 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 commercial property	—	—	**19,000**	**19,000**

	Fair value measurement as at 31 December 2015 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 commercial property	—	—	19,600	19,600

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: 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 2015	19,900
Net loss from a fair value adjustment	(300)
Carrying amount at 31 December 2015 and at 1 January 2016	19,600
Net loss from a fair value adjustment	(600)
Carrying amount at 31 December 2016	19,000

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	
			2016	2015
Commercial property	Direct comparison method	Estimated price per sq. ft.	**HK$9,262 to HK$12,698**	HK$10,351 to HK$12,993

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 is 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. TRADE AND BILLS RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade and bills receivables	**710,281**	717,963
Impairment	**(2,075)**	(3,028)
	708,206	714,935

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, except for a customer which was granted a credit period of up to 630 days in the prior year. 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.

During the year ended 31 December 2015, the Group extended the payment due dates of certain trade receivables due from a customer to 26 December 2016. The related trade receivables as at 31 December 2015 amounted to HK$38,610,000 and were settled during the year ended 31 December 2016.

15. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2016 HK$'000	2015 HK$'000
Within 30 days	**326,882**	483,136
31 to 60 days	**92,209**	36,167
61 to 90 days	**48,328**	32,183
91 to 180 days	**191,973**	52,106
181 to 360 days	**41,968**	58,363
Over 360 days	**6,846**	52,980
	708,206	714,935

The movements in provision for impairment of trade and bills receivables are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**3,028**	2,642
Impairment losses recognised (note 7)	**—**	1,217
Amount written off as uncollectible	**—**	(243)
Impairment losses reversed (note 7)	**(818)**	(475)
Exchange realignment	**(135)**	(113)
At 31 December	**2,075**	3,028

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of HK$2,075,000 (2015: HK$3,028,000) with a carrying amount before provision of HK$2,075,000 (2015: HK$3,028,000).

The individually impaired trade and bills receivables relate to customers that were in financial difficulties and none of the receivables is expected to be recovered.

15. TRADE AND BILLS RECEIVABLES (CONTINUED)

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 **HK$'000**	2015 HK$'000
Neither past due nor impaired	**560,503**	543,948
1 to 30 days past due	**31,359**	49,858
31 to 90 days past due	**62,575**	35,449
Over 90 days past due	**53,769**	85,680
	708,206	714,935

Trade and bills receivables that were neither past due nor impaired relate 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 relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are still considered fully recoverable.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayments	**13,758**	5,054
Deposits paid for purchases of property, plant and equipment	**10,548**	56,355
Deposits and other receivables	**11,729**	26,451
Loan receivable	**77,500**	—
	113,535	87,860
Current portion included in prepayments, deposits and other receivables	**(102,496)**	(30,798)
Non-current portion	**11,039**	57,062

The loan receivable is unsecured, bears interest at London Interbank Offered Rate plus 7.5% per annum and is repayable within one year.

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.

17. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**58,851**	75,557
Work in progress	**8,803**	6,355
Finished goods	**387,283**	434,454
Spare parts and consumables	**90,873**	46,650
	545,810	563,016

18. BALANCES WITH RELATED COMPANIES, A DIRECTOR AND A SHAREHOLDER

The balances with related companies, a director and a shareholder are non-trade related, unsecured and have no fixed terms of repayment.

Particulars of the amounts due from related companies, a director and a shareholder are as follows:

31 December 2016

	At 31 December 2016 HK$'000	Maximum amount outstanding during the year HK$'000	At 1 January 2016 HK$'000
Due from related companies			
Orient Profit Investment Limited*	96	96	96
VPower Eco Energy Holdings Pte. Limited*	—	35	35
VPower Eco Energy Pte. Limited*	—	35	35
VPower Group Limited*	—	185	185
VPower Technology Company Limited*	6,423	28,967	28,967
	6,519		29,318

18. BALANCES WITH RELATED COMPANIES, A DIRECTOR AND A SHAREHOLDER (CONTINUED)

31 December 2015

	At 31 December 2015 HK$'000	Maximum amount outstanding during the year HK$'000	At 1 January 2015 HK$'000
Due from related companies			
Orient Profit Investment Limited*	96	96	96
VPower (BGD) Limited^	—	20	20
VPower Eco Energy Holdings Pte. Limited*	35	35	—
VPower Eco Energy Pte. Limited*	35	35	12
VPower Group Limited*	185	185	127
VPower Technology Company Limited*	28,967	28,967	—
	29,318		255
Due from a director			
Mr. Lam Yee Chun	—	4,009	4,009
Due from a shareholder			
Mr. Lee Chong Man Jason	—	700	700

