

State Grid Europe Limited

Registered No. 07844667

Strategic report, Directors' report and Financial Statements

Year ended 31 December 2019

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## STATE GRID EUROPE LIMITED

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## STATE GRID EUROPE LIMITED

### STRATEGIC REPORT

#### **Principal activity and review of the business**

State Grid Europe Limited ("the Company") was incorporated on 11 November 2011.

The principal activities of the Company are: (1) to make investment in the European power & utilities sector and financial market (2) to access capital by adequate financing instruments (3) to hold and manage the Company's current investments.

The profit for the year after taxation for the Company was EUR 157,435,398 (2018: EUR 156,357,239).

From 2012 to 2017, the Company completed the acquisition of 25% of the share capital of REN-Redes Energeticas Nacionais, SGPS, S.A. (REN), 35% of the share capital of Cassa Deposite Prestiti Reti (CDP RETI), 24% stake in Independent Power Transmission Operator (IPTO).

On 26 January 2015, the Company's wholly owned subsidiary, State Grid Europe Development (2014) Public Limited Company ("SGED"), completed the issuance of Euro Bond of EUR 1,000,000,000. The proceeds of this issuance, net of fees and expenses, was used to refinance the Company's indebtedness incurred due to the acquisition of 35% equity interest of CDP RETI.

On 17 October 2019, 775,525,500 ordinary shares of 1 GBP each for a total nominal value of GBP775,525,500 were allotted to the immediate parent company at par value in exchange for an extinguishment of debt. This impact resulted in a reduction in other payables of EUR 885,000,000 and a corresponding increase in equity.

During the year 2019, the Company has made an additional investment on financial assets. The non-current assets was therefore having an increase to EUR 2,879,436,782 (2018: EUR 2,859,976,123).

#### **Key performance indicators**

Investment performance is the key financial and performance indicator identified for this company.

The following table sets out a summary of selected operating information for 2019 and 2018.

	Period ended 31 December 2019 EUR	Period ended 31 December 2018 EUR	Variance %
Net income	157,435,398	156,357,239	0.69
EBITDA	177,135,056	175,852,987	0.73

#### **Compliance with Section 172 of the Companies Act**

The directors of the Company must act in accordance with a set of general duties in order to promote the success of the Company for the benefit of its members as a whole. These duties are detailed in Section 172 of the Companies Act 2006 and are sections relevant to our business are summarised below along with the actions undertaken by the Board to meet these requirements:

## **STATE GRID EUROPE LIMITED**

### **STRATEGIC REPORT**

#### **Strategic Aims and likely consequences in the long term**

The strategy for achieving the Company's objectives is underpinned by investment performance of its underlying associate investments.

The directors also give consideration to the risks facing the business and regularly review these taking the appropriate steps to safeguard the interests of its investments and shareholders.

#### **Employee interests and involvement**

The Company recognises that employees are fundamental and core to the business. The success of the business depends on attracting, retaining and motivating employees. The Company provided employees with information on matters of concern to them, consulting them regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged by regular employee meetings with directors.

#### **Business relationships with customers, supplier and other stakeholders**

The Company does not have customers or suppliers.

Regular interactions are held with management of the underlying associate investments to gauge investment performance and to keep up to date with latest developments in the sector. The Board are involved in setting the strategy and the subsequent monitoring of performance against this.

#### **The impact of the Company's operations on the community and environment**

State Grid Europe Limited is committed to making all reasonable efforts to minimise the impact placed on the environment as a result of business activities. As an organisation we seek to reduce the burden placed on the environment through sustainable business practices by regularly reviewing the environmental aspects and impacts associated with the Company's activities.

#### **The desirability of the company maintaining a reputation for high standards of business conduct**

It is the Group's policy to conduct all business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, implementing and enforcing effective systems to counter bribery and corruption.

We also maintain an ongoing dialogue with the Company's immediate owner through formal communication of operational and financial information on a monthly basis, as well as through numerous other interactions periodically through the year. We use these interactions to ensure that both the strategic direction of the Company and the standards we maintain in conducting our business is aligned with the Company's objectives and those of our external stakeholders.

## STATE GRID EUROPE LIMITED

### STRATEGIC REPORT

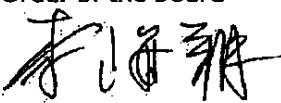
#### **Principal risks and uncertainties**

The Company aims to deliver sustainable value by identifying and responding successfully to risks. Monitoring and accountability for the management of these risks occur through quarterly performance reviews at a group level.

The principal risks and uncertainties facing the Company are:

- **Regulatory risks** - The Company's electric and gas network assets are regulated by the relevant government authorities, and the changes in regulatory environment and demands may affect the Company's investment return. As the regulatory environments continue to evolve, new laws and regulations may be implemented and the Company's operations will be subject to further reviews in areas relating to pricing, costs, safety, compliance and other matters.
- **Credit risk** - The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Company does not provide any guarantees which would expose the Company to credit risk.
- **Political risk** - Political risk is the risk associated with changes that occur to a country's policies governing businesses, as well as external factors that could affect businesses, such as the U.K.'s decision to leave the European Union (hereafter referred to "BREXIT"). Given the company's principal activity, BREXIT has limited impact on the company's business. The company has also considered the impact of dividend withholding tax after Brexit and the impact is considered to be very limited. Therefore, BREXIT has limited impact on the company. The company business operations could continue as normal during the transition period after UK's exit from the EU on 31st January, but new rules and changes may take effect of the company at the end of transition period, the company and State Grid International Development Limited ("SGID") group will pay close attention to the progress of BREXIT and assess the impact continuously.

By Order of the Board



Li Haixiang

For and on behalf of  
State Grid Europe Limited

29 September 2020

Registered Office:

Level 3, 40 Bank Street

London, E14 5NR

## STATE GRID EUROPE LIMITED

### DIRECTORS' REPORT

Board of Directors:   Li, Haixiang (From 5 December 2019)  
Wang, Ying

The directors present their report and the financial statements of State Grid Europe Limited for the year ended 31 December 2019.

#### **Proposed dividends**

The Company has declared a dividend of EUR 358,183,000 (paid EUR 156,000,000) during the year (2018: nil).

#### **Customers and suppliers.**

As the principal activity of the Company is to make investments, the Company does not have customers or suppliers, income is derived from investments in associates of which the key risk is considered to be COVID-19 which is considered below.

#### **Financial instruments**

The Company has purchased Industrial and Commercial Bank of China (ICBC) preference shares from secondary market at the fair value of EUR 19,472,315 (2018: Nil). The fair value of the financial asset is based on market prices at the end of the shares quoted in Industrial and Commercial Bank of China Limited (ICBC) at the end of reporting period. These financial assets are not held for short-term trading purposes.

#### **Future developments**

The company will continue to pursue appropriate investment opportunities in European regulated energy networks sector. The company will also continue to provide operating, financing and technology support to the associates and increase their value.

In addition, the company will continue to access the capital market to explore financing alternatives for its investment, and to perform cash management by investing and managing adequate financial assets.

The directors aim to maintain the management policies which have resulted in the Company's growth since incorporation. They believe that the Company is in a good position to take advantage of any opportunities which may arise in the future.

It is the intention of the directors that the business of the Company will continue for the foreseeable future.

#### **Directors**

The present directors are listed on page 4 and all served as directors throughout the financial year, except as disclosed below:

Hu Yuhai (appointed on 8 January 2016, resigned on 05 December 2019)

Wang Ying

Li Haixiang (appointed on 5 December 2019)

Wang Ying is a UK resident.

## **STATE GRID EUROPE LIMITED**

### **DIRECTORS' REPORT**

#### **Directors' indemnity**

The Company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006.

#### **COVID-19**

As coronavirus (COVID-19) is having a significant impact on businesses and the economy in UK, the company, therefore, may be impacted on liquidity risk.

Liquidity risk could be crucial when associates have no ability to pay dividends due to the company, and the company may not be able to service the debt hold by its subsidiary company SGED. However, the company would have confidence this risk is suitably low, even in downside scenarios, for the following the reasons: 1) associates' businesses are operated under well-established regulatory frameworks that provide stable and visible cash flows, and dividends from associates have been received on time even during the COVID-19 lockdown period. 2) the Company has sufficient equity 3) the debt hold by its subsidiary company SGED is guaranteed by SGID.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the date of signing of these financial statements; please see note 1.3 on page 16 for further details.

#### **Political donations**

The Company has made nil (2018: nil) political donations during the year.

#### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

## STATE GRID EUROPE LIMITED

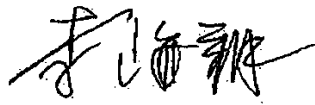
### DIRECTORS' REPORT

#### Directors' statement as to the disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report are listed on page 5. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board



Li Haixiang

For and on behalf of  
State Grid Europe Limited

29 September 2020

Registered Office:

Level 3, 40 Bank Street

London, E14 5NR



## STATE GRID EUROPE LIMITED

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **STATE GRID EUROPE LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STATE GRID EUROPE LIMITED**

#### **Opinion**

We have audited the financial statements of State Grid Europe Limited ("the company") for the year ended 31 December 2019 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## **STATE GRID EUROPE LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STATE GRID EUROPE LIMITED (continued)**

#### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company'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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## STATE GRID EUROPE LIMITED

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STATE GRID EUROPE LIMITED (*continued*)

#### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Alexander Chong (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square,

Bristol,

BS1 4BE

30 September 2020

## STATE GRID EUROPE LIMITED

### STATE GRID EUROPE LIMITED

#### Statement of comprehensive income

For the year ended 31 December 2019

	Notes	Year 2019 EUR	Year 2018 EUR
Dividend income		178,313,043	172,765,255
Other income		1,494,834	182,240
Administrative and other expenses		(2,735,206)	2,993,693
<b>OPERATING PROFIT</b>		<b>177,072,671</b>	<b>175,941,188</b>
Financial expenses	4	(18,672,483)	(18,647,835)
Exchange losses	3	62,385	(88,201)
<b>PROFIT BEFORE TAX</b>		<b>158,462,573</b>	<b>157,205,152</b>
Income tax expense	5	(1,027,175)	(847,913)
<b>PROFIT FOR THE YEAR</b>		<b>157,435,398</b>	<b>156,357,239</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items will not be reclassified to P&L:			
Net change in fair value of financial assets at FVOCI		73,595	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>157,508,993</b>	<b>156,357,239</b>

All profits and losses included in the total comprehensive income for the year derive from activities of a continuing nature.

The notes on pages 15 to 34 are an integral part of these financial statements.

# STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

Statement of financial position

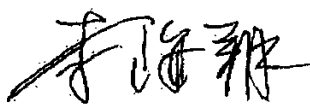
At 31 December 2019

	Notes	31 December 2019 EUR	31 December 2018 EUR
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		22,063	2,587
Investment in subsidiaries	7	62,570	62,570
Investment in associates	8	2,859,761,443	2,859,761,443
Financial assets	14	19,472,315	-
Long-term deferred expenses		118,391	149,523
Total non-current assets		2,879,436,782	2,859,976,123
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	95,879,477	95,625,891
Other receivables		31,512	57,494
Total current assets		95,910,989	95,683,385
<b>CURRENT LIABILITIES</b>			
Interest payable	11	(16,578,493)	(16,578,493)
Other payables and accruals	10, 12	(672,193,852)	(1,337,601,591)
Total current liabilities		(688,772,345)	(1,354,180,084)
NET CURRENT LIABILITIES		(592,861,356)	(1,258,496,699)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,286,575,426	1,601,479,424
<b>NON-CURRENT LIABILITY</b>			
Loan payable	11	(996,944,919)	(996,174,910)
Total non-current liability		(996,944,919)	(996,174,910)
NET ASSETS		1,289,630,507	605,304,514
<b>EQUITY</b>			
Share capital	13	897,768,438	12,768,438
Other reserve		73,595	-
Retained earnings		391,788,474	592,536,076
SHAREHOLDER'S FUNDS		1,289,630,507	605,304,514

The notes on pages 15 to 34 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and signed on their behalf on 29 September 2020 by:

Director



Li Haixiang

## STATE GRID EUROPE LIMITED

### STATE GRID EUROPE LIMITED

#### Statement of changes in equity

At 31 December 2019

	Share capital EUR	Other reserve EUR	Retained earnings EUR	Total EUR
At 31 December 2018	<u>12,768,438</u>	<u>-</u>	<u>592,536,076</u>	<u>605,304,514</u>
Profit for the year	-	-	157,435,398	157,435,398
Net change in fair value of financial assets at FVOCI	-	73,595	-	73,595
Total comprehensive income for the year	<u>-</u>	<u>73,595</u>	<u>157,435,398</u>	<u>157,508,993</u>
Share capital issue	885,000,000			885,000,000
Distribution to shareholders			(358,183,000)	(358,183,000)
At 31 December 2019	<u>897,768,438</u>	<u>73,595</u>	<u>391,788,474</u>	<u>1,289,630,507</u>
	Share capital EUR	Other reserve EUR	Retained earnings EUR	Total EUR
At 31 December 2017	<u>12,768,438</u>	<u>-</u>	<u>436,178,837</u>	<u>448,947,275</u>
Profit for the year	-		156,357,239	156,357,239
Other comprehensive for the year	-		-	-
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>156,357,239</u>	<u>156,357,239</u>
At 31 December 2018	<u>12,768,438</u>	<u>-</u>	<u>592,536,076</u>	<u>605,304,514</u>

The notes on pages 15 to 34 are an integral part of these financial statements

## STATE GRID EUROPE LIMITED

### STATE GRID EUROPE LIMITED

#### Statement of cash flows

For the year ended 31 December 2019

	Notes	Year 2019 EUR	Year 2018 EUR
Operating activities:			
Profit before tax		158,462,573	157,205,152
Adjustments for:			
Dividend income received		(178,745,517)	(172,947,495)
Investment income from financial assets		(1,062,360)	-
Interest expense		18,620,009	18,605,722
Interest expense adjustment		(770,009)	(755,722)
Foreign exchange (gains)/losses		(62,385)	88,201
Decrease/(increase) in other receivables		25,982	(20,440)
Decrease in other payables		(529,001)	(10,171,426)
Decrease /(increase) in long term deferred expenses		31,131	(149,523)
Net cash outflow from operating activities		(4,029,576)	(8,145,531)
Investing activities			
Investment in PP&E		(19,476)	(1,947)
Dividends received (net of withholding tax paid)		177,285,868	171,917,342
Investment income from financial assets		1,062,360	-
Associated Directors Fees		432,474	182,240
Net cash inflow/(outflow) from investing activities		178,761,226	(172,097,635)
Financing activities			
Increase/(decrease) in other payables to parent		17,938,262	(55,836,411)
Dividends paid		(156,000,000)	-
Increase in loan payable		770,009	755,722
Acquisition of financial assets		(19,398,720)	-
Interest paid		(17,850,000)	(17,850,000)
Net cash outflow from financing activities		(174,540,449)	(72,930,689)
NET INCREASE IN CASH AND CASH EQUIVALENTS		191,201	91,021,415
Cash and cash equivalents at beginning of year		95,625,891	4,692,677
Effect of foreign exchange rate changes, net		62,385	(88,201)
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	95,879,477	95,625,891

The notes on pages 15 to 34 are an integral part of these financial statements.



## STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 1. CORPORATE INFORMATION

State Grid Europe Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK, incorporated as a private company on 11 November 2011. The registered number is 07844667 and the registered address is Level 3, 40 Bank Street, London, E14 5NR. The issued share capital of the Company is GBP785,525,500.

The principal activities of the Company are management, investment and financing.

The immediate parent of the Company is State Grid International Development Limited, whose registered office is located at Suite 1304, 13F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong, and the ultimate holding company is State Grid Corporation of China, whose registered office is located at 15 West Chang An Avenue, Xicheng District, Beijing, China.

The financial statements of State Grid Europe Limited were approved for issue by the Board of Directors on 29 September 2020.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. Previously issued financial statements have been group financial statements and this is the first year the Company has taken this exemption.

#### 1.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 2006. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### 1.2 ACCOUNTING CONVENTION

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: certain financial assets measured at fair value. The Company's financial statements are presented in Euro ("EUR"), which is also the Company's functional currency.

## STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 1.3 BASIS OF PREPARATION

As at 31 December 2019, the Company's Statement of financial position had net current liabilities amounting to EUR592,861,356 (31 December 2018: EUR1,258,496,699). The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the company's immediate parent company State Grid International Development Limited ("SGID") not seeking repayment of the amounts currently due to it by the Company, which at 31 December 2019 amounted to EUR672,193,852, and providing additional financial support during that period. SGID has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

#### 1.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has applied the following revised IFRSs for the first time for the periods presented, which were effective for annual periods beginning on or after 1 January 2019. The impact of these adopted standards has had no material impact on these financial statements.

##### *IFRS 16 Leases*

On 13 January 2016 the IASB published the new standard IFRS 16 which governs the accounting for leasing contracts, replacing the previous IAS 17. Among the changes the new standard, overcoming the distinction between operating and financial leasing, bases the accounting presentation on the so-called "right of use" approach, which for the lessee makes the accounting uniform for any type of leasing. At the moment of initial measurement, that is at the date on which the lessor makes the asset available to the lessee, the latter must recognise two asset items with opposite signs: the right to use the asset, among the assets and the payable for the leasing, among the liabilities. IFRS 16 is applicable as from 01 January 2019, but early application is permitted for companies that adopt IFRS 15 (Revenue from contracts with customers).

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 1.5 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).

The amendments to IAS 1 *Presentation of Financial Statements* is to clarify how to classify debt and other liabilities as current or non-current. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

The amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is to introduce a definition of 'accounting estimates' and provide other clarifications to help entities distinguish accounting policies from accounting estimates.

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective date to be confirmed).

The amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* is to assist companies in providing useful information to investors about the effects of interest rate benchmark reform on financial statements.

The main proposed amendments relate to:

- modifications—a company would not derecognise or adjust the carrying amount of financial instruments for modifications required by interest rate benchmark reform, but would instead update the effective interest rate to reflect the change in the interest rate benchmark;
- hedge accounting—a company would not discontinue its hedge accounting solely because of replacing the interest rate benchmark if the hedge meets other hedge accounting criteria; and
- disclosures—a company would disclose information about new risks arising from the interest rate benchmark reform and how it manages the transition to alternative benchmark rates.

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

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#### 1.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Financial Instruments

##### *Recognition and initial measurement*

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

##### **Financial assets**

##### *Classification and subsequent measurement*

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Investments in associates and subsidiaries are carried at cost less impairment.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 1.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial Instruments (continued)

##### *Subsequent measurement and gains and losses*

*Financial assets at FVTPL* - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

*Financial assets at amortised cost* - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

*Equity investments at FVOCI* - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

##### *Financial Liabilities*

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

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#### 1.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Impairment

###### *Impairment of Financial Assets*

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, financial assets (preference shares) measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

###### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

###### *Impairment of non-financial assets*

Where an indication of impairment exists, or when annual impairment testing for an investment accounted for using the equity method is required, 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 to sell, 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.

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 1.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. For income tax arising on dividends, the related tax is recognised in the income statement, statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities; using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

##### Cash and cash equivalents

For the purpose of the 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 Company's cash management. For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

##### Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established.

##### Foreign currencies

These financial statements are presented in Euros, which is the Company's functional and presentation currency.

Differences arising on settlement or translation of monetary items are recognised in the income statement.

## STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 1.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Dividend payable

Article 34 of the Company's Articles of Association allows the Company to pay interim dividends if the directors have made a recommendation as to its amount.

Under Companies Act 2006 (the "2006 Act"), a company is not permitted to make a distribution except out of profits available for the purpose (being its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made).

The Company shall carefully consider the profitability since the date of the last annual accounts, a more up to date set of accounts drawn up to a more recent date that includes those later realised profits in order to assess whether the Company's profits available for distribution had been eroded since that date otherwise than by the making of distributions. The Company shall carefully consider the effect of the dividend would have on the Company's ability to pay its debts as they fall due, having regard to the entirety of the Company's businesses and the actual and contingent liabilities (present and future) inherent in that business.

When the distribution of dividend is approved by the Board of Directors, the Company entails the recording of a payable in the financial statements for the period.

#### 2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the 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.

##### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of financial position date, 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:

##### (a) Impairment of investments in associates

Investments in associates are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.



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## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 3 Exchange losses

Included in profit/loss are the following:

	Year	Year
	2019	2018
	EUR	EUR
Foreign exchange (gains)/losses	<u>62,385</u>	<u>(88,201)</u>

### 4 NET FINANCE COSTS

	Year	Year
	2019	2018
	EUR	EUR
Interest income	(54)	(20)
Interest expense	18,620,009	18,605,722
Others	52,528	42,133
	<u>18,672,483</u>	<u>18,647,835</u>

### 5 TAX

#### (a) Analysis of tax charge

	Year	Year
	2019	2018
	EUR	EUR
United Kingdom corporation tax		
Adjustment in respect of prior periods	-	-
Greece corporation tax:		
Withholding tax in respect of current period	1,027,175	847,913
Total current tax (note 5(b))	<u>1,027,175</u>	<u>847,913</u>

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 5. TAX (continued)

##### (b) Factors affecting the tax charge

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 19%. The differences are reconciled below:

	31 December 2019	31 December 2018
	EUR	EUR
Profit on ordinary activities before tax	158,462,573	157,205,152
Tax charge on ordinary activities at UK tax rate	(30,107,889)	(29,868,979)
Dividend income not taxable	33,879,478	32,825,398
Other income taxable	(284,018)	(34,626)
Not deductible expenses	(2,806,996)	(3,129,945)
(Unrecognised tax losses)/tax losses utilised	(680,575)	208,151
Withholding tax in respect of current period	(1,027,175)	(847,913)
Total current tax (note 5(a))	<u>1,027,175</u>	<u>847,913</u>

##### (c) Tax losses

	Year	Year
	2019	2018
	EUR	EUR
Tax losses brought forward, beginning of period	53,438,745	54,534,275
Tax losses carried forward current year	3,581,972	-
Tax Losses utilised current year	-	(1,095,530)
Tax Losses carried forward, ending of period	<u>57,020,717</u>	<u>53,438,745</u>

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK corporation tax as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020, Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge.

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#### 5. TAX (continued)

After fully considered the company's current business and operation, the company is of view that it is not prudent to recognize deferred tax asset at this point in time. The Company considers the operating strategy of the preference shares (see note 14) is not for short-term trading purposes, thus deferred tax liabilities are not recognised.

#### 6 DIRECTORS' REMUNERATION

The total directors' fee for the company and its wholly owned subsidiary State Grid Europe Development (2014) Public Limited Company during the financial year is GBP 15,000 and are borne by the company.