18. BALANCES WITH RELATED COMPANIES, A DIRECTOR AND A SHAREHOLDER (CONTINUED)

An analysis of the amount due to a director is as follows:

	2016 HK$'000	2015 HK$'000
Due to a director		
Mr. Lam Yee Chun	—	6,138

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

^ This related company is controlled by a member of the key management personnel of the Group.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	2016 HK$'000	2015 HK$'000
Cash and bank balances		**806,834**	317,925
Time deposits		**876,120**	100,266
		1,682,954	418,191
Less: Pledged deposits for banking facilities and bank borrowings	23	**(290,945)**	(131,317)
Cash and cash equivalents		**1,392,009**	286,874

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

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

	2016 HK$'000	2015 HK$'000
Hong Kong dollars	**304,798**	54,210
Euro	**124,725**	845
Renminbi ("RMB")	**16,744**	18,539
United States dollars	**945,593**	213,100
Others	**149**	180
	1,392,009	286,874

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.

20. TRADE AND BILLS PAYABLES

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

	2016 HK$'000	2015 HK$'000
Within 1 month	**139,733**	239,342
1 to 2 months	**43,110**	235,248
2 to 3 months	**40,685**	59,357
Over 3 months	**184,870**	205,989
	408,398	739,936

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

21. OTHER PAYABLES AND ACCRUALS

	2016 HK$'000	2015 HK$'000
Due to EPC Contractors	**1,188,359**	408,337
Sundry payables	**14,565**	18,222
Accruals	**31,179**	30,199
Receipts in advance	**13,313**	20,592
Deferred income	**35,688**	11,314
	1,283,104	488,664
Current portion included in other payables and accruals	**(556,304)**	(281,547)
Non-current portion	**726,800**	207,117

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 2016 of HK$1,188,359,000 (2015: HK$380,595,000) were repayable by instalments up to March 2020 (2015: May 2019). The remaining balances were repayable on demand.

Sundry payables have an average term of 30 days.

22. DERIVATIVE FINANCIAL INSTRUMENT

	Liabilities	
	2016 HK$'000	2015 HK$'000
Forward currency contract	**—**	114

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives amounting to HK$114,000 (2015: HK$8,046,000) were credited to the consolidated statement of profit or loss during the year.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Finance lease payables (note 24)	**10.07**	**2017**	**11**	4.42–10.07	2016	36
Portions of bank loans due for repayment within one year or on demand — secured	**1.00–6.63**	**2017**	**703,752**	1.02–6.29	2016	504,961
Portions of bank loans due for repayment within one year or on demand — unsecured	**—**	**—**	**—**	3.50	2016	2,397
Portions of bank loans due for repayment after one year which contain repayment on demand clause (note) — secured	**2.70**	**2018**	**12,825**	1.02–2.22	2017–2030	43,240
Portions of bank loans due for repayment after one year which contain repayment on demand clause (note) — unsecured	**—**	**—**	**—**	3.50	2017–2018	5,054
			716,588			555,688
Non-current						
Finance lease payables (note 24)	**10.07**	**2018–2020**	**35**	4.42–10.07	2017–2020	49
Portions of bank loans due for repayment after one year — secured	**6.63**	**2018–2019**	**58,427**	5.32–6.29	2017–2019	146,634
Other borrowings — secured	**5.20**	**2018**	**263,500**	5.20	2018	263,500
			321,962			410,183
			1,038,550			965,871

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

Note:

Certain term loans of the Group containing repayment on demand clauses as at 31 December 2016 with a carrying amount of HK$29,872,000 (2015: HK$87,563,000) have been classified in total as current liabilities. Accordingly, portions of the bank loans due for repayment after one year as at 31 December 2016 with a carrying amount of HK$12,825,000 (2015: HK$48,294,000) 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:

	2016 **HK$'000**	2015 HK$'000
Within one year	**703,763**	507,394
In the second year	**305,304**	108,459
In the third to fifth years, inclusive	**29,483**	340,351
Beyond five years	**—**	9,667
	1,038,550	965,871

(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$641,067,000 (2015: HK$682,126,000) as at 31 December 2016 (note 13);

(ii) the pledge of the Group's investment property situated in Hong Kong, which had a carrying value of HK$19,600,000 as at 31 December 2015 (note 14), which was released during the year;

(iii) the pledge of certain of the Group's cash deposits amounting to HK$290,945,000 (2015: HK$131,317,000) as at 31 December 2016 (note 19);

(iv) the pledge of a property of Orient Profit Investment Limited, a company controlled by Ms. Chan Mei Wan, a Controlling Shareholder and a non-executive director of the Company;

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

(vi) fixed and floating charges over certain bank accounts of the Group; and

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

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

(b) As at 31 December 2015, certain of the Group's bank borrowings were guaranteed by Mr. Lam Yee Chun, a Controlling Shareholder and an executive director of the Company, up to an aggregate guarantee amount of HK$984,250,000, which were released during the year.