#### 7 INVESTMENT IN SUBSIDIARIES

##### Summary of results and financial position

On 20 November 2014, the Company registered a subsidiary in England and Wales, namely State Grid Europe Development (2014) Public Limited Company, with a registered capital of GBP50,000 (50,000 ordinary shares of 1 GBP each for a total nominal value of GBP50,000) which was subsequently paid in 2015. The entity was set up for bond issuance purpose.

##### Registered address

Level 3 40 Bank Street, London, United Kingdom, E14 5NR

Company:	31 December 2019	31 December 2018
	EUR	EUR
Investment in subsidiary		
50,000 GBP translated at 20 November 2014, rate of		
exchange of Euro 1.2514/GBP	62,570	62,570

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

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#### 8 INVESTMENT IN ASSOCIATES

	2019	2018
Cost	EUR	EUR
At 1 January	2,859,761,443	2,859,761,443
At 31 December	<u>2,859,761,443</u>	<u>2,859,761,443</u>

On 31 May 2012, the Company completed the acquisition of 25% of the share capital of Redes Energeticas Nacionais, SGPS, S.A. engaged in operating electric and natural gas transmission grid and listed on the Portugal Stock Exchange.

On 27 November 2014, the Company completed the acquisition of 35% of the share capital of Cassa Depositi e Prestiti Reti, an Italian electric and gas network holding company. In Italy, CDP RETI holds a 29.85% equity interest in Terna, a 30.10% equity interest in SNAM and a 26.04% equity interest in ITALGAS. Terna is a national electricity transmission company in Italy, the largest independent network operator in Europe and one of the leading operators in the world by km of managed line. SNAM is a national natural gas company in Italy, engaging in regulated businesses such as gas transmission, gas storage and regasification. ITALGAS, previously part of SNAM Group, is the leading Italian natural gas transportation and dispatching operator, and owns almost all the transportation infrastructures in Italy and the third in Europe. In the opinion of the Directors, the value of the investments in associates are not less than the amount at which they are carried in the financial statements.

On 20 June 2017, the Company completed the acquisition of a 24% stake in Independent Power Transmission Operator. IPTO is the only transmission operator which owns and operates the national power transmission network in Greece.

On 7 December 2017, the Company engaged the subscription of share capital increase of REN-Redes Energeticas Nacionais, SGPS, S.A. After the subscription, the Company's share holding at REN remains at 25%.

The associated undertakings of the Company at 31 December 2019 and the percentage of equity capital held are set out below. The principal country of operation is generally indicated by the Company's country of incorporation or by its name.

Associated undertaking	Class of shares held	%	Country of incorporation	Principal activity
REN-Redes Energeticas Nacionais, SGPS, S.A.	Ordinary	25%	Portugal	Electric and gas network grid
Cassa Depositi e Prestiti Reti S.p.a.	Ordinary	35%	Italy	Electric and gas network grid
Independent Power Transmission Operator	Ordinary	24%	Greece	Electric transmission network

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

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#### 8 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Company's associates, extracted from their audited financial statements. The below figures of CDP RETI are inclusive of the non-controlling interests:

Year 2019			
EUR			
	REN S.p.A.	CDP RETI S.p.A.	IPTO
Assets	5,305,305,000	57,500,604,000	2,932,201,000
Liabilities	3,859,160,000	42,088,898,000	1,602,295,000
Revenues	786,763,000	6,900,526,000	249,778,000
Profit	118,899,000	1,911,691,000	105,593,000

Year 2018			
EUR			
	REN S.p.A.	CDP RETI S.p.A.	IPTO
Assets	5,191,574,000	54,013,006,000	3,112,596,000
Liabilities	3,727,737,000	39,187,573,000	2,084,589,000
Revenues	727,207,000	6,524,477,000	249,236,000
Profit	115,715,000	1,732,892,000	85,868,000

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

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#### 9 CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
	EUR	EUR
Cash and cash equivalents	<u>95,879,477</u>	<u>95,625,891</u>

Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

#### 10 OTHER PAYABLES AND ACCRUALS

	31 December 2019	31 December 2018
	EUR	EUR
Dividend payable	202,183,000	-
Other payables to the immediate parent	470,010,852	1,337,072,590
Other	-	<u>529,001</u>
	<u>672,193,852</u>	<u>1,337,601,591</u>

The amount in 2019 has changed significantly in comparison with the figure in 2018 due to the Company has allotted 775,525,500 ordinary shares of 1 GBP each for a total nominal value of GBP775,525,500 to the immediate parent company at par value

Other payables to the immediate parent are non-interest-bearing with no fixed terms of repayment.

The Company believes that the carrying amounts are a reasonable approximation to the fair value.

For further information on dividend payable, please refer to Note 12.

## STATE GRID EUROPE LIMITED

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### NOTES TO FINANCIAL STATEMENTS

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#### 11 BONDS, LOAN AND INTEREST PAYABLE

	31 December 2019	31 December 2018
	EUR	EUR
Loan payable		
- Loan value	1,000,000,000	1,000,000,000
- Initial issue costs	(6,715,000)	(6,715,000)
- Accumulated accretion	3,659,919	2,889,910
	<hr/>	<hr/>
Total	996,944,919	996,174,910
	<hr/>	<hr/>
Interest payable	16,578,493	16,578,493
	<hr/>	<hr/>

On 26 January 2015, The Company entered inter-company loan agreement with State Grid Europe Development (2014) Public Limited Company which is an indirect, wholly owned subsidiary of the Company. SGED completed a public issuance of long term guaranteed bonds with a face value of EUR700 million and EUR300 million. All expenses incurred by SGED are borne by the Company. The details of the guaranteed bonds are listed as below:

- a EUR700 million guaranteed bond will be due in 2022, carries coupon interest at a rate of 1.50% per year, and bears effective interest at a rate of 1.5781% per year; Coupon interests are paid annually on 26 January;
- b EUR300 million guaranteed bond will be due in 2027, carries coupon interest at a rate of 2.45% per year, and bears effective interest at a rate of 2.5516% per year. Coupon interests are paid annually on 26 January.

## STATE GRID EUROPE LIMITED

### STATE GRID EUROPE LIMITED

#### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 12 DIVIDEND PAYABLE

Article 34 of the Company's Articles of Association allows the Company to pay interim dividends if the directors have made a recommendation as to its amount.

Under Companies Act 2006 (the "2006 Act"), a company is not permitted to make a distribution except out of profits available for the purpose (being its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made).

The Company has carefully considered the profitability since 31 January 2019 in order to assess whether the Company's profits available for distribution had been eroded since that date otherwise than by the making of distributions. It was noted that, since it was proposed that the dividend may not be paid immediately, the Company would be required to undertake a further assessment of profitability to the extent they are or will at such relevant time be aware of any matters that might result in the Company making a loss.

The Company has considered carefully the effect of the dividend would have on the Company's ability to pay its debts as they fall due, having regard to the entirety of the Company's businesses and the actual and contingent liabilities (present and future) inherent in that business.

Pursuant to the authority given by Article 34 of the Company's Articles of Association and section 291 of the Companies Act 2006, the Company's Board of Directors approved the distribution of a dividend of CNY2,728,208,274.40 (equivalent to EUR358,183,000.00) to be paid to the sole member of the Company.

The Company paid the partial dividend (EUR156,000,000.00) in respect of cash balances in 2019.

	31 December 2019	31 December 2018
	EUR	EUR
Dividend payable	<u>202,183,000</u>	=

#### 13 SHARE CAPITAL

Company	31 December 2019	31 December 2018
	EUR	EUR
Alotted, called up and fully paid		
50,000 ordinary shares of GBP1.00 each at 11 November 2011, rate of exchange of Euro 1.169/GBP	<u>58,438</u>	<u>58,438</u>
9,950,000 ordinary shares of GBP1.00 each at 18 November 2014, rate of exchange of Euro 1.277/GBP	<u>12,710,000</u>	<u>12,710,000</u>
775,525,500 ordinary shares of GBP1.00 each at 17 October 2019, rate of exchange of Euro 1.141/GBP	<u>885,000,000</u>	=



## STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 13 SHARE CAPITAL (continued)

On 11 November 2011, 50,000 ordinary shares of 1 GBP each for a total nominal value of GBP50,000 were allotted to the immediate parent company at par value.

On 18 November 2014, 9,950,000 ordinary shares of 1 GBP each for a total nominal value of GBP9,950,000 were allotted to the immediate parent company at par value.

On 17 October 2019, 775,525,500 ordinary shares of 1 GBP each for a total nominal value of GBP775,525,500 were allotted to the immediate parent company at par value, in exchange for extinguishment of debt owed to the immediate parent company of the same value.

#### Capital management

The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of amount due to the immediate parent, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	31 December 2019	31 December 2018
	EUR	EUR
Dividend payable	202,183,000	-
Other payables and accruals	470,010,852	1,337,601,591
Bonds payable	996,944,919	996,174,910
Less: Cash and cash equivalents	(95,879,477)	(95,625,891)
Net debt	<u>1,573,259,294</u>	<u>2,238,150,610</u>
Equity	<u>1,289,630,507</u>	<u>605,304,514</u>
Net debt and equity	<u>2,862,889,801</u>	<u>2,843,455,124</u>
Gearing ratio	55%	79%

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company manage their capital structure and make adjustments to them in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the year ended 31 December 2018.

## STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 14 Financial assets

	31 December 2019	31 December 2018
Financial assets measured at fair value through other comprehensive income	EUR	EUR
List of financial assets, at fair value		
Preference shares of ICBC	19,472,315	-
	<u>19,472,315</u>	<u>-</u>

The above financial asset is measured at fair value through other comprehensive income as the Company considers the operating strategy of this asset is not for short-term trading purpose.

During the year, the fair value gain in respect of the Company's listed financial asset was recognized in other comprehensive income amounted to EUR73,595 (2018: Nil).

The fair values of listed financial asset is based on market prices at the end of the shares quoted in Industrial and Commercial Bank of China Limited (ICBC) at the end of reporting period. The ISIN number is XS1142380820.

#### 15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's exposure to credit risk, and liquidity risk arises in the normal course of their business. These risks are managed by the parent company financial management policies and practices described below:

##### *Credit risk*

The carrying amounts of cash and cash equivalents and other current assets except for prepayments, represent the Company's maximum exposure to credit risk in relation to financial assets. All the Company's cash and cash equivalents are held at major financial institution, which management believes are of high credit quality.

##### *Liquidity risk*

The Company aims to maintain sufficient cash and credit lines to meet their liquidity requirements. The Company finances its working capital requirements through a combination of funds generated from operation and amounts due to a fellow subsidiary.

## STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2019		
	Less than 1 year	2-5 years	More than 5 year
	EUR	EUR	EUR
Dividend payable	202,183,000	-	-
Interest payable	16,578,493	-	-
Other payables due to immediate parent company	470,010,852	-	-
Loan payable	-	698,894,279	298,050,640
	31 December 2018		
	Less than 1 year	2-5 years	More than 5 year
	EUR	EUR	EUR
Interest payable	16,578,493	-	-
Other payables due to immediate parent company	1,337,072,590	-	-
Other payables due to others	529,001	-	-
Loan payable	-	698,373,001	297,801,909

The carrying amounts and fair values of the financial instruments are as follows:

Company:	Carrying amounts	Fair values	Carrying amounts	Fair values
	2019	2019	2018	2018
	EUR	EUR	EUR	EUR
Financial assets:	19,398,720	19,472,315	-	-
Cash and cash equivalents	95,879,477	95,879,477	95,625,891	95,625,891
Other receivables	31,512	31,512	57,494	57,494
Financial liabilities:				
Dividend payable	202,183,000	202,183,000	-	-
Other payables and accruals	470,010,852	470,010,852	1,337,601,591	1,337,601,591
Interest payable	16,578,493	16,578,493	16,578,493	16,578,493
Loan payable	996,944,919	1,051,693,000	996,174,910	996,174,910

## STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2019

#### 15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a normal transaction between willing parties, other than in a forced or liquidation sale. The fair values of bonds and loans payable are based on the discounted value of future cash flows using applicable rates for similar type of loans and these approximate the carrying amounts. The fair value of other financial assets and liabilities approximate their carrying amounts due to the short term nature and collectability.

#### 16 RELATED PARTY TRANSACTIONS

The Company entered inter-company loan agreement with State Grid Europe Development (2014) Public Limited Company, which is an indirect, wholly owned subsidiary of the Company. SGED completed a public issuance of long term guaranteed bonds with a face value of EUR700 million and EUR300 million. All expenses incurred by SGED are borne by the Company, including the interest payment of EUR 17,850,000 (2018: EUR 17,850,000) which should be directly paid to the bondholders.

The amount of liability payable owed to SGED has been reduced to EUR 470,010,852 (2018: EUR 1,337,072,590) during the current financial year.

#### 17 AUDIT FEE

The audit fee for the Company is EUR 35,126 (2018: EUR 33,373) excluding taxes and paid by State Grid Europe Limited.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED

Audited Financial Statements

31 December 2019

THESE PARTNERSHIP  
ACCOUNTS FORM  
PART OF THE ACCOUNTS  
OF COMPANY  
No. 078446671



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COMPANIES HOUSE

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STATE GRID INTERNATIONAL DEVELOPMENT LIMITED

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**Independent auditor's report****To the members of State Grid International Development Limited**

(Incorporated in Hong Kong with limited liability)

**Opinion**

We have audited the consolidated financial statements of State Grid International Development Limited (the "Company") and its subsidiaries (the "Group") set out on pages 8 to 126, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

**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.

**Independent auditor's report (Continued)**

**To the members of State Grid International Development Limited**  
(Incorporated in Hong Kong with limited liability)

**Key audit matters (Continued)**

Key audit matter	How our audit addressed the key audit matter
<b>Impairment of goodwill</b>	
<p>Included in the consolidated statement of financial position is a goodwill balance of HK\$ 13,517 million as of 31 December 2019.</p> <p>The Group is required to, at least annually, perform impairment assessments of goodwill. For the purpose of performing impairment assessments, goodwill has been allocated to cash generating unit ("CGU"). The impairment testing was performed by comparing the recoverable amount of the CGU and the carrying amount of the CGU. The determination of the recoverable amount of the underlying CGUs involved estimates and judgments, including future revenue, production costs, operating expenses, and the growth rate used to estimate future cash flows and discount rate applied to these forecasted future cash flows of the underlying CGUs. These estimates and judgments may be affected by unexpected changes in future market or economic conditions or discount rates applied.</p> <p>The Group's accounting policies and estimation of goodwill impairment are disclosed in Notes 2.5 and 3, and details of the Group's impairment testing of goodwill are disclosed in Note 15 to the consolidated financial statements.</p>	<p>We obtained an understanding, evaluated the design, and tested the operating effectiveness of management's key controls over the impairment assessment process.</p> <p>We also assessed the reasonableness of key assumptions used in the calculations, comprising future revenue, production costs, operating expenses and growth rate. When assessing these key assumptions, we discussed them with management to understand and evaluate management's basis for determining the assumptions. We also involved our valuation experts to assist us in assessing the reasonableness of the discount rate used by management.</p> <p>We evaluated management's sensitivity analysis around the key assumptions, to ascertain that selected adverse changes to key assumptions, both individually and in aggregate, would not cause the carrying amount of the CGU to exceed the recoverable amount of CGU.</p> <p>We also assessed the adequacy of the Group's disclosures included in Note 2.5, Note 3 and Note 15 to the consolidated financial statements.</p>



**Independent auditor's report (Continued)**  
**To the members of State Grid International Development Limited**  
(Incorporated in Hong Kong with limited liability)

**Key audit matters (Continued)**

Key audit matter	How our audit addressed the key audit matter
<i>Revenue recognition in the regulatory environment</i>	
<p>The Group mainly operates in the regulatory industry of Brazil and Australia related to electricity distribution and transmission.</p> <p>(1) In the electricity distribution industry of Brazil, unbilled revenue recognized by the Group corresponds to the electricity distributed, but not billed to the consumers, and its billing is measured based on the reading cycles that, in some cases, exceed the period of accounting closing. The recognition of the unbilled revenue takes into consideration all of the historical data, the systems configuration, as well as Group's judgments in order to estimate the consumption by consumers.</p> <p>(2) In the electricity transmission industry of Brazil, the recognition of construction revenue requires the exercise of significant judgment about when the customer obtains control over the asset. In addition, measuring the Group's progress in satisfying the performance obligation over time also requires the use of significant estimates and judgments by management to estimate the efforts or inputs required to meet the performance obligation, such as materials and labour, expected profit margins, or lack of expected profit margins, on each performance obligation identified, and expected revenue projections. The identification of the discount rate that represents the financial component embedded in future cash inflows also requires the use of judgment by management.</p>	<p>(1) We evaluated the design, implementation, and effectiveness of key internal controls related to the determination of the amount of the revenue recognised from energy distributed, but unbilled. We involved component auditor's technology specialists to evaluate the systems and the technology environment used in the determination of the balances recorded. We analysed the key assumptions used by the Group in the development of such estimates, such as the technical and commercial losses index. In addition, we tested the integrity and accuracy of the data used in the calculation and performed a valuation test, by comparing the amounts recognized by the Group with assumptions resulting from component auditor's independent auditing tests.</p> <p>(2) We assessed the design of key internal controls related to the costs incurred to perform the contract. We analysed whether or not there is contractual margin. We analysed the service concession arrangement and its amendments to identify contractual performance obligations, as well as aspects related to the variable components applicable to the contract price. We also reviewed the projected cash flows, significant assumptions used in costs projections and in defining the discount rate used in the model with the support of subject matter experts in company valuation.</p>

**Independent auditor's report (Continued)**

**To the members of State Grid International Development Limited**  
(Incorporated in Hong Kong with limited liability)

**Key audit matters (Continued)**

Key audit matter	How our audit addressed the key audit matter
<i>Revenue recognition in the regulatory environment (Continued)</i>	
<p>(3) In the electricity distribution industry of Australia, estimates are required for the consumptions and the tariffs used for revenue accrual model; these estimates include tariff determined by the government with routine revision, weather conditions and consumption patterns. In the infrastructure industry of Australia, estimate are required for the forecast revenue and costs to complete, stage of project completion, and recoverability of unapproved variations and claims.</p> <p>The Group's accounting policies and estimation of revenue recognition are disclosed in Notes 2.5 and 3, and details of the Group's revenue are disclosed in Note 5 to the consolidated financial statements.</p>	<p>(3) We assessed the controls relating to infrastructure service revenue and compared the forecast revenue and cost assumptions against source documents including approved project budgets and bid documents. We reviewed the assessment of the relevant regulatory determinations by the Group, in conjunction with the Component auditor's regulatory specialists. We compared the system tariffs charged to customers to regulator approved tariffs. We analyse the revenue against historical performance, regulatory determinations, and energy consumption data. We involved component auditor's information technology specialists to test the key controls in the revenue process and assessed the reasonableness of the unbilled revenue methodology and assumptions applied against industry standards and practice. We compared a sample of accrued revenue balances to subsequent customer billings.</p> <p>We also assessed the adequacy of the Group's disclosures included in Notes 2.5 and 3 and Note 5 to the consolidated financial statements.</p>

**Independent auditor's report (Continued)**  
**To the members of State Grid International Development Limited**  
(Incorporated in Hong Kong with limited liability)

**Key audit matters (Continued)**

Key audit matter	How our audit addressed the key audit matter
<i>Recoverability of deferred tax assets</i>	
<p>As at 31 December 2019, the Group recognised deferred tax assets of HK\$ 3,174 million. The Group recognised these deferred tax assets to the extent that it is probable that future taxable profits will be available to utilise the deferred tax assets. The recognition of the deferred tax assets was significant to our audit because the amounts are material, and the estimation of future taxable profits is complex and judgmental and is based on assumptions that are affected by unexpected changes in future market or economic conditions.</p> <p>The Group's accounting policies and estimations on deferred tax assets are disclosed in Notes 2.5 and 3, and details of deferred tax assets are disclosed in Note 22 to the consolidated financial statements.</p>	<p>We obtained an understanding, evaluated the design and the operating effectiveness of management's key controls over the recognition and recoverability assessment of deferred tax assets.</p> <p>We compared the key assumptions used in the forecast with the legal framework (in particular tax rates and the possible utilisation of loss carry forwards). We involved component auditor's corporate finance specialists to help us in analysing the reasonableness and consistency of the data and assumptions and of the methodologies used by the Group for the projection of future taxable income, particularly those related to the projected economic growth, volume, and price of sales of energy, and the discount rates, and we compared with the data obtained from external sources. We also involved component auditor's tax specialists to evaluate the calculation in which the current tax rates are applied.</p> <p>We also assessed the adequacy of the Group's disclosures included in Notes 2.5 and 3 and Note 22 to the consolidated financial statements.</p>

**Independent auditor's report (Continued)**

**To the members of State Grid International Development Limited**  
(Incorporated in Hong Kong with limited liability)

**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 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 management 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, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, 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.



**Independent auditor's report (Continued)**

**To the members of State Grid International Development Limited**

(Incorporated in Hong Kong with limited liability)

**Auditor's responsibilities for the audit of the consolidated financial statements (Continued)**

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also (continued):

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

We communicate with the management 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 management 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 management, 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 Tong Ka Yan, Augustine.