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

	2016 HK$'000	2015 HK$'000
Hong Kong dollars	**29,872**	87,588
Euro	**415,418**	175,729
RMB	**46**	60
United States dollars	**593,214**	701,985
Singapore dollars	**—**	509
	1,038,550	965,871

24. FINANCE LEASE PAYABLES

The Group leases a motor vehicle and photocopiers for its business. These leases are classified as finance leases and have remaining lease terms of four years (2015: ranging from one to five years).

At 31 December 2016, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2016 HK$'000	Minimum lease payments 2015 HK$'000	**Present value of minimum lease payments 2016 HK$'000**	Present value of minimum lease payments 2015 HK$'000
Amounts payable:				
Within one year	**14**	41	**11**	36
In the second year	**14**	15	**12**	12
In the third to fifth years, inclusive	**25**	42	**23**	37
Total minimum finance lease payments	**53**	98	**46**	85
Future finance charges	**(7)**	(13)		
Total net finance lease payables	**46**	85		
Portion classified as current liabilities (note 23)	**(11)**	(36)		
Non-current portion (note 23)	**35**	49		

25. PROVISION FOR RESTORATION

	2016 HK$'000	2015 HK$'000
At 1 January	**1,808**	1,163
Additional provision	**1,327**	1,033
Amounts utilised during the year	**—**	(388)
At 31 December	**3,135**	1,808
Portion classified as current liabilities	**(1,420)**	(775)
Non-current portion	**1,715**	1,033

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.

26. 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	Total HK$'000
At 1 January 2015	390	3,758	4,148
Deferred tax credited to the consolidated statement of profit or loss during the year (note 10)	(265)	—	(265)
At 31 December 2015 and at 1 January 2016	**125**	**3,758**	**3,883**
Deferred tax credited to the consolidated statement of profit or loss during the year (note 10)	**(125)**	**—**	**(125)**
At 31 December 2016	**—**	**3,758**	**3,758**

26. DEFERRED TAX (CONTINUED)

Deferred tax assets

	Depreciation in excess of related depreciation allowances/ Unrealised profits on inventories HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2015	16	—	16
Deferred tax credited to the consolidated statement of profit or loss during the year (note 10)	2,036	57	2,093
At 31 December 2015 and at 1 January 2016	**2,052**	**57**	**2,109**
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	**3,913**	**(57)**	**3,856**
At 31 December 2016	**5,965**	**—**	**5,965**

At 31 December 2016, the Group had tax losses arising in Hong Kong of HK$3,497,000 (2015: HK$1,134,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are 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.

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%. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

26. DEFERRED TAX (CONTINUED)

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings generated from 1 January 2015 of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The amount of temporary difference associated with investment in a subsidiary in Mainland China for which deferred tax liabilities have not been recognised was approximately HK$78,286,000 (2015: HK$35,669,000) at 31 December 2016.

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

27. SHARE CAPITAL

Shares

	2016 HK$'000	2015 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.1 each	**500,000**	—
Issued and fully paid:		
2,560,000,000 ordinary shares of HK$0.1 each	**256,000**	—

27. SHARE CAPITAL (CONTINUED)

Shares (continued)

A summary of movements in the Company's authorised and issued share capital during the period from 22 February 2016 (date of incorporation) to 31 December 2016 is as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
Authorised:			
Upon incorporation on 22 February 2016	(a)	3,800,000	380
Increase in authorised share capital	(b)	4,996,200,000	499,620
At 31 December 2016		5,000,000,000	500,000
Issued and fully paid:			
Upon incorporation on 22 February 2016	(a)	1	—
Issue of shares pursuant to the Reorganisation	(c)	1,999,999,999	200,000
Issue of shares under initial public offering	(d)	560,000,000	56,000
At 31 December 2016		2,560,000,000	256,000

(a) On 22 February 2016, the Company was incorporated with authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.1 each. On the same date, 1 ordinary share of HK$0.1 was allotted and issued at par to the initial subscriber, and was subsequently transferred to the immediate holding company of the Company on 1 September 2016 pursuant to the Reorganisation.