*Ernst & Young*

Certified Public Accountants  
Hong Kong  
12 June 2020

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000 Restated
REVENUE	5	77,720,061	87,989,304
Cost of sales		(58,203,270)	(69,542,632)
<b>Gross profit</b>		<b>19,516,791</b>	<b>18,446,672</b>
Other income and gains	6	3,206,005	3,038,700
Selling expenses		( 981,446)	( 976,760)
Administrative expenses		( 2,641,401)	( 2,544,211)
Impairment losses on financial and contract assets		( 461,407)	( 366,425)
Finance costs	7	( 5,926,554)	( 6,046,355)
Foreign exchange differences, net		( 482,529)	( 723,752)
Share of profit of associates		4,418,199	4,479,534
Share of profit of joint ventures		1,300,372	1,701,221
Other expenses		( 3,054,981)	( 1,177,447)
<b>Profit before tax</b>	8	<b>14,893,049</b>	<b>15,831,177</b>
Income tax expenses	10	( 3,784,766)	( 3,251,782)
<b>Profit for the year</b>		<b><u>11,108,283</u></b>	<b><u>12,579,395</u></b>
Attributable to:			
Owners of the parent		10,157,780	11,759,294
Non-controlling interests		<u>950,503</u>	<u>820,101</u>
		<b><u>11,108,283</u></b>	<b><u>12,579,395</u></b>

Details of dividends payable and proposed for the year are disclosed in Note 11 to the consolidated financial statements.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
Year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000 Restated
<b>Profit for the year</b>	<b><u>11,108,283</u></b>	<b><u>12,579,395</u></b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Net gain on hedge of a net investment, net of tax	408,376	864,176
Net loss on cashflow hedge, net of tax	( 857,811)	( 189,925)
Exchange differences on translation of foreign operations, net of tax	( 5,028,814)	(19,035,514)
Other comprehensive income from associates	37,937	( 245,815)
Other comprehensive income from joint ventures	( 98,646)	( 1,956)
Credit risk in mark to market of financial liabilities	( 2,180)	38,680
	<u>( 5,541,138)</u>	<u>(18,570,354)</u>
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>		
Change in fair value of equity investments designated at fair value through other comprehensive income	239,309	( 1,441,668)
Other comprehensive income from associates	16,939	17,982
Other comprehensive income from joint ventures	76,837	106,596
Actuarial reserve on defined benefit plans	( 1,743,869)	( 509,665)
	<u>( 1,410,784)</u>	<u>( 1,826,755)</u>
<b>Other comprehensive income for the year, net of tax</b>	<b><u>( 6,951,922)</u></b>	<b><u>(20,397,109)</u></b>
<b>Total comprehensive income for the year, net of tax</b>	<b><u>4,156,361</u></b>	<b><u>( 7,817,714)</u></b>
Attributable to:		
Owners of the parent	4,414,754	( 6,311,262)
Non-controlling interests	( 258,393)	( 1,506,452)
	<u>4,156,361</u>	<u>( 7,817,714)</u>

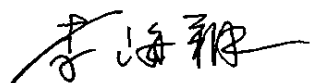
STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
31 December 2019

	Notes	31 December 2019 HK\$'000	31 December 2018 HK\$'000 Restated	1 January 2018 HK\$'000 Restated
<b>Non-current assets</b>				
Property, plant and equipment	12	67,195,958	68,802,706	76,763,417
Investment properties	13	164,183	175,798	210,613
Right-of-use assets	14	588,691	-	-
Goodwill	15	13,516,609	13,980,150	15,984,804
Other intangible assets	16	43,288,824	47,130,797	57,264,536
Investment in associates	17	48,277,900	48,321,508	49,938,655
Investment in joint ventures	18	20,622,048	20,941,018	23,186,621
Equity investments designated at fair value through other comprehensive income	19	10,171,299	9,762,744	11,204,413
Other equity instrument investments	19	244,031	249,592	284,059
Financial assets – concession rights	20	16,983,494	15,070,775	14,987,164
Derivative financial assets	21	3,719,590	3,193,760	2,363,778
Deferred tax assets	22	3,173,866	3,289,486	4,077,924
Sector financial assets	23	5,311	452,573	837,736
Contract assets	24	38,979,486	37,280,871	27,071,697
Other non-current assets	25	8,088,918	7,637,128	7,881,792
<b>Total non-current assets</b>		<u>275,020,208</u>	<u>276,288,906</u>	<u>292,057,209</u>
<b>Current assets</b>				
Inventories	26	326,991	336,520	321,317
Trade receivables	27	10,692,714	9,977,067	10,822,200
Contract assets	24	5,851,833	4,582,525	3,223,692
Sector financial assets	23	2,113,249	2,690,578	497,526
Prepayments, other receivables and other assets	28	3,003,400	3,315,457	3,916,790
Derivative financial assets	21	556,662	628,113	1,297,335
Financial assets at fair value through profit or loss	29	1,644,481	-	-
Cash and cash equivalents	30	16,613,927	8,503,198	14,487,713
<b>Total current assets</b>		<u>40,803,257</u>	<u>30,033,458</u>	<u>34,566,573</u>
<b>Current liabilities</b>				
Trade payables	31	6,874,728	6,353,441	9,311,165
Other payables and accruals	32	7,538,634	5,942,380	6,769,520
Derivative financial liabilities	21	85,912	57,348	190,387
Interest-bearing bank and other borrowings	34	32,034,531	30,042,479	36,892,384
Lease liabilities	14	153,135	6,656	6,073
Contract liabilities	35	689,115	673,184	996,059
Sector financial liabilities	23	-	-	94,654
Private pension plan	36	434,501	175,108	143,478
Tax payable		705,297	430,684	421,859
Provision	37	1,018,511	1,047,413	1,027,579
<b>Total current liabilities</b>		<u>49,534,364</u>	<u>44,728,693</u>	<u>55,853,158</u>
<b>NET CURRENT LIABILITIES</b>		<u>( 8,731,107)</u>	<u>(14,695,235)</u>	<u>(21,286,585)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>266,289,101</u>	<u>261,593,671</u>	<u>270,770,624</u>



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)  
31 December 2019

	Notes	31 December 2019 HK\$'000	31 December 2018 HK\$'000 Restated	1 January 2018 HK\$'000 Restated
<b>Non-current liabilities</b>				
Derivative financial liabilities	21	1,431,482	604,304	1,083,879
Interest-bearing bank and other borrowings	34	86,879,810	90,296,959	75,167,798
Lease liabilities	14	620,678	261,694	303,271
Contract liabilities	35	83,602	98,496	52,517
Sector financial liabilities	23	198,190	94,410	19,787
Private pension plan	36	4,161,089	2,338,146	2,077,474
Deferred tax liabilities	22	24,887,233	25,605,131	28,017,152
Provision	37	6,637,268	6,678,108	8,300,898
Other non-current liabilities		<u>2,264,176</u>	<u>1,804,141</u>	<u>1,581,756</u>
<b>Total non-current liabilities</b>		<b><u>127,163,528</u></b>	<b><u>127,781,389</u></b>	<b><u>116,604,532</u></b>
<b>Net assets</b>		<b><u>139,125,573</u></b>	<b><u>133,812,282</u></b>	<b><u>154,166,092</u></b>
<b>EQUITY</b>				
Equity attributable to owners of the parent				
Share capital	38	130,516,988	130,516,988	129,597,769
Reserves	39	( 7,122,905)	( 7,861,353)	6,295,396
		123,394,083	122,655,635	135,893,165
<b>Non-controlling interests</b>		<b><u>15,731,490</u></b>	<b><u>11,156,647</u></b>	<b><u>18,272,927</u></b>
<b>Total equity</b>		<b><u>139,125,573</u></b>	<b><u>133,812,282</u></b>	<b><u>154,166,092</u></b>



LI Haixiang  
Director

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
Year ended 31 December 2019

	Attributable to owners of the parent											
	Fair value reserve of financial assets at fair value through other comprehensive income										Non-controlling interests	Total equity
	Share capital	Capital reserve	Retained profits	Hedging reserve	Exchange fluctuation reserve	Credit risk in market	Actuarial reserve on defined benefit plans	Other reserves	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2018 (restated)	130,516,988	529,234	23,929,650	1,297,249	(32,530,698)	112,996	( 274,137)	(168,816)	122,655,635	11,156,647	133,812,282	
Effects of adoption of HKFRS 16 (Note 2.3)	-	-	16,314	-	-	-	-	-	16,314	10,876	27,190	
At 1 January 2019 (restated)	130,516,988	529,234	23,945,964	1,297,249	(32,530,698)	112,996	( 274,137)	(168,816)	122,671,949	11,167,523	133,839,472	
Profit for the year	-	-	10,157,780	-	-	-	-	-	10,157,780	950,503	11,108,283	
Other comprehensive income for the year:												
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	239,309	-	239,309	
Exchange differences on translation of foreign operations	-	-	-	-	( 4,450,782)	-	-	-	( 4,450,782)	( 578,032)	( 5,028,814)	
Hedges of net investments	-	-	-	438,376	-	-	-	-	408,376	-	408,376	
Cashflow hedges	-	-	(514,687)	-	-	-	-	-	( 514,687)	( 343,124)	( 857,811)	
Actuarial reserve on defined benefit plans	-	-	-	-	-	-	(1,455,984)	-	( 1,455,984)	( 287,885)	( 1,743,869)	
Credit risk in mark to market of financial liabilities	-	-	-	-	-	( 2,325)	-	-	( 2,325)	145	( 2,180)	
Other comprehensive income from associates	-	-	-	-	-	-	-	54,876	54,876	-	54,876	
Other comprehensive income from joint ventures	-	-	-	-	-	-	-	(21,809)	( 21,809)	-	( 21,809)	
Total comprehensive income for the year	-	-	10,157,780	(106,311)	( 4,450,782)	( 2,325)	(1,455,984)	33,067	4,414,754	( 258,393)	4,156,361	
Increase in non-controlling capital*	-	-	-	-	-	-	-	-	-	7,447,939	7,447,939	
Distribution to shareholders (Note 11)	-	-	( 5,659,179)	-	-	-	-	-	( 5,659,179)	( 660,541)	( 6,319,720)	
Transactions within equity*	-	-	1,965,038	-	-	-	-	-	1,965,038	( 1,965,038)	-	
Other changes**	-	-	1,521	-	-	-	-	-	1,521	-	1,521	

\* On 28 June 2019, the subsidiary of the Company, CPFL Energia S.A. ("CPFL"), completed Follow-on Offering. As a result, CPFL sold 17,522,568 additional common shares and received net proceeds of approximately BRL3,639 million (equivalent to approximately HK\$ 7,448 million). More detailed information disclosed in Note 1.

\*\* This refers to reversal of unclaimed dividends over 3 years.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)  
Year ended 31 December 2019

	Attributable to owners of the parent											
	Share capital HK\$'000	Capital reserve HK\$'000	Fair value reserve of financial assets through other comprehensive income HK\$'000	Retained profits HK\$'000	Hedging reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Credit risk in mark to market HK\$'000	Actuarial reserve on defined benefit plans HK\$'000	Other reserves HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2018	129,597,769	529,234	684,837	17,840,554	547,028	(15,722,604)	76,347	210,334	(45,623)	133,717,876	18,272,927	151,990,803
Restatement of comparative financial statements (Note 2.2)	-	-	-	2,175,289	-	-	-	-	-	2,175,289	-	2,175,289
At 1 January 2018 (restated)	129,597,769	529,234	684,837	20,015,843	547,028	(15,722,604)	76,347	210,334	(45,623)	135,893,165	18,272,927	154,166,092
Profit for the year (restated)	-	-	-	11,759,294	-	-	-	-	-	11,759,294	820,101	12,579,395
Other comprehensive income for the year (restated):												
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	(1,441,668)	-	-	-	-	-	-	(1,441,668)	-	(1,441,668)
Exchange differences on translation of foreign operations (restated)	-	-	-	-	-	(16,808,094)	-	-	-	(16,808,094)	(2,227,420)	(19,035,514)
Hedges of net investments	-	-	-	-	864,176	-	-	-	-	864,176	-	864,176
Cashflow hedges	-	-	-	-	(113,955)	-	-	-	-	(113,955)	(75,970)	(189,925)
Actuarial reserve on defined benefit plans	-	-	-	-	-	-	-	(484,471)	-	(484,471)	(25,194)	(509,665)
Credit risk in mark to market of financial liabilities	-	-	-	-	-	-	36,649	-	-	36,649	2,031	38,680
Other comprehensive income from associates	-	-	-	-	-	-	-	-	(227,833)	(227,833)	-	(227,833)
Other comprehensive income from joint ventures	-	-	-	-	-	-	-	-	104,640	104,640	-	104,640
Total comprehensive income for the year (restated):	-	-	(1,441,668)	11,759,294	750,221	(16,808,094)	36,649	(484,471)	(123,193)	(6,311,262)	(1,506,452)	(7,817,714)
Issued of preference shares (Note 38)	919,219	-	-	-	-	-	-	-	-	919,219	-	919,219
Acquisition of non-controlling interest	-	-	-	(3,413,197)	-	-	-	-	-	(3,413,197)	(5,035,202)	(8,448,399)
Distribution to shareholders (Note 11)	-	-	-	(4,432,290)	-	-	-	-	-	(4,432,290)	(589,086)	(5,021,376)
Other changes	-	-	-	-	-	-	-	-	-	-	14,460	14,460
At 31 December 2018 (restated)	130,516,988	529,234	(756,831)	23,929,650	1,297,249	(32,530,698)	112,996	(274,137)	(168,816)	122,655,635	11,156,647	133,812,282

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000 Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		14,893,049	15,831,177
Adjustments for:			
Finance costs	7	5,900,595	6,007,979
Interest income	6	( 2,321,431)	( 1,625,888)
Foreign exchange differences, net		482,529	723,752
Dividend income and gain on equity investments designated at fair value through other comprehensive income	6	( 504,464)	( 503,225)
Share of profit of associates and joint ventures		( 5,718,571)	( 6,180,755)
Provision of impairment of trade receivables and contract assets	8	460,919	362,427
Provision of impairment of prepayments, other receivables and other assets	8	488	3,998
Depreciation of property, plant and equipment	12	3,129,277	3,198,132
Depreciation of right-of-use assets	14	136,844	-
Depreciation of investment properties	13	3,978	4,922
Amortisation of intangible assets	16	3,419,124	3,893,460
Decrease /(increase) in inventories		9,529	( 15,203)
(Increase) /decrease in trade receivables		( 715,647)	845,133
Decrease /(increase) in contract assets		1,116,037	( 7,757,585)
Decrease in prepayments, other receivables and other assets		68,630	496,237
Increase in other non-current assets		( 333,309)	( 583,915)
Increase /(decrease) in trade payables		521,287	( 2,957,724)
Increase/(decrease) in other payables and accruals		1,169,722	( 1,075,357)
Private pension plan		( 38,018)	( 8,983)
Decrease /(increase) in sector financial assets/liabilities		1,197,692	( 1,960,746)
Fair value change recognised in profit and loss		25,234	38,376
Others operating items		<u>266,145</u>	<u>( 1,317,524)</u>
Cash generated from operations		23,169,639	7,418,688
Income taxes paid		<u>( 2,850,524)</u>	<u>( 2,675,634)</u>
Net cash flow from operating activities		<u>20,319,115</u>	<u>4,743,054</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment and addition of concession assets		(11,248,708)	(17,296,727)
Purchases of equity investments designated at fair value through other comprehensive income		( 169,248)	-
Purchases of equity investments at fair value through profit or loss		( 1,691,796)	-
Net cash received from disposal of property, plant and equipment, intangible assets and other non-current assets		61,197	23,971
Acquisition of subsidiaries		( 272,327)	-
Interest received		2,411,942	1,542,312
Dividend received from equity investments designated at fair value through other comprehensive income		504,464	503,225
Dividend received from associates and joint ventures		4,595,356	5,136,139
Capital reduce/(increase) in subsidiaries and joint ventures		454,406	( 57,269)
Other investing activities		<u>( 28,021)</u>	<u>- 475,449</u>
Net cash flows used in investing activities		<u>( 5,382,735)</u>	<u>( 9,672,900)</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000 Restated
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in capital from shareholders		-	919,219
Increase in capital from non-controlling shareholder		7,447,939	14,460
Acquisition of non-controlling interests		-	( 8,448,399)
Proceeds from bank loans		12,614,312	48,584,271
Proceeds from issue of bonds		7,550,354	10,161,235
Cash repayments of borrowings and derivatives		(14,833,250)	( 27,255,139)
Cash repayments of bonds		( 6,756,513)	( 12,892,368)
Dividends paid		( 5,893,188)	( 4,751,878)
Interest paid		( 4,282,880)	( 5,597,953)
Payment of lease liabilities		( 202,190)	( 42,006)
Net cash flows (used in) /from financing activities		( 4,355,416)	691,442
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		8,503,198	14,487,713
Effect of foreign exchange rate changes, net		( 2,470,235)	( 1,746,111)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>30</b>	<b><u>16,613,927</u></b>	<b><u>8,503,198</u></b>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS  
31 December 2019

1. CORPORATE INFORMATION

State Grid International Development Limited ("the Company") is a limited liability company incorporated in Hong Kong. In August 2012, the shareholder of the Company changed from State Grid Corporation of China to State Grid International Development Co., Ltd. The registered office is located at Suite 1304, 13F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

The Company commenced its operations as an investment holding company in June 2008. The principal activities include providing resources and logistics services; acting as agent for tenders and purchase; manufacturing electricity devices; research and development of electricity technology products; investment, exploitation and management of electricity; operation and maintenance of electricity networks; other business include the provision of work design, construction, management, consultancy and technical services.

In the opinion of directors, the ultimate holding company is State Grid Corporation of China. Its registered office is located at 86 West Chang An Avenue, Xicheng District, Beijing, China.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

1. CORPORATE INFORMATION (CONTINUED)

Particulars of the principal subsidiaries as at the end of the year are as follows:

	Place of Incorporation	Principal activities	Nominal value of issued and fully paid-up capital	Percentage of equity interest attributable to the Company
Expansion Transmissora Itumbiara Marimbondo S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 88,108,634	100%
Expansion Transmissora de Energia Elétrica S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 101,747,039	100%
Itumbiara Transmissora de Energia S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 373,710,000	100%
Pocos de Caldas Transmissora de Energia Elétrica S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 208,350,900	100%
Ribeirão Preto Transmissora de Energia Elétrica S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 203,800,617	100%
Serra Paracatu Transmissora de Energia S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 175,300,000	100%
Serra da Mesa Transmissora de Energia Elétrica S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 274,500,000	100%
Araraquara Transmissora De Energia S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 167,191,128	100%
Catxere Transmissora De Energia S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 316,948,233	100%
Iracema Transmissora De Energia S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 237,062,000	100%
Linhas De Transmissão Do Itatim S.A.	Rio de Janeiro, Brazil	Grid operating	BRL 261,360,000	100%
Linhas de Transmissão De Montes Claros S.A (LTMCI)	Rio de Janeiro, Brazil	Grid operating	BRL 211,025,069	100%
Atlântico Concessionária de Transmissão de Energia do Brasil S.A. (ACTE)	Rio de Janeiro, Brazil	Grid operating	BRL 74,643,446	100%
Xingu Rio Transmissora de Energia S.A. (XRTE)	Rio de Janeiro, Brazil	Grid operating	BRL 1,971,001,000	100%
Porto Primavera Transmissora De Energia S.A.(PPTE)	Brazil Rio de Janeiro	Grid operating	BRL 194,035,000	100%
Marechal Rondon Transmissora de Energia S.A.(MRTE)	Rio de Janeiro, Brazil	Electricity production and supply	BRL 78,618,000	100%
Paranaíta Ribeirozinho Transmissora de Energia S.A.(PRTE)	Brazil	Grid operating	BRL 537,001,000	100%
Canarana Transmissora de Energia S.A.(CNTE)	Brazil	Grid operating	BRL 144,001,000	100%
International Grid Holdings Limited	Virgin Islands, British	Project investment and financing	US\$ 1	100%
Top View Grid Investment Limited	Virgin Islands, British	Project investment and financing	US\$ 1	100%
State Grid Brazil Holding S.A. (SGBH)	Rio de Janeiro, Brazil	Project Investment and financing	BRL 5,803,484,360	100%

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

1. CORPORATE INFORMATION (CONTINUED)

Particulars of the principal subsidiaries as at the end of the year are as follows (Continued):

	Place of incorporation	Principal activities	Nominal value of issued and fully paid-up capital	Percentage of equity interest attributable to the Company
State Grid Europe Limited*	Britain	Project investment and financing	GBP 10,000,000	100%
			EUR 885,000,000	
State Grid Europe Development(2014) Public Limited Company	Britain	Project investment and financing	GBP 50,000	100%
State Grid International development Asia and Australia Holdings Company Limited	Hong Kong	Project investment and financing	HK\$ 5,338,010,416	100%
State Grid International Australia Investment Limited	Hong Kong	Project investment and financing	HK\$ 10,000	100%
State Grid International Australia Development Limited	Hong Kong	Project investment and financing	HK\$ 10,000	100%
SGSP (Australia) Assets Pty Ltd. (SGSPAA) **	Melbourne, Australia	Grid operating	AU\$ 3,200,000,100	60%
Jemena Gas Trust	Australia	Project investment and financing	AU\$ 357,929,002	60%
Jemena Group Holdings Pty Ltd.	Australia	Project investment and financing	AU\$ 969,372,110	60%
Jemena Holdings Pty Ltd.	Australia	Project investment and financing	AU\$ 4	60%
Jemena Limited	Australia	Project investment and financing	AU\$ 5,617,459,334	60%
Jemena Gas Pipeline Holdings Pty Ltd.	Australia	Project investment and financing	AU\$ 2,666,800	60%
Zinfra Pty Ltd.	Australia	Project investment and financing	AU\$ 2	60%
Jemena Management Holding Pty Ltd.	Australia	Project investment and financing	AU\$ 2	60%
Jemena Roma North Pipeline Pty Ltd.***	Australia	Project investment and financing	AU\$ 2	60%
State Grid Brazil Power Participações Ltda. (SGBP)	Brazil	Project investment and financing	BRL 1,149,557,020	100%
CPFL Energia S.A. (CPFL) ****	Brazil	Grid operating	BRL 9,388,081,342	83.71%
CPFL Energias Renováveis S.A. (CPFL Renováveis) *****	Brazil	Grid operating	BRL 3,698,060,000	83.66%

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

\* On 17 October 2019, with the approval of the Company's board of directors, its long-term receivables from State Grid Europe Limited were converted into capital injections in the amount of EUR 885,000,000.

\*\* On 30 September 2019, the Company's subsidiary SGSPAA disposed of its subsidiaries AquaNet Sydney Pty Ltd. and Rosehill Network Pty Ltd. for a consideration of AU\$12 million (equivalent to approximately HK\$66 million) and AU\$ 58 million (equivalent to approximately HK\$317 million).



1. CORPORATE INFORMATION (CONTINUED)

Particulars of the principal subsidiaries as at the end of the year are as follows (Continued):

- \*\*\* On 12 September 2019, SGSPAA acquired 100% equity interest in Jemena Roma North Pipeline Pty Ltd. at an estimated value of AUD 50 million (equivalent to approximately HK\$272 million) in cash.
- \*\*\*\* On 30 May 2019, CPFL announced the launch of the Follow-on Offering, which closed on 14 June 2019. Pursuant to the Follow-on Offering, CPFL offered 116,817,126 of its common shares in a global offering consisting of (i) a public offering of common shares with restricted selling efforts in Brazil, and (ii) a concurrent international offering of common shares, including in the form of ADSs, in the United States and elsewhere outside of Brazil. Also pursuant to the Follow-on Offering, CPFL sold 17,522,568 additional common shares under an over-allotment option that closed on 28 June 2019. As a result of the Follow-on Offering, CPFL received net proceeds of approximately BRL3,164.3 million before expenses, after deducting underwriting commissions. CPFL received net proceeds of approximately BRL 474.7 million before expenses, after deducting underwriting commissions, as a result of the over-allotment option. Following the closing of the Follow-on Offering, The Company's direct and indirect equity interest in CPFL's capital stock decreased to 83.71%.
- \*\*\*\*\* On 4 June 2019, with the approval of the board of directors of CPFL Renováveis, CPFL Renováveis issued 17,503,602 shares. Together with a subsidiary of CPFL, Parcela Geração's prepaid capital of BRL300 million in CPFL Renováveis approved by the board of directors in 2016, CPFL's interest in CPFL Renováveis increased by 17,502,918 shares, and its minority shareholders increased by 684 shares. At the end of September 2019, SGBP transferred its directly held CPFL Renováveis shares to CPFL at a consideration of approximately BRL 4.108 billion, accounting for 46.76% of CPFL Renováveis's total shares. In summary, the Group's shareholding in CPFL Renováveis decreased from 99.94% in 2018 to 83.66% in 2019.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars 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 Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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 in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Going concern

As of 31 December 2019, the Group had net current liabilities of HK\$8,731 million (31 December 2018: at net current liabilities of HK\$14,695 million). The directors of the Company have considered the Group's available sources of funds as follow: based on a review of the forecasted cash flows, the Group's expected net cash inflows from operating activities in 2020 and the Group has access to unused committed facilities of HK\$13,877,357,000 (31 December 2018: HK\$24,346,156,000), all of which are available for more than 12 months from the end of the reporting period. Therefore, the financial statements have been prepared on a going concern basis. The going concern basis assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

2.2 CORRECTION OF PRIOR PERIOD ERRORS

Upon initial application of HKFRS15 on 1 January 2018, an inappropriate discount rate was used to measure the contract assets in the preparation of the financial statements for the year ended 31 December 2018, which were issued on 13 June 2019. According to HKFRS15, the management corrected the inappropriate discount rate in the preparation of the financial statements for the year ended 31 December 2019 to the rate that reflects characteristics in the financing transaction between the Company and its customer at contract inception. Based on the requirement of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the management retrospectively restated the financial statements for the year ended 31 December 2018.