(b) On 1 September 2016, the authorised share capital of the Company was increased by HK$499,620,000 by the creation of 4,996,200,000 additional ordinary shares of HK$0.1 each, ranking pari passu in all respects with the existing shares of the Company.

(c) On 1 September 2016, the Company allotted and issued 1,999,999,999 ordinary shares of HK$0.1 each to the then shareholders of Crest Pacific in exchange for the entire issued share capital of Crest Pacific pursuant to the Reorganisation.

(d) In connection with the Company's initial public offering, 560,000,000 ordinary shares of HK$0.1 each were issued at a price of HK$2.88 per share for a total cash consideration, before expenses, of approximately HK$1,612,800,000. Dealing in the shares of the Company on the Stock Exchange commenced on 24 November 2016.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 28 to the financial statements.

28. 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 at any time. 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 or 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.

28. SHARE OPTION SCHEMES (CONTINUED)

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 of the share options granted under the Share Option Scheme is determinable by the directors, and commences after a vesting period and ends on a date which is not later than 10 years from the date of offer of the share options.

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 Stock Exchange's daily quotation sheets 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.

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

28. SHARE OPTION SCHEMES (CONTINUED)

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

	2016 Weighted average exercise price HK$ per share	2016 Number of options '000
Granted during the year and at end of year	**2.016**	**6,670**

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

2016

Number of options '000	Exercise price* HK$ per share	Exercise period
2,251	2.016	24 November 2017 to 23 November 2020
2,221	2.016	24 November 2018 to 23 November 2021
2,198	2.016	24 November 2019 to 23 November 2022
6,670		

* 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.

The fair value of the share options granted during the year was HK$8,422,000 (HK$1.26 each) (2015: Nil), of which the Group recognised a share option expense of HK$796,000 (2015: Nil) during the year ended 31 December 2016.

28. SHARE OPTION SCHEMES (CONTINUED)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016
Dividend yield (%)	**0.71**
Expected volatility (%)	**38.94–39.98**
Risk-free interest rate (%)	**1.21–1.38**
Expected life of options (year)	**4.06–6.06**
Weighted average share price (HK$ per share)	**2.83**

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 6,670,000 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 6,670,000 additional ordinary shares of the Company and additional share capital of HK$667,000 and share premium of HK$12,780,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 6,622,000 share options outstanding under the Schemes, which represented approximately 0.26% of the Company's shares in issue as at that date.

29. 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 84 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 set out in note 2.1 to the financial statements.

(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 set out in note 2.1 to the financial statements 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.

(d) Statutory reserve funds

Pursuant to the relevant laws and regulations in Mainland China, a portion of the profits of the Company's subsidiary 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.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) During the year ended 31 December 2016, 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$1,027,968,000 (2015: HK$356,451,000).

(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 2016, the Group has accrued and capitalised the estimated restoration cost of HK$1,327,000 (2015: HK$1,033,000) when such obligation has arisen.

(c) During the year ended 31 December 2015, 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$65,000.

(d) During the year ended 31 December 2015, the Group disposed of items of property, plant and equipment to a related company, VPower Technology Company Limited, for a consideration of HK$44,364,000, which was settled through current account with the related company.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

The lease of the investment property is negotiated for a term of two years. The terms of the lease also require the tenant to pay security deposit. At 31 December 2016, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**560**	840
In the second to fifth years, inclusive	—	560
	560	1,400

31. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(a) As lessor (continued)

The leases of power generation assets are negotiated for terms ranging from 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 and warehouse under operating lease arrangements. The leases are negotiated for terms ranging from one to five years.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**5,791**	5,459
In the second to fifth years, inclusive	**1,784**	1,888
	7,575	7,347

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of the reporting period:

	2016 HK$'000	2015 HK$'000
Contracted, but not provided for:		
Power generation assets	**211,730**	1,477,601

33. 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:

	2016 HK$'000	2015 HK$'000
Related companies:		
Rental expense paid to Orient Profit Investment Limited*	**960**	888
Income from VPower Technology Chad Limited for use of property, plant and equipment*	**—**	3,562
Income from contract assignment/novation to VPower Technology Chad Limited*^	**9,341**	9,250
Disposal of items of property, plant and equipment to VPower Technology Company Limited*	**—**	44,364
Sales of goods to VPower Technology Company Limited*	**2,359**	—
Interest expense paid to a shareholder	**—**	277

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

^ The Group assigned/novated a distributive 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 since 1 January 2015.