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the restatement of adopting HKFRS 15.

Consolidated statement of profit or loss and comprehensive income for the year ended 31 December 2018:

	As reported HK\$'000	Adjustments HK\$'000	As adjusted HK\$'000
Revenue	87,876,660	112,644	87,989,304
Profit before tax	15,718,533	112,644	15,831,177
Income tax expense	( 3,942,909)	<u>691,127</u>	( 3,251,782)
Profit for the year	11,775,624	<u>803,771</u>	<u>12,579,395</u>
Attributable to:			
Owners of the parent	10,955,523	803,771	11,759,294
Non-controlling interests	<u>820,101</u>	<u>-</u>	<u>820,101</u>
	<u>11,775,624</u>	<u>803,771</u>	<u>12,579,395</u>
<b>Other comprehensive income</b>			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations, net of tax	(18,674,469)	(361,045)	(19,035,514)
Other comprehensive income for the year, net of tax	(20,036,064)	(361,045)	(20,397,109)
Total comprehensive income for the year, net of tax	( 8,260,440)	<u>442,726</u>	( 7,817,714)
Attributable to:			
Owners of the parent	( 6,753,988)	442,726	( 6,311,262)
Non-controlling interests	( 1,506,452)	<u>-</u>	( 1,506,452)
	( 8,260,440)	<u>442,726</u>	( 7,817,714)

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

2.2 CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

Consolidated statement of financial position as of 31 December 2018:

	As reported HK\$'000	Adjustments HK\$'000	As adjusted HK\$'000
Contract assets	38,010,068	3,853,328	41,863,396
Prepayments, other receivables and other assets	3,307,595	7,862	3,315,457
Deferred tax assets	<u>3,224,532</u>	<u>64,954</u>	<u>3,289,486</u>
Total assets	<u>302,396,220</u>	<u>3,926,144</u>	<u>306,322,364</u>
Tax payable	358,244	72,440	430,684
Deferred tax liabilities	<u>24,369,442</u>	<u>1,235,689</u>	<u>25,605,131</u>
Total liabilities	<u>171,201,953</u>	<u>1,308,129</u>	<u>172,510,082</u>
Reserves			
Retained earnings	20,950,590	2,979,060	23,929,650
Exchange fluctuation reserve	( 32,169,653 )	( 361,045 )	( 32,530,698 )
Total equity	<u>131,194,267</u>	<u>2,618,015</u>	<u>133,812,282</u>

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

Consolidated statement of financial position as of 1 January 2018:

	As reported HK\$'000	Adjustments HK\$'000	As adjusted HK\$'000
Contract assets	25,922,872	4,372,517	30,295,389
Deferred tax assets	<u>4,018,273</u>	<u>59,651</u>	<u>4,077,924</u>
Total assets	<u>322,191,614</u>	<u>4,432,168</u>	<u>326,623,782</u>
Deferred tax liabilities	<u>25,760,273</u>	<u>2,256,879</u>	<u>28,017,152</u>
Total liabilities	<u>170,200,811</u>	<u>2,256,879</u>	<u>172,457,690</u>
Reserves			
Retained earnings	<u>17,840,554</u>	<u>2,175,289</u>	<u>20,015,843</u>
Total equity	<u>151,990,803</u>	<u>2,175,289</u>	<u>154,166,092</u>

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 16	<i>Leases</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Annual Improvements to HKFRSs 2015-2017 Cycle	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23</i>

Except for the Annual Improvements to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

### (a) The adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

#### New definition of a lease

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

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(a) The adoption of HKFRS 16 (Continued)

As a lessee - Leases previously classified as operating leases

*Nature of the effect of adoption of HKFRS 16*

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

*Impact on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

As a lessee - Leases previously classified as finance leases

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

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(a) The adoption of HKFRS 16 (Continued)

Financial impact at 1 January 2019

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

	Increase/(decrease) HK\$'000
<b>Assets</b>	
Increase in right-of-use assets	725,123
Increase in total assets	<u>725,123</u>
<b>Liabilities</b>	
Increase in lease liabilities	894,068
Decrease in other payables and accruals	( 17,891)
Decrease in other non-current liabilities	(189,897)
Increase in deferred tax liabilities	11,653
Increase in total liabilities	<u>697,933</u>
Increase in retained profits	16,314
Increase in non-controlling interests	<u>10,876</u>

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

	HK\$'000
<b>Operating lease commitments as at 31 December 2018</b>	<b>1,200,136</b>
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	( 9,291)
Commitments relating to leases of low-value assets	( 92,358)
Other adjustments	( 19,525)
Add: Payments for optional extension periods not recognised as at 31 December 2018	-
	<u>1,078,962</u>
Weighted average incremental borrowing rate as at 1 January 2019	<u>4.2%</u>
Discounted operating lease commitments as at 1 January 2019	894,068
Add: Finance lease liabilities recognised as at 31 December 2018	<u>268,350</u>
<b>Lease liabilities as at 1 January 2019</b>	<b><u>1,162,418</u></b>

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.



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

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

Amendments to HKFRS 3	<i>Definition of a Business</i> <sup>1</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> No mandatory effective date yet determined but available for adoption

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its derivative financial instruments and equity investments 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.

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.

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;

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Related parties (Continued)

(b) the party is an entity where any of the following conditions applies: (Continued)

- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### Property, plant and equipment and depreciation

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

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Land and buildings	1.90% - 9.50%
Plant and equipment	*
Office equipment	13.57%-19.00%
Transport equipment	4.75%-33.33%

\*The useful life of plant and equipment in the foreign operations depends on local regulations and practices.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment and depreciation (Continued)

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

### Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. After initial recognition, the Group uses the cost model to measure all of its investment properties.

Depreciation is calculated on the straight-line basis to write off the cost to investment property's residual value over its estimated useful life. The principal annual rates used for this purpose is 2%.

The carrying amounts of investment properties measured using the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

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.

### Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intangible assets (other than goodwill) (Continued)

#### Software

Computer software includes the cost of software licences purchased by the Group and other additional software development costs.

#### Contract intangibles

Contract intangibles represent the value attributed to the material customer contracts that the Group acquired in business combinations. The value of these contracts are based on independent valuations, predicated on estimates and judgements. The value of these contracts is determined with reference to the separately identifiable net cash flows generated under each contract, discounted back to present value. Their useful lives reflect both the contract terms and, where applicable, assumed renewal periods.

#### Distribution licences

Distribution licences represents the concessionaires' right to charge the consumers for electric energy distribution services. Since the exploration term is defined in the agreement, intangible assets with defined useful lives are amortized over the concession period in proportion to a curve that reflects the consumption pattern in relation to the expected economic benefits.

Amortisation is charged to the income statement on a straight line basis over the estimated useful life of each intangible asset with a finite life, which depends on local regulations and practices.

#### Goodwill

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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



## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (Continued)

#### *Initial recognition and measurement (continued)*

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

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

#### *Subsequent measurement*

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

#### *Financial assets at amortised cost (debt instruments)*

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

#### *Financial assets at fair value through other comprehensive income (debt instruments)*

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments) Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income.

Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

*Subsequent measurement (continued)*

*Financial assets at fair value through profit or loss*

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

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

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

Derecognition of financial assets

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets

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

#### *General approach*

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

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

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

#### *Simplified approach*

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (Continued)

#### *Simplified approach (continued)*

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### Financial liabilities

#### *Initial recognition and measurement*

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

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

#### *Subsequent measurement*

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

#### *Financial liabilities at fair value through profit or loss*

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

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

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

#### *Financial liabilities at amortised cost (loans and borrowings)*

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### Offsetting of financial instruments

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

### Derivative financial instruments and hedge accounting

#### *Initial recognition and subsequent measurement*

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges or hedges of a net investment in a foreign operation, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Derivative financial instruments and hedge accounting (Continued)*

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

*Cash flow hedges*

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

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

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

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

*Fair value hedges*

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

*Hedges of a net investment*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (Continued)

*Current versus non-current classification*

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

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

Leases (applicable from 1 January 2019)

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

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

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

Land and buildings	5 to 15 years
Plant and equipment	3 to 5 years
Transport equipment	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

*Group as a lessee (continued)*

(b) Lease liabilities

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

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

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

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

*Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

*Group as a lessor (continued)*

At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. 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.

Leases (applicable before 1 January 2019)

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

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

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

## 2.5 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.

Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchase of raw materials.

### 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 included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

### 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 for the current and prior periods 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 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.

## 2.5 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, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward 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, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and 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 on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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, and assets similar in nature to cash, which are not restricted as to use.

### Borrowing costs

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

### 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.

### Transmission and distribution concessions

The Group's subsidiaries in Brazil entered into electricity transmission concession and distribution concession agreements with the local government. These concession contracts regulate the activities of electricity distribution by these subsidiaries, where:

- a) The contract establishes which services the operator shall render;
- b) The contract establishes performance standards related to maintaining and improving service quality to the consumers;
- c) Assets are revertible at the end of the concession and are entitled to indemnification (cash) from the Federal Government on investments not yet amortised, determined by the new replacement value;
- d) The price (tariff) is regulated and denominated Annual Allowed Revenue ("RAP").

### Distribution companies

The HK(IFRIC)-Int 12 *Service Concession Arrangements* establish general guidelines for the recognition and measurement of obligations and rights related to concession agreements and apply to situations in which the granting authority controls or regulates which services the concessionaire should provide with the infrastructure, to whom the services should be provided and at what price, and controls any significant residual interest in the infrastructure at the end of the concession period.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Transmission and distribution concessions (Continued)

#### *Distribution companies (continued)*

When these criteria are met, the infrastructure of distribution concessionaires is segregated as contract assets at the time of construction, up to the completion of construction, in accordance with the HKFRS requirements, so that, when operational, the following are reclassified in the financial statements from contract assets to (i) intangible asset corresponding to the right to operate the concession and collect from the users of public utilities, and (ii) financial asset corresponding to the unconditional contractual right to receive cash (indemnity) by transferring control of the assets at the end of the concession.

The concession financial asset of distribution companies is measured based on its fair value, determined in accordance with the remuneration base for the concession assets, pursuant to the legislation in force established by the Brazilian Electricity Regulatory Agency ("ANEEL"), and takes into consideration changes in the fair value, mainly based on factors such as new replacement value, and adjustment for Extended Comprehensive Consumer Price Index ("IPCA") for the distribution subsidiaries. The financial asset of distribution companies is classified as fair value through profit or loss, with the corresponding fair value changes entry in the revenue in the statement of profit or loss for the year.

The remaining amount is recognized as intangible asset and relates to the right to charge consumers for electric energy distribution services, and is amortized in accordance with the consumption pattern that reflects the estimated economic benefit to the end of the concession.

Considering that (i) the tariff model that does not provide for a profit margin for the infrastructure construction services from distribution, (ii) the way in which the subsidiaries manage the constructions by using a high level of outsourcing, and (iii) the fact that there is no provision for profit margin on construction in the Group's business plans, Management is of the opinion that the margins on this operation are irrelevant, and therefore no mark-up to the cost is considered in revenue. The construction revenue and costs are therefore presented in the statement of profit or loss for the year in the same amounts.

#### *Transmission companies*

The Group's transmission companies are responsible for constructing and operating the transmission infrastructure in order to carry the energy from the generation centres to the distribution points, according to their concession arrangements.

The energy transmission company has the obligation to maintain its transmission infrastructure available to its users to guarantee the receipt of the RAP during the concession agreement term. Potential unamortized investments generate the right to indemnity at the end of the concession arrangement.

The transmission infrastructure is classified as a contract asset. The right to consideration for goods and services is subject to the satisfaction of performance obligations and not only to the passage of time.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

*Revenue from contracts with customers*

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

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

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

(a) Rendering of services

Revenue from services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. Revenue is recognized on a straight-line basis because the entity's inputs are expended evenly throughout the performance period.

Distribution revenue is earned from the distribution of gas and electricity and related services. Revenue is recognised as the services are rendered i.e. on delivery, and incorporate usage estimation where necessary.

(b) Revenue from the sales (including sales of scrap and other materials)

Revenue from the sale of industrial products or scrap and other materials is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

The revenue from energy generation sales is recognized based on the assured energy and at tariffs specified in the terms of the supply contracts or the current market price, as appropriate.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (Continued)

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

##### (c) Concession revenues

Concession revenue is mainly derived from provision of infrastructure construction services, which is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

To estimate Construction Revenue, the Company used a model that calculates the cost to finance the customer (i.e., the Granting Authority). The rate defined for the net present value of the construction (and operation) margin is defined in the beginning of the project and is not subject to subsequent changes, and is calculated according to the customer's credit risk and the financing term. As a remuneration of the concession related contract assets, Interest is recognized using the straight-line method based on the rate that best represents the remuneration of the transmission infrastructure investments, considering the specific business-related risks and rewards.

#### *Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

#### *Other income*

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### Contract assets

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

### Contract liabilities

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

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract costs

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

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

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

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation 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 profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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 determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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



## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their 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 profit or loss.

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

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

### Dividends

Interim dividends and final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position. Dividends are recognised as a liability when they are approved by the shareholders. Proposed final dividends are disclosed in the notes to the financial statements.

### Employee benefits

#### *(a) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date and are measured at the undiscounted amounts expected to be paid when the liabilities are settled. Non-vesting sick leave is recognised in profit or loss when the leave is taken and measured at the rates paid or payable.

Annual leave that is not expected to be settled within 12 months after the end of the reporting period is recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

When assessing expected future payments consideration is given to employee wage increases as well as the experience of employee departures and periods of services. The expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match the expected timing of cash outflows.

The provision for annual leave is classified as a current liability as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

*(b) Long service leave*

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (a) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employee up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yield at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(c) Retirement benefit surplus/obligations*

Defined benefit superannuation plans:

The Group's net surplus/obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior years, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense/(income) on the net defined benefit (liability)/asset for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then-net defined benefit (liability)/asset, taking into account any changes in the net defined benefit (liability)/asset during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Obligations for contributions to defined contribution superannuation plans are recognised as an expense in profit or loss in the periods during which the services are rendered by the employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

*(d) Profit sharing and bonus plans*

A liability for employee benefits in the form of bonus plans is recognised in provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the financial report; or
- Past practice gives clear evidence of the amount of the obligation.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Employee benefits (Continued)

#### *(e) Termination benefits*

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors or provisions as applicable.

#### *(f) Employee benefit on-costs*

Employee benefit on-costs, including payroll tax, workers' compensation and superannuation guarantee contribution, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities or costs.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

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

#### *Revenue from contracts with customers*

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

##### *Determining the timing of satisfaction of installation services*

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

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

#### *Property lease classification - Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (Continued)

*Significant judgement in determining the lease term of contracts with renewal options*

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

*Income taxes*

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered annually to take into account all changes in tax legislation.

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

*Going Concern*

The ability of the Group to continue operations is dependent upon obtaining the necessary borrowings and generating cash inflows from operating activities in order to generate sufficient cash flows to meet its liabilities as they fall due. In the event that the Group are unable to obtain adequate funding, there is uncertainty as to whether the Group will be able to continue as a going concern. These financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Group be unable to continue as a going concern.

*Estimation uncertainty*

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Future details on goodwill are given in Note 15.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 27 and Note 24 to the financial statements, respectively.

*Leases – Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

*Estimation in the revenue recognition*

(1) Energy distribution in Brazil and Australia

In Brazil, the difference in the timing for reading and invoice of energy consumption resulted that part of the energy distributed during the year is not billed at the end of year; consequently, an estimate is developed by Management and recorded as "Unbilled". This unbilled revenue estimate is calculated using as a base the total volume of energy of each distributor made available during the year and the annualized rate of technical and commercial losses.

In Australia, estimates are made where required to account for the period between the meter reading date and the end of the accounting period. The estimates are made based on factors including historical consumption patterns, base usage and weather conditions.

(2) Construction for Energy transmission in Brazil

Estimate and judgment is required about the time that the customer obtains control over the asset; the progress in satisfying the performance obligation over time or inputs required to meet the performance obligation, such as materials and labour, expected profit margins, or lack of expected profit margins, on each performance obligation identified, and expected revenue projections. Due to the term of the energy transmission contract is long, the identification of the discount rate that represents the financial component embedded in future cash inflows also requires the use of judgment by management.

(3) Infrastructure construction in Australia

Reliably measuring the outcome and the stage of completion of contracts involves a level of estimation of a range of factors that are subject to risk and uncertainty. The estimates and judgements relate to forecast revenue and costs to complete, stage of project completion, and the recoverability of unapproved variations, claims and disputes.

*Environmental provisions*

These provisions have been reviewed through the year to assess the Group's obligations, probability and estimate of outflow of resources. For impacted sites, assumptions have been made on the most probable course of action in remediating, to arrive at a best estimate of the outflow of resources. It is also assumed that such course of action will requirements, within the expected timeframe.

It is difficult to estimate the future costs of environmental remediation because of many uncertainties, particularly with regard to the availability of particular remediation methods and technologies, the extent to which contaminated material may be treated on site or alternatively treated off site and then disposed to landfill, the possibility that applicable laws and standards may change with time, as well as the information available about conditions at the individual sites.

Significant factors relevant to the estimation of these costs include previous experiences in similar cases, expert opinions regarding environmental programs, current costs and market conditions and new developments affecting costs, management's interpretation of current environmental laws and regulations, and management's assessment of site conditions and the remediation methods which are likely to be deployed as a result of those conditions.

Environment costs are generally estimated based on the advice from external consultants and/or internal experts. Changes in the assumptions underlying these estimated costs may impact future reported results.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

*Environmental provisions (continued)*

Subject to these factors, but taking into consideration experience gained to date regarding environmental matters of a similar nature, the Group believes the provisions to be appropriate based upon currently available information. However, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts provided. It is possible that final resolution of these matters may require expenditures to be made in excess of established provisions over an extended period of time that may result in changes in timing of anticipated cash flows from those assumed and in a range of amounts that cannot be reasonably estimated.

This environmental provision will periodically be re-assessed by management, having regard to matters including future regulatory assessments, internal risk assessments and advancements in appropriate technologies. The discount rate used for determining the present value of the provision is the appropriate government bond rate and this may vary from year to year. The methodology to determine the discount rate is consistent with last year. The carrying amount of such provisions are set out in Note 37.

*Decommissioning provisions*

The Group estimated the amount of decommissioning provision at each balance date. The exercise involves considerable judgement regarding the likely future costs of decommissioning.

Expected decommissioning costs are based on the estimated current cost of detailed plans prepared. Where there is a change in the expected decommissioning costs, an adjustment is recorded against the carrying value of the provision and any plant and equipment. The carrying amount of such provisions are set out in Note 37.

4. OPERATING SEGMENT INFORMATION

The Group's business mainly consists of investment holding, operation and maintenance of electricity networks. For management purposes, the Group's business are mainly monitored in 3 segments as follows:

the Brazil segment comprises the Group's subsidiaries and joint ventures engaged in the operation and maintenance of electricity networks in Brazil;

the Australia segment comprises the Group's subsidiaries engaged in electricity and gas transmission and distribution in Australia and the joint ventures and associates held by these subsidiaries;

the "Corporate" segment comprises, principally, the Group's investments in other associates and joint-ventures.

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 profit/(loss) before tax from continuing operations.

Segment assets and liabilities are also reviewed by the management for decision making.

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2019	Brazil HK\$'000	Australia HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>				
Operating revenue	<u>67,994,174</u>	<u>9,725,887</u>	<u>-</u>	<u>77,720,061</u>
Revenue from continuing operations				<u>77,720,061</u>
<b>Segment results</b>	8,327,090	1,787,209	4,531,885	14,646,184
<i>Reconciliation</i>				
Elimination of other income				( 552,584)
Elimination of finance costs				552,584
Exchange losses				<u>246,865</u>
Profit before tax				<u>14,893,049</u>
<b>Segment assets</b>	190,035,779	63,686,968	186,780,437	440,503,184
<i>Reconciliation</i>				
Elimination of other receivables				( 16,403)
Elimination of long-term receivables				<u>(124,663,316)</u>
Total assets				<u>315,823,465</u>
<b>Segment liabilities</b>	102,972,415	54,691,438	143,713,758	301,377,611
<i>Reconciliation</i>				
Elimination of short-term loans				( 434,771)
Elimination of long-term loans				( 7,592,795)
Elimination of long-term payables				<u>(116,652,153)</u>
Total liabilities				<u>176,697,892</u>
<b>Other segment information:</b>				
Share of profits and losses of:				
Associates	-	173,402	4,244,797	4,418,199
Joint ventures	933,648	321,293	45,431	1,300,372
Impairment losses recognised in the statement of profit or loss	( 461,527)	-	-	( 461,527)
Impairment losses reversed in the statement of profit or loss	-	120	-	120
Other non-cash expenses	( 461,661)	22,785	( 26,485)	( 465,361)
Depreciation and amortisation	( 4,911,298)	( 1,777,242)	( 683)	( 6,689,223)
Investments in associates	-	1,576,854	46,701,046	48,277,900
Investments in joint ventures	11,823,897	5,236,862	3,561,289	20,622,048
Capital expenditure*	656,133	2,842,965	1,878	3,500,976

\* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets.



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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018	Brazil HK\$'000	Australia HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
<b>Segment revenue (restated):</b>				
Operating revenue (restated)	<u>77,871,218</u>	<u>10,118,086</u>	<u>-</u>	<u>87,989,304</u>
Revenue from continuing operations (restated)				<u>87,989,304</u>
<b>Segment results (restated)</b>	7,750,162	2,089,745	4,707,004	14,546,911
<i>Reconciliation</i>				
Elimination of other income				( 482,166)
Elimination of finance costs				482,166
Exchange losses				<u>1,284,266</u>
Profit before tax (restated)				<u>15,831,177</u>
<b>Segment assets (restated)</b>	182,220,982	62,469,776	195,927,698	440,618,456
<i>Reconciliation</i>				
Elimination of other receivables				( 18,720)
Elimination of long-term receivables				<u>(134,277,372)</u>
Total assets (restated)				<u>306,322,364</u>
<b>Segment liabilities (restated)</b>	102,098,099	52,260,866	152,447,209	306,806,174
<i>Reconciliation</i>				
Elimination of short-term loans				( 445,378)
Elimination of long-term loans				( 7,629,632)
Elimination of long-term payables				<u>(126,221,082)</u>
Total liabilities (restated)				<u>172,510,082</u>
<b>Other segment information:</b>				
Share of profits and losses of:				
Associates	-	160,926	4,318,608	4,479,534
Joint ventures	1,348,466	322,877	29,878	1,701,221
Impairment losses recognised in the statement of profit or loss	( 364,465)	( 1,960)	-	( 366,425)
Other non-cash expenses	( 641,573)	1,760	( 76,284)	( 716,097)
Depreciation and amortisation	( 5,431,317)	(1,664,803)	( 394)	( 7,096,514)
Investments in associates	-	1,762,024	46,559,484	48,321,508
Investments in joint ventures	12,220,155	5,148,123	3,572,740	20,941,018
Capital expenditure*	4,309,330	3,794,012	3,083	8,106,425

\* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets.

The Group's operation revenue from external customers is derived from its Brazil subsidiaries, which are engaged in the exploitation of public service concessions for transmission and distribution of electricity, the generation of electricity of conventional and renewable sources, and Australian subsidiaries, which are engaged in gas transmission and distribution, electricity distribution and water distribution.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

5. REVENUE

	2019 HK\$'000	2018 HK\$'000 Restated
<b>Revenue from contracts with customers</b>	<b>77,131,537</b>	<b>87,445,981</b>
Service revenues	13,564,425	14,922,906
Concession revenues	26,679,017	37,357,966
Revenue from network usage charge	32,327,939	29,808,227
Revenue from electricity generation	4,249,107	4,586,710
Others	311,049	770,172
<b>Revenue from other sources</b>	<b>588,524</b>	<b>543,323</b>
Rental income	588,524	543,323
	<u>77,720,061</u>	<u>87,989,304</u>

Service revenue includes revenue earned from the distribution and transmission of gas, distribution of electricity and water and rendering of asset management services.

Revenue from contracts with customers

Disaggregated revenue information

For the year ended 31 December 2019

	Brazil HK\$'000	Australia HK\$'000	Total HK\$'000
<b>Type of goods or services</b>			
Service revenues	6,359,710	7,204,715	13,564,425
Concession revenues	24,395,000	2,284,017	26,679,017
Revenue from network usage charge	32,327,939	-	32,327,939
Revenue from electricity generation	4,249,107	-	4,249,107
Others	<u>73,894</u>	<u>237,155</u>	<u>311,049</u>
Total revenue from contracts with customers	<u>67,405,650</u>	<u>9,725,887</u>	<u>77,131,537</u>
<b>Timing of revenue recognition</b>			
Goods/services transferred at a point in time	10,608,817	6,842,510	17,451,327
Goods/services transferred over time	<u>56,796,833</u>	<u>2,883,377</u>	<u>59,680,210</u>
Total revenue from contracts with customers	<u>67,405,650</u>	<u>9,725,887</u>	<u>77,131,537</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

5. REVENUE (Continued)

Revenue from contracts with customers (Continued)

Disaggregated revenue information (Continued)

For the year ended 31 December 2018 (Restated):

	Brazil HK\$'000 Restated	Australia HK\$'000	Total HK\$'000 Restated
<b>Type of goods or services</b>			
Service revenues	5,039,841	9,883,065	14,922,906
Concession revenues	37,357,966	-	37,357,966
Revenue from network usage charge	29,808,227	-	29,808,227
Revenue from electricity generation	4,586,710	-	4,586,710
Others	<u>535,151</u>	<u>235,021</u>	<u>770,172</u>
Total revenue from contracts with customers	<u>77,327,895</u>	<u>10,118,086</u>	<u>87,445,981</u>
<b>Timing of revenue recognition</b>			
Goods/services transferred at a point in time	12,104,526	7,114,523	19,219,049
Goods/services transferred over time	<u>65,223,369</u>	<u>3,003,563</u>	<u>68,226,932</u>
Total revenue from contracts with customers	<u>77,327,895</u>	<u>10,118,086</u>	<u>87,445,981</u>
		2019 HK\$'000	2018 HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:			
Types of goods and service*		<u>772,717</u>	<u>771,680</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

6. OTHER INCOME AND GAINS

	2019 HK\$'000	2018 HK\$'000
Bank interest income	2,321,431	1,625,888
Dividend income from equity investments designated at fair value through other comprehensive income	504,464	503,225
Ineffectiveness of hedges	17,167	7,654
Others	<u>362,943</u>	<u>901,933</u>
	<u>3,206,005</u>	<u>3,038,700</u>

7. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans and other borrowings	5,935,227	6,205,120
Changes in fair value recognized in profit or loss	25,234	38,376
Interest on lease liabilities	56,261	21,508
Others	<u>725</u>	<u>1,897</u>
Less: Interest capitalised (a)	<u>90,893</u>	<u>220,546</u>
	<u>5,926,554</u>	<u>6,046,355</u>

(a) Interest capitalised

The CPFL's interests were capitalized at an average rate of 8.09% p.a. in 2019 (8.27% p.a. in 2018) on qualifying assets, in accordance with HKAS 23.

The SGSPAA 's capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the weighted average interest rate of 4.28% for the year applicable to the Group's outstanding borrowings (year ended 31 December 2018: 4.22%).

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2019 HK\$'000	2018 HK\$'000
Cost of electricity sales and supplies		39,724,698	41,887,994
Depreciation of property, plant and equipment and investment properties	12&13	3,133,255	3,203,054
Depreciation of right-of-use assets	14	136,844	-
Amortisation of other intangible assets*	16	3,419,124	3,893,460
Research and development costs		7,277,065	8,669,692
Third party services		2,023,394	2,197,032
Minimum lease payments under operating leases		150,554	297,244
Staff costs (excluding directors' remuneration (Note 9))			
Wages and salaries		3,575,439	3,924,443
Pension scheme contributions		<u>179,275</u>	<u>217,059</u>
		<u>3,754,714</u>	<u>4,141,502</u>
Fair value losses/(gains), net:			
Derivative financial instruments at fair value through profit or loss		42,400	46,031
Accrue impairment of contract assets, net	24	3,655	-
Accrue impairment of trade receivables, net	27	457,264	362,427
Accrue impairment of financial assets included in prepayments, other receivables and other assets, net		488	3,998
Foreign exchange loss, net		482,529	723,752

\*The amortisation of intangible assets and non-current assets costs is included in "Cost of sales" in the consolidated statement of profit or loss.

9. DIRECTORS' REMUNERATION

No director received any fees or emoluments in respect of their services rendered to the Group during the year (2018: Nil).

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Brazil profits tax has been provided at the rate of 34% (2018: 34%) on the estimated assessable profits arising in Brazil during the year. Australia profits tax has been provided at the rate of 30% (2018: 30%) on the estimated assessable profits arising in Australia during the year. The Philippines profits tax has been provided at the rate of 15% (2018: 15%) on the expected dividend distribution arising in the Philippines during the year.

	2019 HK\$'000	2018 HK\$'000 Restated
Provision for the year	3,125,137	2,612,019
Deferred tax (Note 22)	<u>659,629</u>	<u>639,763</u>
Tax charge for the year	<u>3,784,766</u>	<u>3,251,782</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2019 HK\$'000	2018 HK\$'000 Restated
Profit before tax	14,893,049	15,831,177
Tax at the Hong Kong statutory tax rate of 16.5%	2,457,353	2,612,144
Income or expense taxed at a different rates in other countries	1,087,466	1,475,540
Non-deductible expenses	1,813,531	695,617
Income not subject to tax	( 2,067,090)	( 1,956,869)
Effect of withholding tax on the dividend income	157,891	153,335
Effect of withholding tax profits attributable to the Group	332,653	268,855
Tax losses not recognized	<u>2,962</u>	<u>3,160</u>
Tax charge at the Group's effective rate of 25.4% (2018: 20.5%)	<u>3,784,766</u>	<u>3,251,782</u>

11. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Dividends - ordinary share	519,101	482,518
Dividends - preference share	<u>5,140,078</u>	<u>3,949,772</u>
	<u>5,659,179</u>	<u>4,432,290</u>

The dividends for the year were approved in March 2019, November 2019, and December 2019, and paid partially during the year. At year end, total outstanding amount to be paid is HK\$ 1,324,675,000.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Office equipment HK\$'000	Plant and equipment HK\$'000	Transport equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>31 December 2019</b>						
At 1 January 2019:						
Cost	11,970,704	690,304	71,796,031	580,804	5,889,573	90,927,416
Accumulated depreciation	(3,490,878)	(506,740)	(17,749,236)	(377,856)	-	(22,124,710)
Net carrying amount	<u>8,479,826</u>	<u>183,564</u>	<u>54,046,795</u>	<u>202,948</u>	<u>5,889,573</u>	<u>68,802,706</u>
At 1 January 2019, net of accumulated depreciation	8,479,826	183,564	54,046,795	202,948	5,889,573	68,802,706
Additions	16,546	5,246	913,239	16,179	2,167,582	3,118,792
Transfer	63,279	17,959	5,008,218	51,117	(4,180,304)	960,269
Depreciation provided during the year	( 470,393)	( 39,547)	( 2,558,412)	( 60,925)	-	( 3,129,277)
Disposals	( 81,371)	( 1,061)	( 521,086)	( 25,390)	( 16)	( 628,924)
Exchange realignment	( 321,631)	( 2,892)	( 1,143,041)	( 5,821)	( 454,223)	( 1,927,608)
At 31 December 2019, net of accumulated depreciation	<u>7,686,256</u>	<u>163,269</u>	<u>55,745,713</u>	<u>178,108</u>	<u>3,422,612</u>	<u>67,195,958</u>
At 31 December 2019						
Cost	11,467,395	699,541	74,748,203	521,563	3,422,612	90,859,314
Accumulated depreciation	( 3,781,139)	(536,272)	(19,002,490)	(343,455)	-	(23,663,356)
Net carrying amount	<u>7,686,256</u>	<u>163,269</u>	<u>55,745,713</u>	<u>178,108</u>	<u>3,422,612</u>	<u>67,195,958</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

31 December 2018	Land and buildings HK\$'000	Office equipment HK\$'000	Plant and equipment HK\$'000	Transport equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 1 January 2018:						
Cost	13,064,051	1,015,840	79,557,034	632,152	4,239,233	98,508,310
Accumulated depreciation	(3,519,821)	(457,006)	(17,416,610)	(351,456)	-	(21,744,893)
Net carrying amount	9,544,230	558,834	62,140,424	280,696	4,239,233	76,763,417
At 1 January 2018, net of accumulated depreciation	9,544,230	558,834	62,140,424	280,696	4,239,233	76,763,417
Additions	10,386	5,010	1,184,671	19,935	3,115,839	4,335,841
Transfer	689,003	(277,694)	441,215	28,219	(880,743)	-
Depreciation provided during the year	(425,257)	(47,495)	(2,641,932)	(83,448)	-	(3,198,132)
Disposals	(18,321)	(67)	(103,034)	(10,040)	(18,256)	(149,718)
Exchange realignment	(1,320,215)	(55,024)	(6,974,549)	(32,414)	(566,500)	(8,948,702)
At 31 December 2018, net of accumulated depreciation	8,479,826	183,564	54,046,795	202,948	5,889,573	68,802,706
At 31 December 2018						
Cost	11,970,704	690,304	71,796,031	580,804	5,889,573	90,927,416
Accumulated depreciation	(3,490,878)	(506,740)	(17,749,236)	(377,856)	-	(22,124,710)
Net carrying amount	8,479,826	183,564	54,046,795	202,948	5,889,573	68,802,706



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

13. INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
Carrying amount at 1 January	175,798	210,613
Depreciation	( 3,978)	( 4,922)
Exchange realignment	( 7,637)	( 29,893)
Carrying amount at 31 December	<u>164,183</u>	<u>175,798</u>

The Group's investment properties are measured at cost and consist of several floors of an office building in Downtown of Rio de Janeiro, given that approximately 36% of the property is for rent, and 64% is for the Group use.

The amounts of investment properties are maintained at historical cost, less depreciation and impairment, where applicable. The property has been depreciated at the annual rate of 2%, based on the useful life assessment.

As of 31 December 2019, through internal analysis, the Company identified a new average amount of square meter for the central region of the city of Rio de Janeiro of BRL12,252/square meters. Considering the lease percentage of 36%, the property fair value at 31 December 2019 was HK\$170,711,000.

14. LEASES

**The Group as a lessee**

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Leases of plant and equipment generally have lease terms between 3 and 5 years, while transport equipment generally have lease terms between 2 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

14. LEASES (CONTINUED)

(a) Right-of-use assets

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

	Land and buildings HK\$'000	Plant and equipment HK\$'000	Transport equipment HK\$'000	Total HK\$'000
As at 1 January 2019	577,223	21,008	126,892	725,123
Additions	741	147	15,968	16,856
Depreciation charge	(79,208)	(4,390)	(53,719)	(137,317)
Disposal of subsidiaries	(8,704)	-	-	(8,704)
Exchange realignment	(5,769)	(211)	(1,287)	(7,267)
	<u>484,283</u>	<u>16,554</u>	<u>87,854</u>	<u>588,691</u>

(b) Lease liabilities

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

	2019 Lease liabilities HK\$'000	2018 Lease liabilities HK\$'000
Carrying amount at 1 January	1,162,418	309,344
New leases	16,853	6,936
Accretion of interest recognised during the year	57,902	23,113
Disposal of subsidiaries	(249,328)	-
Payments	(202,190)	(42,006)
Exchange realignment	(11,842)	(29,037)
Carrying amount at 31 December	<u>773,813</u>	<u>268,350</u>
Analysed into:		
Current portion	153,135	6,656
Non-current portion	<u>620,678</u>	<u>261,694</u>

The maturity analysis of lease liabilities is disclosed in Note 41 to the financial statements.

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

	2019 HK\$'000
Interest on lease liabilities	56,261
Depreciation charge of right-of-use assets	136,844
Expense relating to short-term leases and low-value leases	<u>150,554</u>
Total amount recognised in profit or loss	<u>343,659</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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14. LEASES (CONTINUED)

**The Group as a lessor**

The Group leases its investment properties (Note 13 ) under operating lease arrangements.

15. GOODWILL

The goodwill breakdown and additions and write-offs in the year ended 31 December 2019 and 31 December 2018 are as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January		
Cost	14,094,872	16,118,725
Accumulated Impairment*	( 114,722 )	( 133,921 )
Net carrying amount	<u>13,980,150</u>	<u>15,984,804</u>
Cost at 1 January, net of accumulated impairment	13,980,150	15,984,804
Utilize for deferred tax assets*	( 26,098 )	( 27,816 )
Disposal of a subsidiary	( 26,597 )	-
Exchange realignment	( 410,846 )	( 1,976,838 )
Cost and net carrying amount at 31 December	<u>13,516,609</u>	<u>13,980,150</u>
At 31 December		
Cost	13,626,275	14,094,872
Accumulated Impairment*	( 109,666 )	( 114,722 )
Net carrying amount	<u>13,516,609</u>	<u>13,980,150</u>

\* On 1 January 2018, SGBH identified the need to record goodwill impairment amounting to HK\$ 133,921,000 arising from the transition to HKFRS 15 on retained earnings. In addition, using deferred tax assets for the year ended 31 December 2018 in subsidiaries ETEE and ETIM, goodwill decrease in amounts of HK\$21,989,000 and HK\$5,827,000 respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

15. GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

	Brazilian		Australian		Total	
	Concession and infrastructure		Concession and infrastructure			
	31 December 2019 HK\$'000	31 December 2018 HK\$'000	31 December 2019 HK\$'000	31 December 2018 HK\$'000	31 December 2019 HK\$'000	31 December 2018 HK\$'000
Carrying amount of goodwill	<u>7,609,439</u>	<u>7,986,836</u>	<u>5,907,170</u>	<u>5,993,314</u>	<u>13,516,609</u>	<u>13,980,150</u>

1) Brazilian concession cash-generating unit

Recoverable amounts were determined by discounting future cash flows of the CGU and were based on following assumptions:

- (a) The nominal cash flows are discounted to the present value using post-tax discount rates around 7.39% to 11.19%.
- (b) Cash flow time horizons used in the valuing the CGU were 5 to 39 years due to the long term nature of the CGU's activities for SGBP.

2) Australian infrastructure cash-generating unit

Recoverable amounts were determined by discounting future cash flows of the CGU and were based on following assumptions:

- (a) All nominal cash flows are discounted to the present value using post-tax discount rates ranging from 3.72% to 8.89%.
- (b) Cash flow time horizons used in the valuing the CGU were 5 to 20 years due to the long term nature of the CGU's activities.
- (c) The growth rate assumptions is primarily driven by the assumptions in the regulatory building block model with growth being a function of the regulated asset base and the allowable return from the regulator. For non-regulated assets, Australian Consumer Price Index was applied.

The perpetual growth assumption used to calculate the terminal value in non-regulated assets range from 0% to 1.0% (2018: 1.5% to 3.0%). For regulated assets, the terminal values are calculated by applying a multiple to the regulated assets base in the terminal year.

- (d) CGU impairment testing was carried out at 31 December 2019 resulting in no impairments being recognised (2018: nil).

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

16. OTHER INTANGIBLE ASSETS

	Software HK\$'000	Contract intangibles HK\$'000	Distribution licence HK\$'000	Other intangible assets HK\$'000	Total HK\$'000
<b>31 December 2019</b>					
At 1 January 2019:					
Cost	3,498,000	1,306,285	65,655,480	1,969,496	72,429,261
Accumulated depreciation	(2,605,314)	( 241,887)	(22,165,073)	( 286,190)	(25,298,464)
Net carrying amount	<u>892,686</u>	<u>1,064,398</u>	<u>43,490,407</u>	<u>1,683,306</u>	<u>47,130,797</u>
Cost at 1 January 2019, net of accumulated amortisation	892,686	1,064,398	43,490,407	1,683,306	47,130,797
Additions	180,724	-	-	38,065	218,789
Disposals	( 1,618)	( 10,779)	( 93,958)	-	( 106,355)
Transfer	6,930	-	2,892,680	(1,476,853)	1,422,757
Amortisation for the year	( 202,874)	( 46,609)	( 3,135,514)	( 34,127)	( 3,419,124)
Exchange realignment	( 9,033)	( 10,521)	( 1,905,492)	( 32,994)	( 1,958,040)
At 31 December 2019	<u>866,815</u>	<u>996,489</u>	<u>41,248,123</u>	<u>177,397</u>	<u>43,288,824</u>
At 31 December 2019:					
Cost	3,647,444	1,245,673	65,905,148	484,145	71,282,410
Accumulated amortisation	(2,780,629)	( 249,184)	(24,657,025)	( 306,748)	(27,993,586)
Net carrying amount	<u>866,815</u>	<u>996,489</u>	<u>41,248,123</u>	<u>177,397</u>	<u>43,288,824</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
31 December 2019

16. OTHER INTANGIBLE ASSETS (CONTINUED)

	Software HK\$'000	Contract intangibles HK\$'000	Distribution licence HK\$'000	Other intangible assets HK\$'000	Total HK\$'000
<b>31 December 2018</b>					
At 1 January 2018:					
Cost	3,468,019	1,629,323	75,687,544	2,197,194	82,982,080
Accumulated depreciation	(2,401,454)	(404,774)	(22,643,085)	(268,231)	(25,717,544)
Net carrying amount	<u>1,066,565</u>	<u>1,224,549</u>	<u>53,044,459</u>	<u>1,928,963</u>	<u>57,264,536</u>
Cost at 1 January 2018, net of accumulated amortisation	1,066,565	1,224,549	53,044,459	1,928,963	57,264,536
Additions	211,988	-	-	40,202	252,190
Disposals	-	-	(229,555)	-	(229,555)
Transfer	4,684	3,139	1,683,336	11,953	1,703,112
Amortisation for the year	(292,245)	(48,213)	(3,533,637)	(19,365)	(3,893,460)
Exchange realignment	(98,306)	(115,077)	(7,474,196)	(278,447)	(7,966,026)
At 31 December 2018	<u>892,686</u>	<u>1,064,398</u>	<u>43,490,407</u>	<u>1,683,306</u>	<u>47,130,797</u>
At 31 December 2018:					
Cost	3,498,000	1,306,285	65,655,480	1,969,496	72,429,261
Accumulated amortisation	(2,605,314)	(241,887)	(22,165,073)	(286,190)	(25,298,464)
Net carrying amount	<u>892,686</u>	<u>1,064,398</u>	<u>43,490,407</u>	<u>1,683,306</u>	<u>47,130,797</u>

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17. INVESTMENT IN ASSOCIATES

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
<b>Listed shares</b>			
Redes Energeticas Nacionais, SGPS, S.A. (REN)	4,138,030	4,288,020	4,465,111
AusNet Services (Ausnet)	4,609,131	4,961,896	5,627,475
HK Electric Investments (HKEI)	<u>10,307,915</u>	<u>10,365,315</u>	<u>10,570,488</u>
	<u>19,055,076</u>	<u>19,615,231</u>	<u>20,663,074</u>
<b>Unlisted shares</b>			
United Energy Distribution Holdings Pty Ltd.(UEDH)	1,576,853	1,762,024	2,046,973
Cassa Depositi e Prestiti Reti S.p.a. (CDP Reti)	19,664,143	19,799,927	20,298,693
National Grid Corporation of the Philippines (NGCP)	4,298,826	4,006,863	3,818,394
Independent Power Transmission Operator S.A. (IPTO)	<u>3,683,002</u>	<u>3,137,463</u>	<u>3,111,521</u>
	<u>29,222,824</u>	<u>28,706,277</u>	<u>29,275,581</u>
	<u>48,277,900</u>	<u>48,321,508</u>	<u>49,938,655</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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17. INVESTMENT IN ASSOCIATES (CONTINUED)

Particulars of the associates as at the end of the year are as follows:

Name	Particulars of registered capital/paid in capital	Place of registration and business	Percentage of ownership interest attributable to the company	Principal activities
National Grid Corporation of the Philippines (NGCP)	PHP2,000,000,000	Manila, The Philippines	40%	Operate electric transmission grid
Redes Energeticas Nacionais, SGPS, S.A. (REN)	EUR667,191,000	Lisbon, Portugal	25%	Operate electric/gas transmission grid
AusNet Services (Ausnet)	AU\$5,162,500,000	Victoria, Australia	19.9%	Operate electric transmission/distribution grid Generate electric/Operate electric/gas transmission/distribution grid
HK Electric Investments (HKEI)	HK\$8,000,000	Hong Kong, China	21%	Operate electric transmission/distribution grid
United Energy Distribution Holdings Pty Ltd. (UEDH)	AU\$306,112,000	Victoria, Australia	34%	Operate electric distribution grid
Cassa Depositi e Prestiti Reti S.p.a. (CDP RETI)	EUR161,514	Italy	35%	Holding company
Independent Power Transmission Operator S.A. (IPTO)	EUR38,444,000	Athens Greece	24%	Transmission of electricity



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
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17. INVESTMENT IN ASSOCIATES (CONTINUED)

NGCP and HK Electric Investments are directly held by the Company. REN, CDP RETI and IPTO are held by State Grid Europe Limited. AusNet Services is held by State Grid International Australia Development Limited. UEDH is an associate of SGSPAA.