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

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Commitments with a related company

On 1 April 2005, a subsidiary of the Group entered into a ten-year agreement ended on 31 March 2015 with Orient Profit Investment Limited to rent a residential property as director's quarters for Mr. Lam Yee Chun for a fixed annual rent of HK$672,000. The rental expense paid to Orient Profit Investment Limited is disclosed in note 33(a) above. On 1 April 2015, the ten-year agreement ended on 31 March 2015 was further renewed for three years for a fixed annual rent of HK$960,000 and will end on 31 March 2018.

(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:

	2016 HK$'000	2015 HK$'000
Short term employee benefits	**15,628**	12,855
Post-employment benefits	**144**	133
Equity-settled share option expense	**374**	—
Total compensation paid to key management personnel	**16,146**	12,988

34. 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:

2016

Financial assets

	Loans and receivables HK$'000
Trade and bills receivables	708,206
Financial assets included in prepayments, deposits and other receivables	87,025
Due from related companies	6,519
Pledged deposits	290,945
Cash and cash equivalents	1,392,009
	2,484,704

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	408,398
Financial liabilities included in other payables and accruals	1,218,815
Interest-bearing bank and other borrowings	1,038,550
	2,665,763

34. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2015

Financial assets

	Loans and receivables HK$'000
Trade receivables	714,935
Financial assets included in prepayments, deposits and other receivables	14,858
Due from related companies	29,318
Pledged deposits	131,317
Cash and cash equivalents	286,874
	1,177,302

Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	—	739,936	739,936
Financial liabilities included in other payables and accruals	—	443,432	443,432
Due to a director	—	6,138	6,138
Derivative financial instrument	114	—	114
Interest-bearing bank and other borrowings	—	965,871	965,871
	114	2,155,377	2,155,491

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, balances with related companies and a director, and the current portions of financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, 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 financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, 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.

The Group entered into derivative financial instruments with creditworthy banks with no recent history of default. Derivative financial instruments, including forward currency contracts, were measured using valuation techniques similar to forward pricing model, using present value calculations. The model incorporated various market observable inputs including the credit quality of the counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts were the same as their fair values.

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

Fair value hierarchy

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

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2016.

As at 31 December 2015

	Fair value measurement 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
Derivative financial instrument	—	114	—	114

The Group did not have any financial assets measured at fair value as at 31 December 2016 (2015: 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 (2015: Nil).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, 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 and other receivables, 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.

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$1,938,000 (2015: HK$1,756,000) 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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro and Indonesian Rupiah ("IDR") exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$'000
2016		
If the Hong Kong dollar weakens against the Euro	**5**	**(32,735)**
If the Hong Kong dollar strengthens against the Euro	**(5)**	**32,735**
If the Hong Kong dollar weakens against the IDR	**5**	**5,283**
If the Hong Kong dollar strengthens against the IDR	**(5)**	**(5,283)**
2015		
If the Hong Kong dollar weakens against the Euro	5	(22,864)
If the Hong Kong dollar strengthens against the Euro	(5)	22,864
If the Hong Kong dollar weakens against the IDR	5	3,618
If the Hong Kong dollar strengthens against the IDR	(5)	(3,618)

36. 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.

The credit risk of the Group's financial assets, which comprise trade and bills receivables, deposits and other receivables, amounts due from related companies and a director, 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 39% (2015: 40%) and 76% (2015: 79%) 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 15 to the financial statements.

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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

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:

	2016		
	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	**408,398**	**—**	**408,398**
Financial liabilities included in other payables and accruals	**507,244**	**779,005**	**1,286,249**
Interest-bearing bank and other borrowings (note)	**736,717**	**339,642**	**1,076,359**
	1,652,359	**1,118,647**	**2,771,006**

	2015		
	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	739,936	—	739,936
Financial liabilities included in other payables and accruals	238,108	220,121	458,229
Due to a director	6,138	—	6,138
Derivative financial instrument	114	—	114
Interest-bearing bank and other borrowings (note)	579,669	448,877	1,028,546
	1,563,965	668,998	2,232,963

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

Note:

Included in the above interest-bearing bank borrowings of the Group as at 31 December 2016 are term loans with a carrying amount of HK$29,872,000 (2015: HK$87,563,000). The loan agreements contain a repayment on demand clause giving the banks the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months from the end of the reporting period, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the loans which contain a repayment on demand clause, the maturity profile of those loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

	Within 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2016	**17,617**	**12,990**	**—**	**30,607**
As at 31 December 2015	41,351	39,897	10,148	91,396

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 2016 and 31 December 2015.