All above associates are considered individually material associates of the Group, and are accounted for using the equity method.

The following table illustrates the summarised financial information of NGCP and HK Electric Investments, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	NGCP		HK Electric Investments	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	8,794,098	7,320,783	2,178,000	2,051,000
Non-current assets, excluding goodwill	36,736,132	32,043,208	107,539,000	105,843,000
Goodwill on acquisition of the associate	-	-	613,310	615,645
Current liabilities	7,959,534	6,561,022	10,247,000	3,879,000
Non-current liabilities	<u>26,823,632</u>	<u>22,785,812</u>	<u>50,998,000</u>	<u>55,272,000</u>
Net assets	<u>10,747,064</u>	<u>10,017,157</u>	<u>49,085,310</u>	<u>49,358,645</u>
Net assets, excluding goodwill	10,747,064	10,017,157	48,472,000	48,743,000
Reconciliation to the Group's interest in the associates:				
Proportion of the Group's ownership	40%	40%	21%	21%
Group's share of net assets of the associates, excluding goodwill	4,298,826	4,006,863	10,179,120	10,236,030
Goodwill on acquisition	-	-	128,795	129,285
Carrying amount of the investment	<u>4,298,826</u>	<u>4,006,863</u>	<u>10,307,915</u>	<u>10,365,315</u>
Revenue	6,873,036	6,755,818	10,739,000	11,612,000
Profit for the year	3,032,596	3,121,862	2,327,000	3,051,000
Other comprehensive income	( 29,960)	32,111	586,000	( 490,000)
Total comprehensive income for the year	<u>3,002,636</u>	<u>3,153,973</u>	<u>2,913,000</u>	<u>2,561,000</u>
Dividend received by the Group	<u>772,616</u>	<u>1,073,120</u>	<u>669,130</u>	<u>742,983</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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17. INVESTMENT IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of REN and IPTO, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	REN		IPTO	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Current assets	3,449,271	4,480,979	7,011,075	12,863,745
Non-current assets, excluding goodwill	42,838,454	42,015,277	18,571,793	15,012,976
Goodwill on acquisition of the associate	3,934,793	4,041,809	3,742,677	3,865,828
Current liabilities	9,840,623	7,624,498	4,502,468	8,548,875
Non-current liabilities	<u>23,829,776</u>	<u>25,761,487</u>	<u>9,477,235</u>	<u>10,120,912</u>
Net assets	<u>16,552,119</u>	<u>17,152,080</u>	<u>15,345,842</u>	<u>13,072,762</u>
Net assets, excluding goodwill	12,617,326	13,110,271	11,603,165	9,206,934
Reconciliation to the Group's interest in the associates:				
Proportion of the Group's ownership	25%	25%	24%	24%
Group's share of net assets of the associates, excluding goodwill	3,154,332	3,277,568	2,784,760	2,209,664
Goodwill on acquisition	<u>983,698</u>	<u>1,010,452</u>	<u>898,242</u>	<u>927,799</u>
Carrying amount of the investment	<u>4,138,030</u>	<u>4,288,020</u>	<u>3,683,002</u>	<u>3,137,463</u>
Revenue	6,576,182	6,373,753	2,190,903	2,304,735
Profit for the year	1,042,911	1,070,040	926,198	794,039
Other comprehensive income	( 200,014 )	-	2,073,848	77,177
Total comprehensive income for the year	<u>842,897</u>	<u>1,070,040</u>	<u>3,000,046</u>	<u>871,216</u>
Dividend received by the Group	<u>250,182</u>	<u>263,753</u>	<u>90,098</u>	<u>52,272</u>

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17. INVESTMENT IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of CDP RETI, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	CDP RETI	
	2019	2018
	HK\$'000	HK\$'000
Current assets	73,536,340	64,805,148
Non-current assets	428,144,930	418,836,996
Goodwill on acquisition of the associate	18,995,070	19,549,363
Current liabilities	95,767,950	93,235,589
Non-current liabilities	<u>271,449,267</u>	<u>257,732,233</u>
Net assets	<u>153,459,123</u>	<u>152,223,685</u>
Net assets, excluding goodwill	134,464,053	132,674,322
Net asset attributable to the parent company, excluding goodwill	<u>37,188,195</u>	<u>37,021,857</u>
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	35%	35%
Group's share of net assets of the associates, excluding goodwill	13,015,868	12,957,650
Goodwill on acquisition	<u>6,648,275</u>	<u>6,842,277</u>
Carrying amount of the investment	<u>19,664,143</u>	<u>19,799,927</u>
Attributable to the parent company		
Revenue	17,996,635	18,575,941
Profit for the year	4,985,708	4,778,407
Other comprehensive income	( 410,423)	( 164,378)
Total comprehensive income for the year	<u>4,575,285</u>	<u>4,614,029</u>
Dividend received by the Group	<u>1,223,776</u>	<u>1,281,570</u>

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17. INVESTMENT IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of Ausnet and UEDH, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	Ausnet		UEDH	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Current assets	4,872,443	5,072,772	1,206,769	466,021
Non-current assets, excluding goodwill	73,016,857	63,104,007	17,913,547	17,314,711
Goodwill on acquisition of the associate	6,773,130	6,104,564	3,874,319	3,965,993
Current liabilities	7,469,519	5,068,917	778,310	2,646,041
Non-current liabilities	<u>54,031,449</u>	<u>44,278,273</u>	<u>17,578,517</u>	<u>13,918,261</u>
Net assets	<u>23,161,462</u>	<u>24,934,153</u>	<u>4,637,808</u>	<u>5,182,423</u>
Net assets, excluding goodwill	16,388,332	18,829,589	763,489	1,216,430
Reconciliation to the Group's interest in the associates:				
Proportion of the Group's ownership	19.9%	19.9%	34%	34%
Group's share of net assets of the associates, excluding goodwill	3,261,278	3,747,088	259,586	413,586
Goodwill on acquisition	<u>1,347,853</u>	<u>1,214,808</u>	<u>1,317,267</u>	<u>1,348,438</u>
Carrying amount of the investment	<u>4,609,131</u>	<u>4,961,896</u>	<u>1,576,853</u>	<u>1,762,024</u>
Revenue	10,770,998	10,732,865	3,724,791	3,800,779
Profit for the year	1,583,298	1,500,658	530,146	458,485
Other comprehensive income	(1,810,417)	-	( 276,858)	( 100,604)
Total comprehensive income for the year	<u>( 227,119)</u>	<u>1,500,658</u>	<u>253,288</u>	<u>357,881</u>
Dividend received by the Group	<u>396,365</u>	<u>399,075</u>	<u>246,941</u>	<u>220,391</u>

18. INVESTMENT IN JOINT VENTURES

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
ElectraNet Pty Ltd. (ElectraNet)	3,561,288	3,572,740	3,905,965
ActewAGL Distribution Partnership (ActewAGL)	5,236,862	5,148,123	5,551,039
Energética Barra Grande S.A. (BAESA)	40,302	78,401	108,773
Campos Novos Energia S.A. (ENERCAN)	2,086,416	2,126,071	2,632,010
Foz do Chapecó Energia S.A. (chapecoense)	2,075,513	2,373,336	2,975,406
Centrais Elétricas da Paraíba S.A. (EPASA)	787,787	822,946	942,377
Other joint ventures in Brazil (defined below)	<u>6,833,880</u>	<u>6,819,401</u>	<u>7,071,051</u>
	<u>20,622,048</u>	<u>20,941,018</u>	<u>23,186,621</u>

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18. INVESTMENT IN JOINT VENTURES (CONTINUED)

Particulars of the joint ventures as at the end of the year are as follows:

Name	Particulars of registered capital/paid in capital	Place of incorporation and business	Percentage of ownership interest attributable to the Company	Principal activities
ElectraNet Pty Ltd. (ElectraNet)	AU\$10,000	Canberra Australia	46.56%	Operate electric transmission grid
ActewAGL Distribution Partnership(ActewAGL)	AU\$1,187,968,000	Canberra Australia	50%	Operate electric transmission grid gas transmission and distribution
Matrincha Transmissora de Energia (TP North) S.A.*	BRL1,508,073	Rio de Janeiro Brazil	51%	Operate electric transmission grid
Guaraciaba Transmissora de Energia (TP Sul) S.A.*	BRL803,832	Rio de Janeiro Brazil	51%	Operate electric transmission grid
Luziania-Niquelandia Transmissora S.A.*	BRL33,305	Rio de Janeiro Brazil	51%	Operate electric transmission grid
Paranaiba Transmissora de Energia S.A.*	BRL534,761	Rio de Janeiro Brazil	51%	Operate electric transmission grid
Belo Monte Transmissora De Energia S.A. *	BRL3,011,000,000	Rio de Janeiro Brazil	51%	Operate electric transmission grid
Energética Barra Grande S.A. (BAESA)	BRL398,381,000	Santa Catarina and Rio Grande do Sul Brazil	25.01%	Energy generation
Campos Novos Energia S.A. (ENERCAN)	BRL200,787,000	Santa Catarina Brazil	48.72%	Energy generation
Foz do Chapecó Energia S.A.(chapecoense)	BRL714,509,000	Santa Catarina and Rio Grande do Sul Brazil	51.00%	Energy generation
Centrais Elétricas da Paraíba S.A.(EPASA)	BRL221,413,000	Paraiba Brazil	53.34%	Energy generation

\* Collectively referred as "Joint ventures in Brazil".

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18. INVESTMENT IN JOINT VENTURES (CONTINUED)

ActewAGL and ElectraNet are considered as material joint ventures of the Group, and are accounted for using the equity method. ActewAGL is a joint venture of SGSPAA.

The following table illustrates the summarised financial information of ActewAGL and ElectraNet, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	ActewAGL		ElectraNet	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	845,726	757,452	252,455	252,206
Non-current assets	7,739,720	7,409,623	18,571,010	17,244,231
Goodwill on acquisition of the joint venture	2,704,604	2,719,263	3,820,545	3,742,178
Current liabilities	618,532	485,818	2,240,473	419,611
Non-current liabilities	197,793	104,275	12,754,722	13,145,594
Net assets	<u>10,473,725</u>	<u>10,296,245</u>	<u>7,648,815</u>	<u>7,673,410</u>
Net assets, excluding goodwill	7,769,121	7,576,982	3,828,270	3,931,232
Reconciliation to the Group's interest in the joint ventures:				
Proportion of the Group's interest	50%	50%	46.56%	46.56%
Group's share of net assets of the joint ventures, excluding goodwill	3,884,560	3,788,491	1,782,443	1,830,382
Goodwill on acquisition	<u>1,352,302</u>	<u>1,359,632</u>	<u>1,778,845</u>	<u>1,742,358</u>
Carrying amount of the investment	<u>5,236,862</u>	<u>5,148,123</u>	<u>3,561,288</u>	<u>3,572,740</u>
Revenue	2,215,658	1,829,907	2,205,255	2,160,848
Profit for the year	642,586	627,660	97,574	64,170
Other comprehensive income	-	-	( 46,840 )	224,742
Total comprehensive income for the year	<u>642,586</u>	<u>627,660</u>	<u>50,734</u>	<u>288,912</u>
Dividend received by the Group	<u>182,132</u>	<u>183,834</u>	-	89,518

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18. INVESTMENT IN JOINT VENTURES (CONTINUED)

BAESA and ENERCAN are considered as material joint ventures of the Group, and are accounted for using the equity method.

The following table illustrates the summarised financial information for Joint ventures of BAESA and ENERCA, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	BAESA		ENERCAN	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	129,206	139,395	423,422	421,131
Non-current assets	1,768,878	1,954,111	1,897,679	2,088,856
Current liabilities	139,873	102,367	755,215	778,826
Non-current liabilities	<u>551,254</u>	<u>574,897</u>	<u>741,460</u>	<u>1,004,590</u>
Net assets	1,206,957	1,416,242	824,426	726,571
Consolidation adjustments	(1,045,814)	(1,102,763)	3,458,036	3,637,286
Net assets, including adjustment	<u>161,143</u>	<u>313,479</u>	<u>4,282,462</u>	<u>4,363,857</u>
Reconciliation to the Group's interest in the joint ventures:				
Proportion of the Group's interest	25.01%	25.01%	48.72%	48.72%
Group's share of net assets of the joint ventures, excluding adjustment	301,860	354,202	401,660	353,985
Consolidation adjustments	( 261,558)	( 275,801)	1,684,756	1,772,086
Carrying amount of the investment	<u>40,302</u>	<u>78,401</u>	<u>2,086,416</u>	<u>2,126,071</u>
Revenue	569,319	691,515	1,293,989	1,274,484
Profit for the year	14,519	51,194	483,395	175,221
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	<u>14,519</u>	<u>51,194</u>	<u>483,395</u>	<u>175,221</u>
Dividend received by the Group	<u>32,311</u>	<u>28,545</u>	<u>255,878</u>	<u>222,368</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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18. INVESTMENT IN JOINT VENTURES (CONTINUED)

Chapecoense and EPASA are considered as material joint ventures of the Group, and are accounted for using the equity method.

The following table illustrates the summarised financial information for Joint ventures of Chapecoense and EPASA, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	Chapecoense		EPASA	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Current assets	733,073	698,908	569,820	661,201
Non-current assets	4,777,057	5,264,313	909,898	1,016,042
Current liabilities	873,064	858,400	180,703	307,608
Non-current liabilities	3,192,619	3,604,321	417,849	454,702
Net assets	1,444,447	1,500,500	881,166	914,933
Consolidation adjustments	2,625,185	3,153,099	595,750	627,898
Net assets, including adjustment	<u>4,069,632</u>	<u>4,653,599</u>	<u>1,476,916</u>	<u>1,542,831</u>
Reconciliation to the Group's interest in the joint ventures:				
Proportion of the Group's interest	51.00%	51.00%	53.34%	53.34%
Group's share of net assets of the joint ventures, excluding adjustment	736,668	765,255	470,014	488,025
Consolidation adjustments	<u>1,338,845</u>	<u>1,608,081</u>	<u>317,773</u>	<u>334,921</u>
Carrying amount of the investment	<u>2,075,513</u>	<u>2,373,336</u>	<u>787,787</u>	<u>822,946</u>
Revenue	1,752,339	1,860,152	1,113,684	1,808,783
Profit for the year	149,297	303,455	315,740	354,899
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	<u>149,297</u>	<u>303,455</u>	<u>315,740</u>	<u>354,899</u>
Dividend received by the Group	<u>268,242</u>	<u>289,752</u>	<u>164,843</u>	<u>224,585</u>



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18. INVESTMENT IN JOINT VENTURES (CONTINUED)

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

	2019 HK\$'000	2018 HK\$'000
Share of the joint-ventures' profit for the year	452,377	906,229
Aggregate carrying amount of the Group's investments in joint-ventures*	<u>6,833,880</u>	<u>6,819,401</u>
Dividends received	<u>42,842</u>	<u>57,444</u>

\* During the year, SGBH together with the other shareholder disinvested in joint-venture of SGBH, Guaraciaba, based on their previous shareholding ratio (51%:49%), receiving BRL 35.7million (equivalent to approximately HK\$ 71 million) in cash. After the completion of the capital decrease, the Company's shareholding ratio in Guaraciaba remains 51%.

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ OTHER EQUITY INSTRUMENT INVESTMENTS

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
<b>Equity investments designated at fair value through other comprehensive income</b>			
Listed equity investments, at fair value:			
China Construction Bank	8,851,853	8,496,726	9,470,035
China Datang Corporation Renewable Power Co.,Ltd.	131,791	156,815	155,146
Guodian Technology & Environment Group Corporation Ltd.	18,384	21,741	40,431
China Energy Engineering Corporation Ltd.	916,398	965,143	1,364,849
China Datang Environment Industry Group Co., Ltd.	82,980	122,319	173,952
Industrial and Commercial Bank of China	<u>169,893</u>	<u>-</u>	<u>-</u>
	<u>10,171,299</u>	<u>9,762,744</u>	<u>11,204,413</u>

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year, the fair value gain in respect of the Group's listed equity investments was recognised in other comprehensive income amounted to HK\$239,309,000 (2018: loss HK\$1,441,668,000).

The fair values of listed equity investments are based on market prices at the end of the shares quoted in Hong Kong Stock Exchange at the end of reporting period and fall into the Level 1 fair value hierarchy in HKFRS 13.

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
<b>Other equity instrument investments</b>			
Unlisted equity investments, at fair value:			
Investco S.A.	147,104	153,887	179,640
Luneng Brasil Sports Center Ltda.	<u>96,927</u>	<u>95,705</u>	<u>104,419</u>
	<u>244,031</u>	<u>249,592</u>	<u>284,059</u>

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19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ OTHER EQUITY INSTRUMENT INVESTMENTS (CONTINUED)

As at 31 December 2019, certain unlisted equity investments with a carrying amount of HK\$244,031,000 were stated at fair value. Because the range of reasonable fair value estimates is so significant that the directors are of the opinion that the cost is the best estimate of it since there are no observable reliable information of fair value. The Group does not intend to dispose of them in the near future.

5.94% interest of Investco S.A. ("Investco") was held by the indirect subsidiary Paulista Lajeado Energia S.A. in the form of 28,154,140 common shares and 18,593,070 preferred shares. As Investco's shares are not traded on the stock exchange and the main objective of its operations is to generate electric energy for commercialization by the shareholders holding the concession, the Group opted to recognize the investment at fair value in the financial statements, for which cost is the best estimate of it, since there are no available reliable information at fair value, according to HKFRS 9.

On 6 February 2014, the Company acquired the total capital of Luneng Brasil Sports Center Ltda. ("Luneng Brasil"). On 29 August 2014, the Company entered into a custody agreement with Shan Dong Luneng Tai Shan Football Club Limited ("Luneng") to transfer all management rights and powers to Luneng Brasil. In consideration thereof, Luneng exempts the Company from any variations in Luneng Brasil's equity. This custody agreement is effective for 3 years from June 2014 and provides for automatic renewal in the absence of express notification of the parties 3 months in advance. At 31 December 2019, management was not aware of the intention to cancel such agreement.

20. FINANCIAL ASSETS - CONCESSION RIGHTS

	31 December 2019	31 December 2018	1 January 2018
	HK\$'000	HK\$'000	HK\$'000
Concession revenue receivables			
Non-current	<u>16,983,494</u>	<u>15,070,775</u>	<u>14,987,164</u>
	<u>16,983,494</u>	<u>15,070,775</u>	<u>14,987,164</u>

The concession revenue receivables are derived from these operational subsidiaries in Brazil, which have entered into the electric power distribution service concession arrangements executed by the Brazil Government and the Company.

The concession revenue receivables balances are amended every year by the deadline of the concession. The realisation of the amounts classified as non-current assets is projected by the end of the concession periods. The fair value of the financial assets- concession fall into the Level 3 of the fair value hierarchy.

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21. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets			Liabilities		
	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Cross currency swap contracts - cash flow hedges	595,706	432,134	1,645,653	43,488	(244,223)	516,654
Cross currency swap contracts - fair value hedges	3,429,712	3,246,044	1,798,566	68,283	397,635	349,501
Cross currency swap contracts - hedges of net investments in foreign operations	13,027	-	-	13,320	5,339	156,943
Cross currency swap contracts - non-hedges of net investments in foreign operations	-	-	-	7,825	34,527	4,412
Interest rate swap contracts - cash flow hedges	-	11,039	93,748	1,383,644	468,359	220,422
Interest rate swap contracts - fair value hedges	227,334	97,080	-	-	-	23,271
Zero-cost collar option	10,473	33,085	-	-	-	-
Forward foreign exchange contracts - fair value hedges	-	-	-	427	-	-
Forward foreign exchange contracts - cash flow hedges	-	2,491	123,146	407	15	3,063
	<u>4,276,252</u>	<u>3,821,873</u>	<u>3,661,113</u>	<u>1,517,394</u>	<u>661,652</u>	<u>1,274,266</u>
Portion classified as non-current:						
Cross currency swap contracts - cash flow hedges	595,706	432,134	348,618	43,488	(244,223)	492,512
Cross currency swap contracts - fair value hedges	2,978,607	2,685,500	1,798,566	11,898	381,181	349,501
Interest rate swap contracts - cash flow hedges	-	11,039	93,748	1,376,096	467,346	218,595
Interest rate swap contracts - fair value hedges	145,277	52,354	-	-	-	23,271
Zero-cost collar option	-	12,733	-	-	-	-
Forward foreign exchange contracts - cash flow hedges	-	-	122,846	-	-	-
	<u>3,719,590</u>	<u>3,193,760</u>	<u>2,363,778</u>	<u>1,431,482</u>	<u>604,304</u>	<u>1,083,879</u>
Current portion	<u>556,662</u>	<u>628,113</u>	<u>1,297,335</u>	<u>85,912</u>	<u>57,348</u>	<u>190,387</u>

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Group classified the fair value measurements of its financial instruments using Level 1, Level 2 and Level 3 fair value hierarchy that reflect the significance of the inputs used in making the measurements.

**Forward contracts and Zero-cost collar option**

Forward currency contracts and Zero-cost collar option are designated as hedging instruments in respect of forecast future sales, forecast purchases and investments in Euros and US Dollars. The forward currency contract and Zero-cost collar option balances vary with the levels of expected foreign currency sales, purchases, investments and changes in foreign exchange forward rates.

**Cross currency swaps**

Besides, the Group held cross currency swaps for its EUR, USD, HKD and GBP denominated borrowings. The maturity of these swaps matches the maturity of the relevant foreign currency denominated borrowings.

**Interest rate swap contracts**

The Group's subsidiaries in Australia and Brazil utilise Interest Rate Swap ("IRS") to manage its exposure to interest risk. Under the IRS, the Group agrees to exchange the difference between the fixed and floating rate interest amounts calculated on agreed notional principal amounts.

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22. DEFERRED TAX

Deferred tax liabilities	Opening balance HK\$'000 Restated	Charged to profit or loss HK\$'000	Exchange alignment HK\$'000	Closing balance HK\$'000
2019				
Conversion of contractual asset of SGBH	6,483,333	567,720	166,583	7,217,636
Fair value adjustments arising from acquisition of CPFL Energia S.A.	12,425,443	(545,481)	(547,666)	11,332,296
Allowance for doubtful accounts	( 231,517)	( 22,319)	10,829	( 243,007)
Free energy supply	( 70,000)	( 3,498)	3,182	( 70,316)
Research and development and energy efficiency programs	( 210,056)	( 43,430)	10,473	( 243,013)
Value added derived from determination of deemed cost	188,554	( 41,404)	( 7,153)	139,997
Withholding taxes – Philippines	114,006	163,172	(136,364)	140,814
Property, plant and equipment	4,820,964	301,938	( 57,984)	5,064,918
Hedged items, hedging instruments and interests in equity-accounted investees	490,842	( 87,528)	(381,318)	21,996
Concession - financial assets	1,146,174	177,119	( 70,589)	1,252,704
Intangible assets	2,119,137	(84,466)	( 79,487)	1,955,184
Provision	(1,048,225)	189,561	418,752	( 439,912)
Defined benefits	(609,390)	(602,418)	35,578	(1,176,230)
Other items	( 14,134)	( 98,559)	46,859	( 65,834)
Balance at 31 December 2019	<u>25,605,131</u>	<u>(129,593)</u>	<u>(588,305)</u>	<u>24,887,231</u>
Deferred tax liabilities	Opening balance HK\$'000 Restated	Charged to profit or loss HK\$'000	Exchange alignment HK\$'000	Closing balance HK\$'000 Restated
2018 (Restated)				
Conversion of contractual asset of SGBH	4,948,046	1,638,344	( 103,057)	6,483,333
Fair value adjustments arising from acquisition of CPFL Energia S.A.	15,431,057	( 753,748)	(2,251,866)	12,425,443
Allowance for doubtful accounts	( 243,859)	( 24,091)	36,433	( 231,517)
Free energy supply	( 74,726)	( 6,378)	11,104	( 70,000)
Research and development and energy efficiency programs	( 194,797)	( 46,001)	30,742	( 210,056)
Value added derived from determination of deemed cost	555,877	( 12,287)	( 355,036)	188,554
Withholding taxes – Philippines	138,613	136,361	( 160,968)	114,006
Property, plant and equipment	5,275,523	298,663	( 753,222)	4,820,964
Hedged items, hedging instruments and interests in equity-accounted investees	615,192	36,489	( 160,839)	490,842
Concession - financial assets	1,061,426	252,361	( 167,613)	1,146,174
Intangible assets	2,111,249	( 193,306)	201,194	2,119,137
Provision	(1,051,620)	( 20,991)	24,386	(1,048,225)
Defined benefits	( 512,997)	( 186,124)	89,731	( 609,390)
Other items	( 41,832)	49,865	( 22,167)	( 14,134)
Balance at 31 December 2018 (Restated)	<u>28,017,152</u>	<u>1,169,157</u>	<u>(3,581,178)</u>	<u>25,605,131</u>

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22. DEFERRED TAX (CONTINUED)

<u>Deferred tax assets</u>	2019 HK\$'000	2018 HK\$'000 Restated
Opening balance of gross deferred tax assets	3,289,486	4,077,924
Deferred tax charged to the statement of profit or loss during the year	( 789,222)	( 161,733)
Deferred tax credited/(charged) to equity during the year	<u>673,602</u>	<u>( 626,705)</u>
Closing balance of gross deferred tax assets	<u>3,173,866</u>	<u>3,289,486</u>

23. SECTOR FINANCIAL ASSETS AND LIABILITIES

The breakdown of the balances of sector financial asset and liability and the movement for the year are as follows:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
<b>Parcel "A" (Note)</b>	<b>2,684,539</b>	<b>3,838,895</b>	<b>1,625,963</b>
CVA (*)			
CDE (**)	230,651	406,081	(1,178,536)
Electric energy cost	917,382	2,467,495	3,793,329
ESS and EER (***)	( 1,241,868)	( 2,047,840)	(2,692,860)
Proinfa	46,845	6,823	( 43,826)
Basic network charges	364,555	120,849	7,608
Pass-through from Itaipu	2,688,614	3,247,414	2,561,275
Transmission from Itaipu	92,829	89,397	36,832
Neutrality of sector charges	( 47,707)	( 99,322)	341,347
Over contracting	( 366,762)	( 352,002)	(1,199,206)
<b>Other financial components</b>	<b>( 764,169)</b>	<b>( 790,154)</b>	<b>( 405,142)</b>
<b>Total</b>	<b><u>1,920,370</u></b>	<b><u>3,048,741</u></b>	<b><u>1,220,821</u></b>
<b>Current assets</b>	<b>2,113,249</b>	<b>2,690,578</b>	<b>497,526</b>
<b>Non-current assets</b>	<b>5,311</b>	<b>452,573</b>	<b>837,736</b>
<b>Current liabilities</b>	<b>-</b>	<b>-</b>	<b>( 94,654)</b>
<b>Non-current liabilities</b>	<b>( 198,190)</b>	<b>( 94,410)</b>	<b>( 19,787)</b>

23. SECTOR FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Note: In accordance with the regulation in Brazil, Parcel "A" refers to the non-controllable costs incurred in the business operation of utility companies involved in transmission and distribution of electricity. This parcel should be neutral in relation to the entity's performance, i.e., the costs incurred by the distributors, classifiable as Parcel "A", are fully passed through the consumer or borne by the granting authority.

(\*) Deferred tariff costs and gains variations from Parcel "A" items

(\*\*) Energy Development Account – CDE

(\*\*\*) System Service Charge (E88) and Reserve Energy Charge (EER)

All of the sector financial assets and liabilities come from CPFL Energia S.A.

a) CVA

Refers to the variations of the Parcel A account. These amounts are adjusted based on the SELIC rate and are compensated in the subsequent tariff processes.

b) Neutrality of sector charges

This refers to the neutrality of the sector charges contained in the electric energy tariffs, calculating the monthly differences between the amounts billed relating to such charges and the respective amounts considered at the time the distributors' tariff was set.

c) Over contracting

Electric energy distribution concessionaires are required to guarantee 100% of their energy market through contracts approved, registered and ratified by ANEEL. It is also assured to the distribution concessionaires that costs or revenues derived from energy surplus will be passed through the tariffs, limited to 5% of the energy load requirement. These amounts are adjusted based on SELIC rate and are compensated in the subsequent tariff processes.

d) Other financial components

Refers mainly to:

- (i) excess demand and excess reactive power that, will be amortized upon the approval of the periodic tariff review cycle;
- (ii) recalculations of the tariff processes and;
- (iii) tariff effect arising from the bilateral agreement between the parties signatories of the Power Trading Chamber in the Regulated Environment – CCEAR, and
- (iv) financial guarantees for energy contracts.

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24. CONTRACT ASSETS

	31 December 2019 HK\$'000	31 December 2018 HK\$'000 Restated	1 January 2018 HK\$'000 Restated
<b>Contract assets arising from:</b>			
Sale of goods	972,516	1,181,110	1,135,520
Construction services	<u>43,867,691</u>	<u>40,731,296</u>	<u>29,214,092</u>
Impairment	( 8,888)	( 49,010)	( 54,223)
<b>Total</b>	<b><u>44,831,319</u></b>	<b><u>41,863,396</u></b>	<b><u>30,295,389</u></b>

Contract assets are initially recognised for revenue earned from the sale of goods and construction services as the receipt of consideration is conditional on successful completion of installation of the industrial products and construction, respectively. Included in contract assets for construction services are retention receivables. Upon completion of installation or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2019 and 2018 was the result of the increase in the ongoing sale of industrial products and the provision of construction services at the end of the year.

During the year ended 31 December 2019, HK\$3,655,000 (2018: Nil) was recognised as an allowance for expected credit losses on contract assets.

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

	31 December 2019 HK\$'000	31 December 2018 HK\$'000 Restated	1 January 2018 HK\$'000 Restated
Within one year	5,851,833	4,582,525	3,223,692
After one year	<u>38,979,486</u>	<u>37,280,871</u>	<u>27,071,697</u>
<b>Total contract assets</b>	<b><u>44,831,319</u></b>	<b><u>41,863,396</u></b>	<b><u>30,295,389</u></b>



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24. CONTRACT ASSETS (CONTINUED)

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

	2019 HK\$'000	2018 HK\$'000
At beginning of year	(49,010)	(54,223)
Impairment losses, net	( 3,655)	-
Amounts utilized	43,251	-
Exchange realignment	<u>526</u>	<u>5,213</u>
At end of year	<u>( 8,888)</u>	<u>(49,010)</u>

25. OTHER NON-CURRENT ASSETS

	31 December 2019 HK\$'000	31 December 2018 HK\$000	1 January 2018 HK\$000
Loans due from an associate	496,250	501,173	554,488
Loans due from joint venture	1,644,742	1,562,093	1,655,551
Loans due from non-controlling shareholders of subsidiaries	-	-	20,323
Escrow deposit	1,463,541	1,727,117	1,982,208
Pledges, funds and restricted deposits	1,100,953	1,060,198	1,466,590
Taxes recoverable	716,138	375,443	405,838
Reserve accounts (a)	194,003	94,106	128,659
Others	<u>2,473,291</u>	<u>2,316,998</u>	<u>1,668,135</u>
	<u>8,088,918</u>	<u>7,637,128</u>	<u>7,881,792</u>

- (a) Reserve accounts are balances stated as non-current to meet security interest requirements provided in the financing agreement with the National Bank for Economic and Social Development (BNDES). This account may only be transacted upon formal authorization from BNDES.

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26. INVENTORIES

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Materials	<u>326,991</u>	<u>336,520</u>	<u>321,317</u>

27. TRADE RECEIVABLES

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Trade receivables	11,347,557	10,602,000	11,581,746
Impairment	( 654,843 )	( 624,933 )	( 759,546 )
	<u>10,692,714</u>	<u>9,977,067</u>	<u>10,822,200</u>

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

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
Neither past due nor impaired	8,669,069	8,198,871
Past due but not impaired:		
Less than 90 days	2,044,606	1,900,415
Over 90 days	<u>633,882</u>	<u>502,714</u>
	<u>11,347,557</u>	<u>10,602,000</u>

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

	2019 HK\$'000	2018 HK\$'000
At beginning of year	(624,933)	(759,546)
Impairment losses	(861,249)	(600,146)
Recovery of revenue	403,985	237,719
Write-off of accrued receivables	398,359	390,262
Exchange realignment	<u>28,995</u>	<u>106,778</u>
	<u>(654,843)</u>	<u>(624,933)</u>

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

As at 31 December 2019

	Past due		Total
	Less than 90 days	Over 90 days	
Expected credit loss rate	22%	33%	24%
Gross carrying amount (HK\$'000)	2,044,606	633,882	2,678,488
Expected credit losses (HK\$'000)	445,662	209,181	654,843

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28. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	31 December 2019 HK\$'000	31 December 2018 HK\$'000 Restated	1 January 2018 HK\$'000
Tax recoverable	1,082,229	947,328	1,248,879
Prepayments	308,519	166,296	577,427
Receivables-CDE	284,971	371,371	573,209
Orders in progress	253,056	288,485	394,552
Pledges, funds and restricted deposits	2,765	156,549	375,896
Dividend and interest on capital	386,731	476,374	256,056
Other receivables	<u>741,205</u>	<u>967,067</u>	<u>561,843</u>
	3,059,476	3,373,470	3,987,862
Impairment allowance	( 56,076)	( 58,013)	( 71,072)
	<u>3,003,400</u>	<u>3,315,457</u>	<u>3,916,790</u>

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Receivables - CDE: refer to:

- (i) low-income subsidies amounting to HK\$ 32,743,000 (31 December 2018: HK\$ 25,342,000 ).
- (ii) other tariff discounts granted to consumers amounting to HK\$ 252,209,000 (31 December 2018: HK\$ 345,389,000).
- (iii) tariff discounts - court injunctions amounting to HK\$ 19,000 (31 December 2018: HK\$ 641,000).

Orders in progress: encompass costs and revenues related to ongoing decommissioning or disposal of intangible assets and the service costs related to expenditure on projects in progress under the Energy Efficiency ("PEE") and Research and Development programs ("P&D"). Upon the closing of the respective projects, the balances are amortized against the respective liability recognized in Other Payables.

Pledges, funds and restricted deposits: refer to guarantees offered for transactions conducted in the CCEE and investments required by the subsidiaries' loans agreements.

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29 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
<b>Marketable securities</b>			
Through investment funds (a)	869,167	-	-
Direct investment (b)	<u>775,314</u>	<u>-</u>	<u>-</u>
	<u>1,644,481</u>	<u>-</u>	<u>-</u>

(a) This refers to amounts CPFL invested in government securities, Financial Bills ("LF") and Financial Treasury Bills ("LFT"), through investment fund quotas, yielding on average 99.87% of the CDI and with maturities as from September 2020.

(b) This refers to amounts CPFL invested in government securities and LFT, yielding on average 100% of the CDI, with maturities in September 2020.

30. CASH AND CASH EQUIVALENTS

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Cash and cash equivalents	<u>16,613,927</u>	<u>8,503,198</u>	<u>14,487,713</u>
Denominated in:			
Brazilian Real ("BRL")	15,262,711	7,230,748	14,048,602
AUD	220,898	207,822	194,613
USD	262,846	169,964	161,718
EUR	844,840	873,669	60,891
HKD	16,895	19,844	16,374
CNY	17	48	4,978
Others	<u>5,720</u>	<u>1,103</u>	<u>537</u>
	<u>16,613,927</u>	<u>8,503,198</u>	<u>14,487,713</u>

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

At the end of the reporting period, the cash and bank balances of the Group denominated in Brazilian Real ("BRL") amounted to HK\$ 15,262,711,000 (2018: HK\$7,230,748,000). The BRL is not freely convertible into other currencies, however, according to the Brazilian regulation, the Group is permitted to exchange BRL for other currencies through financial institutions authorised to conduct foreign exchange business on certain conditions.

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31. TRADE PAYABLES

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Trade payables	<u>6,874,728</u>	<u>6,353,441</u>	<u>9,311,165</u>
	<u>6,874,728</u>	<u>6,353,441</u>	<u>9,311,165</u>

The trade payables are unsecured and interest-free.

As of 31 December 2019 and 2018 the carrying values of trade payables approximated to their fair values due to the short-term maturities of these instruments.

32. OTHER PAYABLES AND ACCRUALS

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Amount due to related parties (Note 33 & 42)	314,750	320,508	279,219
Professional fees	379,579	215,405	89,579
Payroll payable	567,447	564,667	616,432
Dividend payable	1,578,895	1,152,363	904,145
Research & Development and Energy Efficiency	626,308	593,755	684,174
Other tax payable and regulatory charges	2,059,543	1,780,143	2,989,752
Other payables	<u>2,012,112</u>	<u>1,315,539</u>	<u>1,206,219</u>
	<u>7,538,634</u>	<u>5,942,380</u>	<u>6,769,520</u>

Research & Development and Energy Efficiency Programs: the subsidiaries in Brazil recognized liabilities relating to amounts already billed in tariffs (1% of net operating revenue), but not yet invested in the research & development and energy efficiency programs. These amounts are subject to adjustment for inflation at the SELIC rate, through the date of their realization. SELIC refers to one of the base interest rate for borrowings in Brazil.

33. AMOUNT DUE TO RELATED PARTIES

Name	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
State Grid International Development Co., Ltd.	155,642	157,604	116,806
State Grid Corporation, Qing Hai subsidiary	159,108	160,030	159,703
CLP International Travel Agency	-	2,874	2,710
	<u>314,750</u>	<u>320,508</u>	<u>279,219</u>

State Grid International Development Co., Ltd. is the Company's parent company. The amount due to related parties are unsecured, interest-free and have no fixed terms of repayment.

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34. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			31 December 2018			1 January 2018		
	Effective Interest Rate	Maturity	HK\$'000	Effective Interest Rate	Maturity	HK\$'000	Effective Interest Rate	Maturity	HK\$'000
Current									
Bank Loans	(i)	2020	23,295,802	(i)	2019	22,400,850	(i)	2018	19,878,037
Current portion of long term bank loans	(ii)	2020	6,164,391	(ii)	2019	5,352,954	(ii)	2018	10,702,108
Current portion of debt securities	(iii)	2020	2,574,338	(iii)	2019	2,288,675	(iii)	2018	6,312,239
			<u>32,034,531</u>			<u>30,042,479</u>			<u>36,892,384</u>
	31 December 2019			31 December 2018			1 January 2018		
	Effective Interest Rate	Maturity	HK\$'000	Effective Interest Rate	Maturity	HK\$'000	Effective Interest Rate	Maturity	HK\$'000
Non-current									
Bank Loans	(ii)	2021-2042	30,891,415	(ii)	2020-2042	34,692,471	(ii)	2019-2033	21,613,881
Debt securities	(iii)	2021-2035	51,300,831	(iii)	2020-2035	50,792,653	(iii)	2019-2035	53,553,917
Other Loans	(iv)	2025-2030	4,687,564	(iv)	2025-2030	4,811,835	(iv)	-	-
			<u>86,879,810</u>			<u>90,296,959</u>			<u>75,167,798</u>

(i) fixed rate of 0-0.01%, 1 month libor +0.39%-0.4%, 6 month libor+2.65%, 1 month euribor +0.01%, 3 month euribor +0.01%, 1 month hibor+0.35%, 1MBSSY+0.65%

(ii) fixed rate of 2.45%-10.14%, 6 month libor + 2.55%-2.65%, TJLP+ 0%-5.5%, libor + 2.55%-2.85%, IPCA + 5.62%, 4.74%-4.80%, SELIC 2.19%-3.9%, 103.4%-105%CDI, CDI-1.25%-CDI+1.9%, IGPM+8.63%, UMBNDES+1.99%-5%, 3 months libor 0.8%-1.55%

(iii) fixed rate of 2%-5.50%, BBSW+1.6%, 105% DI, TR+9.00%, IPCA+4.42%-8.75%, TJLP+1%, 103.6%-109.75%CDI, CDI+0.75%-0.83%

(iv) fixed rate of 1.4985%-2.2206%

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

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Analysed into:			
Bank loans repayable:			
Within one year	29,460,193	27,753,804	30,580,145
In the second year	2,947,638	3,340,164	4,875,336
In the third to fifth years, inclusive	14,326,105	11,085,664	9,750,672
Beyond five years	<u>13,617,672</u>	<u>20,266,643</u>	<u>6,987,873</u>
	<u>60,351,608</u>	<u>62,446,275</u>	<u>52,194,026</u>
	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Other borrowings and debt securities repayable:			
Within one year	2,574,338	2,288,675	6,312,239
In the second year	7,300,887	1,721,961	1,815,573
In the third to fifth years, inclusive	20,209,504	27,880,418	29,396,093
Beyond five years	<u>28,478,004</u>	<u>26,002,109</u>	<u>22,342,251</u>
	<u>58,562,733</u>	<u>57,893,163</u>	<u>59,866,156</u>

(a) The bank loans are denominated in following currencies:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
US\$	26,437,812	18,142,688	16,501,053
BRL	21,223,701	19,412,751	15,848,764
EUR	6,081,392	16,350,384	14,625,821
AU\$	<u>6,608,703</u>	<u>8,540,452</u>	<u>5,218,388</u>
	<u>60,351,608</u>	<u>62,446,275</u>	<u>52,194,026</u>

As at 31 December 2019, all bank loans of Euro are designated as the hedging instruments to hedge the net investments in CDP Reti and REN.

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

- (b) The carrying amount of interest-bearing bank borrowings approximates their fair value due to that approximately all of the bank borrowings are bearing floating interest rate. The fair value of the interest-bearing bank borrowings fall into the level 2 of the fair value hierarchy.

Certain of the bank borrowings borrowed by some subsidiaries are guaranteed by the company.

- (c) The Group's subsidiaries in Australia have following issued debt securities in different currencies. Amounts due within one year have been classified into current liabilities.

Bonds	Maturity	Interest rate
GBP 250 Million	Feb 2021	5.13%
USD 500 Million	Apr 2023	3.30%
AUD 150 Million	Mar 2020	BBSW+1.60%
AUD 350 Million	Mar 2021	5.50%
EUR 500 Million	Jun 2022	2.00%
AUD 350 Million	Jun 2023	3.75%
USD 500 Million	Jul 2026	3.25%
HKD 875 Million	May 2027	3.30%
USD 500 Million	Jul 2027	3.50%
AUD 250 Million	Sep 2024	3.75%
HKD 785 Million	Mar 2029	2.85%
AUD 92 Million	Jul 2029	2.79%
HKD 739 Million	Dec 2029	2.54%

- (d) The Group's subsidiaries in Europe have following issued debt securities in different currencies. Amounts due within one year have been classified into current liabilities.

Bonds	Maturity	Interest rate
EUR 700 million	Jan 2022	1.54%
EUR 300 million	Jan 2027	2.53%



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

(e) The Group's subsidiaries in Brazil have following issued debt securities in different currencies. Amounts due within one year have been classified into current liabilities.