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

37. 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:

	2016 HK$'000
NON-CURRENT ASSETS	
Investments in subsidiaries	**329,485**
CURRENT ASSETS	
Prepayments and other receivables	**675**
Due from a subsidiary	**744,605**
Cash and cash equivalents	**777,632**
Total current assets	**1,522,912**
CURRENT LIABILITIES	
Other payables and accruals	**6,177**
NET CURRENT ASSETS	**1,516,735**
Net assets	**1,846,220**
EQUITY	
Share capital	**256,000**
Reserves (note)	**1,590,220**
Total equity	**1,846,220**

37. 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$'000	Accumulated loss HK$'000	Total HK$'000
At 22 February 2016 (date of incorporation)	—	—	—	—	—
Loss and total comprehensive loss for the period	—	—	—	**(44,556)**	**(44,556)**
Issue of shares pursuant to the Reorganisation	—	**128,895**	—	—	**128,895**
Issue of shares under initial public offering	**1,556,800**	—	—	—	**1,556,800**
Share issue expenses	**(51,715)**	—	—	—	**(51,715)**
Equity-settled share option arrangement	—	—	**796**	—	**796**
At 31 December 2016	**1,505,085**	**128,895**	**796**	**(44,556)**	**1,590,220**

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 set out in note 2.1 to the financial statements over the nominal value of the Company's shares issued in exchange therefor.

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.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2017.

Four Year Financial Summary

A SUMMARY OF RESULTS

	Year ended 31 December			
	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**1,531,011**	1,212,843	929,781	575,777
Cost of sales	**(1,033,197)**	(868,855)	(681,338)	(483,803)
Gross profit	**497,814**	343,988	248,443	91,974
Other income and gains	**53,997**	45,946	50,378	6,305
Selling and distribution expenses	**(23,973)**	(25,061)	(35,722)	(21,591)
Administrative expenses	**(201,401)**	(131,402)	(88,495)	(47,124)
Other expenses, net	**(4,463)**	(34,359)	(18,968)	(5,277)
Finance costs	**(68,836)**	(34,697)	(14,640)	(8,712)
PROFIT BEFORE TAX	**253,138**	164,415	140,996	15,575
Income tax expense	**(31,125)**	(23,192)	(20,250)	(5,894)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**222,013**	141,223	120,746	9,681

ASSETS AND LIABILITIES

	As at 31 December			
	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**5,025,360**	2,756,217	1,596,406	680,347
TOTAL LIABILITIES	**(2,763,110)**	(2,216,722)	(1,366,579)	(569,421)
	2,262,250	539,495	229,827	110,926

Four Year Financial Summary

KEY FINANCIAL RATIOS

	As of and for the year ended 31 December			
	2016	2015	2014	2013
Profitability ratios				
Return on equity(1)	**15.8%**	36.7%	70.9%	9.6%
Return on total assets(2)	**5.7%**	6.5%	10.6%	1.6%
Liquidity ratios				
Current ratio(3)	**1.8**	1.1	0.8	0.8
Quick ratio(4)	**1.5**	0.8	0.5	0.5
Liabilities to assets ratio(5)	**0.5**	0.8	0.9	0.8
Capital adequacy ratios				
Net gearing ratio(6)	**(0.3)**	1.0	1.4	2.3
Interest coverage(7)	**4.7**	5.7	10.6	2.8

Note:

(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 total debt (excluding loan from shareholder) less cash and cash equivalents and pledged deposits divided by total equity.

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

PARTICULARS OF PROPERTY

31 December 2016

Investment property

Location	Use	Tenure	Attributable interest of the Group
Unit 3801B on Level 38 of Tower II, Metroplaza, No. 223 Hing Fong Road, Kwai Chung, New Territories, Hong Kong	Office	Medium term lease	100%

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

Non-Executive Directors

Ms. CHAN Mei Wan
(Vice Chairwoman)
Dr. CHAN Ka Keung

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.
Standard Chartered Bank
(Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

LEGAL ADVISER

As to Hong Kong law:
Clifford Chance
27th Floor, Jardine House
One Connaught Place
Hong Kong

COMPLIANCE ADVISER

Haitong International Capital Limited
8/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 2019-25, 20/F
Tower 1, Metroplaza
223 Hing Fong Road
Kwai Chung
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Codan 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