Bonds	Maturity	Interest rate
BRL 115 Million	Nov 2035	TR+9%
BRL 57 Million	Apr 2029	IPCA+8.75%
BRL 16 Million	Dec 2025	IPCA+8.0%
BRL 522 Million	Dec 2020	CDI + 0.83%
BRL 217 Million	Sep 2022	IPCA + 4.42%
BRL 361 Million	Sep 2024	IPCA + 4.66%
BRL 133 Million	Sep 2027	IPCA + 5.05%
BRL 243 Million	Feb 2022	CDI + 0.83%
BRL 254 Million	Feb 2022	109.5% of CDI
BRL 62 Million	Feb 2024	IPCA + 5.2901%
BRL 176 Million	Feb 2021	CDI + 0.83%
BRL 258 Million	Feb 2023	111.25% of CDI
BRL 135 Million	Feb 2024	IPCA + 5.3473%
BRL 220 Million	Jan 2021	CDI + 0.48%
BRL 474 Million	Aug 2020	CDI + 0.75%
BRL 52 Million	Oct 2021	IPCA+ 5.4764%
BRL 495 Million	Nov 2028	TJLP + 1%
BRL 132 Million	Jun 2023	CDI + 1.6%
BRL 325 Million	May 2022	CDI + 1.7%
BRL 276 Million	Mar 2021	114% of CDI
BRL 298 Million	May 2020	117.25% of CDI
BRL 110 Million	Dec 2023	129.5% of CDI
BRL 260 Million	Jul 2022	IPCA + 5.62%
BRL 318 Million	Mar 2023	107.75% of CDI
BRL 212 Million	Mar 2023	107.75% of CDI
BRL 153 Million	Nov 2020	110% of CDI
BRL 190 Million	Jan 2021	CDI + 0.48%
BRL 197 Million	Aug 2025	IPCA + 5.80%
BRL 215 Million	Jan 2021	CDI + 0.48%
BRL 220 Million	Aug 2025	IPCA + 5.80%
BRL 220 Million	Jan 2021	CDI + 0.48%
BRL 700 Million	May 2021	105.75% of CDI
BRL 700 Million	May 2023	107.50% of CDI
BRL 1380 Million	Jan 2021	CDI + 0.48%
BRL 138 Million	Feb 2021	105% of CDI
BRL 220 Million	Jan 2025	108.25% of CDI
BRL 1380 Million	May 2025	107% of CDI
BRL 215 Million	May 2025	107% of CDI
BRL 190 Million	May 2023	107% of CDI
BRL 740 Million	May 2025	107% of CDI
BRL 300 Million	Nov 2023	104.75% of CDI
BRL 538 Million	Nov 2025	106% of CDI
BRL 112 Million	Jun 2026	IPCA+4.45%

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35. CONTRACT LIABILITIES

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Contract liabilities arising from:			
Sale of goods	<u>772,717</u>	<u>771,680</u>	<u>1,048,576</u>
Total	<u>772,717</u>	<u>771,680</u>	<u>1,048,576</u>
	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Within one year	689,115	673,184	996,059
More than one year	<u>83,602</u>	<u>98,496</u>	<u>52,517</u>
Total contract liabilities	<u>772,717</u>	<u>771,680</u>	<u>1,048,576</u>

The contract liabilities primarily relate to the advance from customers and other non-current liabilities for which revenue is recognised when the performance obligation is satisfied.

The amount of revenue recognised in the year ended 31 December 2019 from performance obligations satisfied (or partially satisfied).

36. PRIVATE PENSION PLAN

The subsidiaries sponsor supplementary retirement and pension plans for their employees. The main characteristics of these plans are as follows:

36.1 Characteristics

CPFL Paulista

The plan currently in force for the employees of the subsidiary CPFL Paulista through FUNCESP is a Mixed Benefit Plan, with the following characteristics:

- (i) Defined Benefit Plan ("BD") - in force until 31 October 1997 - a defined benefit plan, which grants a Proportional Supplementary Defined Benefit ("BSPS"), in the form of a lifetime income convertible into a pension, to participants enrolled prior to 31 October 1997, the amount being defined in proportion to the accumulated past service time up to that date, based on compliance with the regulatory requirements for granting. The total responsibility for coverage of actuarial deficits of this plan falls to the subsidiary.
- (ii) Mixed model, as from 1 November 1997, which covers:
  - benefits for risk (disability and death), under a defined benefit plan, in which the subsidiary assumes responsibility for Plan's actuarial deficit, and
  - scheduled retirement, under a variable contribution plan, consisting of a benefit plan, which is a defined contribution plan up to the granting of the income, and does not generate any actuarial liability for the subsidiary CPFL Paulista. The benefit plan only becomes a defined benefit plan, consequently generating actuarial responsibility for the subsidiary, after the granting of a lifetime income, convertible or not into a pension.

Additionally, the subsidiary's Managers may opt for a Free Benefit Generator Plan - PGBL (defined contribution), operated by either Banco do Brasil or Bradesco.

CPFL Piratininga

As a result of the spin-off of Bandeirante Energia S.A. (subsidiary's predecessor), the subsidiary CPFL Piratininga assumed the responsibility for the actuarial liabilities of that company's employees retired and terminated until the date of spin-off, as well as for the obligations relating to the active employees transferred to CPFL Piratininga.

On 2 April 1998, the Secretariat of Pension Plans - "SPC" approved the restructuring of the retirement plan previously maintained by Bandeirante, creating a "Proportional Supplementary Defined Benefit Plan - BSPS", and a "Mixed Benefit Plan", with the following characteristics:

- (i) Defined Benefit Plan ("BD") - in force until 31 March 1998 - a defined benefit plan, which grants a Proportional Supplementary Defined Benefit (BSPS), in the form of a lifetime income convertible into a pension to participants enrolled until 31 March 1998, in an amount calculated in proportion to the accumulated past service time up to that date, based on compliance with the regulatory requirements for granting. In the event of death while working or the onset of a disability, the benefits incorporate the entire past service time. CPFL Piratininga has full responsibility for covering the actuarial deficits of this Plan.

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36. PRIVATE PENSION PLAN (CONTINUED)

36.1 Characteristics (Continued)

CPFL Piratininga (Continued)

- (ii) Defined Benefit Plan - in force after 31 March 1998 - defined-benefit type plan, which grants a lifetime income convertible into a pension based on the past service time accumulated after 31 March 1998, based on 70% of the average actual monthly salary for the last 36 months of active service. In the event of death while working or the onset of a disability, the benefits incorporate the entire past service time. The responsibility for covering the actuarial deficits of this Plan is equally divided between the subsidiary and the participants.
- (iii) Variable Contribution Plan - implemented together with the Defined Benefit plan effective after 31 March 1998. This is a defined-contribution type pension plan up to the granting of the income, and generates no actuarial liability for CPFL Piratininga. The pension plan only becomes a Defined Benefit type plan after the granting of the lifetime income, convertible (or not) into a pension, and accordingly starts to generate actuarial liabilities for the subsidiary.

Additionally, the subsidiary's Managers may opt for a Free Benefit Generator Plan - PGBL (defined contribution), operated by either Banco do Brasil or Bradesco.

RGE Sul (RGE)

The subsidiary RGE has retirement and pension plans for its employees and former employees managed by Fundação CEEE de Previdência Privada, comprising:

- (i) "Plan 1" ("Plano Único RGE"): A "defined benefit" plan with benefit level equal to 100% of the inflation adjusted average of the last salaries, deducting the presumed benefit from the Social Security, with a Segregated Net Asset, that is closed to new participants since 1997. This plan was recorded at the dissolved Rio Grande Energia S.A. until the merger of the distribution companies approved on 31 December 2018; and;
- (ii) "Plan 2" ("Plano Único RGE Sul"): A "defined benefit" plan that is closed to new participants since February 2011. The subsidiary's contribution matches the contribution from the benefitted employees, in the proportion of one for one, including as regards the Fundação's administrative funding plan.

For employees hired after the closing of the plans of Fundação CEEE, "defined contribution" private pension plans were implemented, being Bradesco Vida e Previdência for employees hired between 1997 and 2018 by the dissolved Rio Grande Energia S.A., and Itauprev for employees hired by RGE as from 2011, as well as for new employees to be hired after the event of merger of the distribution companies.

CPFL Santa Cruz

With the 2017 merger event, the company's official plan is the CMSPREV, managed by IHPREV Fundo de Pensão. The same plan was maintained for employees that had the benefits plan managed by BB Previdência - Fundo de Pensão from Banco do Brasil.

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36 PRIVATE PENSION PLAN (CONTINUED)

36.1 Characteristics (Continued)

CPFL Geração

The employees of the subsidiary CPFL Geração participate in the same pension plan as CPFL Paulista.

In addition, managers may opt for a Free Benefit Generator Plan – PGBL (defined contribution), operated by either Banco do Brasil or Bradesco.

36.2 Balance sheet amounts of the defined benefit plans

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Present value of actuarial obligations	17,845,861	15,355,474	16,196,584
Fair value of plan's assets	(13,423,390)	(12,930,583)	(14,062,449)
Present value of obligations (fair value of assets), net	4,422,471	2,424,891	2,134,135
Effect of asset ceiling	<u>148,609</u>	<u>60,746</u>	<u>50,497</u>
Net actuarial liability recognized in the statement of financial position	<u>4,571,080</u>	<u>2,485,637</u>	<u>2,184,632</u>

The changes in the present value of the actuarial obligations and the fair value of the plan's assets are as follows:

	2019 HK\$'000	2018 HK\$'000
<b>Opening present value of actuarial obligations</b>	15,355,474	16,196,584
Gross current service cost	17,378	16,663
Interest on actuarial obligations	1,290,606	1,268,673
Participants' contributions transferred during the year	7,040	6,750
Actuarial (gain)/loss: effect of changes in demographic assumptions	( 6,074)	697
Actuarial loss: effect of changes in financial assumptions	3,047,723	1,315,565
Benefits paid during the year	( 1,189,475)	( 1,127,522)
Exchange realignment	( 676,811)	( 2,321,936)
<b>Closing present value of actuarial obligations</b>	<u>17,845,861</u>	<u>15,355,474</u>

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36. PRIVATE PENSION PLAN (CONTINUED)

36.2 Balance sheet amounts of the defined benefit plans (Continued)

	2019 HK\$'000	2018 HK\$'000
<b>Opening fair value of actuarial assets</b>	(12,930,583)	(14,062,449)
Expected return during the year	( 1,095,791)	( 1,107,699)
Participants' contributions transferred during the year	( 7,044)	( 6,750)
Sponsors' contributions	( 277,323)	( 214,154)
Actuarial gain: return on actuarial assets	( 872,054)	( 683,040)
Benefits paid during the year	1,189,475	1,127,522
Exchange realignment	<u>569,930</u>	<u>2,015,987</u>
<b>Closing fair value of actuarial assets</b>	<b>(13,423,390)</b>	<b>(12,930,583)</b>

36.3 Movements in recognized assets and liabilities

The changes in net liability are as follows:

	2019 HK\$'000	2018 HK\$'000
<b>Net actuarial liability at 1 January</b>	2,485,637	2,184,632
Expenses recognized in the statement of profit or loss	217,594	181,751
Sponsors' contributions transferred during the year	( 277,323 )	( 214,154 )
Actuarial (gain)/loss: effect of changes in demographic assumptions	( 6,074 )	697
Actuarial loss: effect of changes in financial assumptions	3,047,723	1,315,563
Actuarial gain: return on actuarial assets	( 872,054 )	( 683,042 )
Effect of asset ceiling	85,135	13,378
Exchange realignment	( <u>109,558</u> )	( <u>313,188</u> )
<b>Net actuarial liability at 31 December</b>	<b>4,571,080</b>	<b>2,485,637</b>
Other contributions	<u>24,510</u>	<u>27,617</u>
<b>Total liability</b>	<b><u>4,595,590</u></b>	<b><u>2,513,254</u></b>
Current	434,501	175,108
Non-current	<u>4,161,089</u>	<u>2,338,146</u>

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36. PRIVATE PENSION PLAN (CONTINUED)

36.4 Recognition of private pension plan income and expense

Supported by the opinion of external actuarial estimate, CPFL's management presents the estimate of the expenses (income) to be recognized in 2020 and the expense (income) recognized in 2019 and 2018 are as follows:

	2019 HK\$'000	2018 HK\$'000
Service cost	17,378	16,663
Interest on actuarial obligations	1,290,606	1,268,673
Expected return on plan assets	(1,095,791)	(1,107,699)
Effect of asset ceiling	<u>5,401</u>	<u>4,114</u>
Total expense	<u>217,594</u>	<u>181,751</u>

36.5 Principal actuarial assumptions

The main assumptions taken into consideration in the actuarial calculation at the end of the reporting period were as follows:

	CPFL Paulista, CPFL Geração and CPFL Piratininga 31 December 2019	RGE(Plans 1 e 2) 31 December 2019
Nominal discount rate for actuarial liabilities:	7.43% p.a.	7.43% p.a.
Nominal return rate on plan assets:	7.43% p.a.	7.43% p.a.
Estimated rate of nominal salary increase:	5.56% p.a. (*)	5.97% p.a. (**)
Estimated rate of nominal benefits increase:	4.00%p.a.	4.00%p.a.
Estimated long-term inflation rate (basis for determining the nominal rates above)	4.00%p.a.	4.00%p.a.
General biometric mortality table:	AT-2000 (-10)	BR-EMS sb v.2015
Biometric table for the onset of disability:	Low Light	Medium Light
Expected turnover rate:	ExpR_2012	Null
Likelihood of reaching retirement age:	After 15 years of membership and 35 years of service time for men and 30 years for women	100% on first eligibility to a full retirement benefit

(\*) Estimated rate of nominal salary increase for CPFL Piratininga was 6.39% p.a. at 31 December 2019 and 2018.

(\*\*) Estimated rate of nominal salary increase for RGE (plan 1) was 5.15% p.a. at 31 December 2019 and 2018.

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36. PRIVATE PENSION PLAN (CONTINUED)

36.6 Plan Assets

The following tables show the allocation (by asset segment) of the assets of the Group CPFL pension plans, at 31 December 2019 and 2018 managed by FUNCESP and Fundação CEEE. The tables also show the distribution of the guarantee resources established as target for 2020, obtained in light of the macroeconomic scenario in December 2019.

Assets managed by the plans are as follows:

	Assets managed by Fundação CESP		Assets managed by Fundação CEEE	
	CPFL Paulista and CPFL Geração	CPFL Piratininga	RGE	RGE Sul
	2019	2018	2019	2018
<b>Fixed rate</b>	75.0%	76.0%	75.0%	74.0%
Federal government bonds	61.0%	58.0%	66.0%	64.0%
Corporate bonds (financial institutions)	1.0%	2.0%	5.0%	5.0%
Corporate bonds (non-financial institutions)	0.0%	0.0%	2.0%	3.0%
Multimarket funds	4.0%	4.0%	2.0%	2.0%
Other fixed income investments	9.0%	12.0%	0.0%	0.0%
<b>Variable income</b>	17.0%	17.0%	21.0%	21.0%
Investment funds - shares	17.0%	17.0%	21.0%	21.0%
<b>Structured investments</b>	4.0%	4.0%	0.0%	1.0%
Equity funds	0.0%	0.0%	0.0%	0.0%
Real estate funds	0.0%	0.0%	0.0%	1.0%
Multimarket fund	4.0%	4.0%	0.0%	0.0%
<b>Total quoted in an active market</b>	<b>96.0%</b>	<b>97.0%</b>	<b>96.0%</b>	<b>96.0%</b>
<b>Real estate</b>	3.0%	2.0%	2.0%	2.0%
<b>Transactions with participants</b>	1.0%	1.0%	2.0%	2.0%
<b>Other investments</b>	0.0%	0.0%	0.0%	0.0%
Escrow deposits and others	0.0%	0.0%	0.0%	0.0%
<b>Total not quoted in an active market</b>	<b>4.0%</b>	<b>3.0%</b>	<b>4.0%</b>	<b>4.0%</b>

36.7 Sensitivity Analysis

The significant actuarial assumptions for determining the defined benefit obligation are discount rate and mortality. The following sensitivity analyses were based on reasonably possible changes in the assumptions at the end of the reporting period, with the other assumptions remaining constant.

Furthermore, in the presentation of the sensitivity analysis, the present value of the defined benefit obligation was calculated using the projected unit credit method at the end of the reporting period, the same method used to calculate the defined benefit obligation recognized in the statement of financial position, according to HKAS 19.



36. PRIVATE PENSION PLAN (CONTINUED)

36.7 Sensitivity Analysis (Continued)

See below the effects on the defined benefit obligation if the discount rate were 0.25 percentage points lower (higher) and if life expectancy were to decrease (increase) in one year:

	Increase (decrease)	CPFL Paulista	CPFL Piratininga	CPFL Geração	RGE Sul Plan 1	RGE Sul Plan 2	Total
Nominal discount (p.a.)*	-0,25p.p.	310,065	109,067	7,954	25,695	41,639	494,420
	+0,25p.p.	( 296,724)	( 103,538)	( 7,590)	(24,509)	( 39,529)	( 471,890)
General biometric mortality table**	+1 year	( 328,295)	( 79,197)	( 7,739)	(21,367)	( 30,835)	( 467,433)
	-1 year	327,007	78,210	7,716	21,096	30,422	464,451

\* The Company's assumption based on the actuarial report for the nominal discount rate was 7.43% p.a.. The projected rates are increased or decreased by 0.25 p.p. to 7.18% p.a. and 7.68% p.a..

\*\* The Company's assumption based on the actuarial report for the mortality table was AT-2000 (-10) for Fundação CESP and BREMS sb v.2015 for Fundação Família Previdência. The projections were performed with 1 year of aggravation or softening on the respective mortality tables.

36.8 Investment risk

The major part of the resources of CPFL's benefit plans is invested in the fixed income segment and, within this segment, the greater part of the funds is invested in federal government bonds, indexed to the IGP-M, IPCA and SELIC, which are the indexes for adjustment of the actuarial liabilities of CPFL's plans (defined benefit plans), representing the matching between assets and liabilities.

Management of CPFL's benefit plans is monitored by the Investment and Pension Plan Management Committee, which includes representatives of active and retired employees, as well as members appointed by CPFL. Among the duties of the Committee are the analysis and approval of investment recommendations made by investment managers of Fundação CESP, which occurs at least quarterly.

Fundações CESP and Família Previdência use the following tools to control market risks in the fixed income and variable income segments: VaR, Tracking Risk, Tracking Error and Stress Test.

Fundação Família Previdência also uses Sharpe, Generalized Sharpe and Drawn Down. In addition, to assess the market risk exposure of the plans' portfolios, the Base EBA Year Exposure is calculated and Stress Simulations are performed. The EBA consists of a metric that expresses the risk exposure of the portfolio as a percentage of equity, considering the sum of the exposures generated by each asset, based on the definition of increase/decrease of the respective risk factors.

Fundações CESP and Família Previdência Investment Policies determine additional restrictions that, along with those already established by law, define the percentages of diversification for investments and establish the strategy of the plans, including the limit of credit risk in assets issued or co-obligation of the same legal entity to be adopted internally.

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37. PROVISION

		31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Current provision				
Employee benefits		553,444	643,399	704,597
Environmental and restoration	(a)	310,693	354,558	263,006
Other provision		<u>154,374</u>	<u>49,456</u>	<u>59,976</u>
		<u>1,018,511</u>	<u>1,047,413</u>	<u>1,027,579</u>
Non-current provision				
Environmental and restoration	(a)	520,849	619,982	908,587
Employee benefits		69,968	86,694	97,563
Decommissioning	(b)	291,935	238,040	160,917
Tax proceedings	(c)	4,046,033	2,904,028	3,584,729
Civil proceedings	(c)	963,202	1,503,847	1,889,866
Rights proceedings	(c)	4,182	4,866	2,055
Labour proceedings	(c)	512,849	1,065,680	1,331,119
Environment proceedings	(c)	63,291	57,827	71,890
Other provision	(c)	<u>164,959</u>	<u>197,144</u>	<u>254,172</u>
		<u>6,637,268</u>	<u>6,678,108</u>	<u>8,300,898</u>

- (a) The Group's subsidiaries in Brazil and Australia have sites to be rehabilitated where the provision is provided based on the projected cost. The liability is determined based on the present value of each applicable environmental and restoration obligation as appropriate.
- (b) The Group's subsidiaries in Australia have legal or constructive obligations as a result of past events. The provision is made on the basis of estimated current cost of detailed plans prepared. For changes in the expected decommissioning costs, an adjustment is recorded against the carrying value of the provision and any plant and equipment.
- (c) The Group's subsidiaries in Brazil and Australia are involved in tax, civil, labour, environmental and others proceedings, arising in the normal course of its business and are discussing these issues, both in the administrative and judicial sphere. Provision for possible losses arising from such proceedings are estimated and updated by the Group's management, supported by the opinion of its independent legal advisors.

The Group's subsidiaries in Brazil are operating in accordance with the Brazilian laws, meeting the environment, hygiene, safety and occupational health requirements. In the operation phase of the Group's business, environmental programs are developed in order to mitigate and offset the impacts.

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38. SHARE CAPITAL

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Issued and fully paid: 21,429,327,845 (31 December 2018: 21,429,327,845) ordinary shares of HK\$1.00 each	21,429,328	21,429,328	21,429,328
Issued and fully paid: 109,087,660,027 (31 December 2018: 109,087,660,027) preference shares of HK\$1.00 each	<u>109,087,660</u>	<u>109,087,660</u>	<u>108,168,441</u>
Total	<u>130,516,988</u>	<u>130,516,988</u>	<u>129,597,769</u>

A summary of the transactions during the year with reference to the above movements in the Group's issued ordinary share capital is as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	21,429,328	21,429,328
New issues	<u>-</u>	<u>-</u>
At 31 December	<u>21,429,328</u>	<u>21,429,328</u>

A summary of the transactions during the year with reference to the above movements in the Group's issued preference share capital is as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	109,087,660	108,168,441
New issues	<u>-</u>	<u>919,219</u>
At 31 December	<u>109,087,660</u>	<u>109,087,660</u>

39. 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.

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40. CONTINGENT LIABILITIES

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

The Group provided guarantees to certain joint ventures amounted to approximately HK\$4,624,413,000 (31 December 2018: HK\$5,751,625,000).

- (b) The Group's subsidiaries in Brazil and Australia are involved in tax, civil, labour and others proceedings, arising in the normal course of its business. Provision for possible losses arising from such proceedings are estimated and updated by the Group's management, supported by the opinion of its independent legal advisors. Details of probable loss expected can be found in Note 37.(Provision)
- (c) In the ordinary course of SGBH's business, they are parties to legal proceedings of civil, tax, labour and environmental natures, and set up provisions for legal proceedings at amounts deemed sufficient by management and legal advisors to cover probable losses. These provisions are presented according to the nature of the corresponding proceedings:

	<u>2019</u>	<u>2018</u>
	Consolidated	Consolidated
Tax	165,482,889	162,453,212
Civil	34,967,447	8,699,289
Environmental	8,989,733	13,912,058
Labour	<u>21,941,569</u>	<u>74,342,910</u>
	<u>231,381,638</u>	<u>259,407,469</u>

- (d) SGSPAA's joint venture ActewAGL Distribution Partnership(ADP) had contingent liabilities of HK\$25.63 million as at 31 December 2019 (as at 31 December 2018: HK\$25.88 million) relating to bank guarantees.

- (e) CPFL is involved in civil, tax, labour and regulatory proceedings.

The Group is part to other lawsuits in which Management, supported by its external legal counsellors, believes that the chances of a successful outcome are possible due to a solid defensive position in these cases, therefore no provision was recognized. It is not yet possible to predict the outcome of the courts' decisions or any other decisions in similar proceedings considered probable or remote.

	<u>2019</u>	<u>2018</u>
	Consolidated	Consolidated
Labour	1,127,262	1,590,720
Civil	3,507,582	3,296,319
Tax	8,407,370	7,727,159
Tax-others	5,129,229	4,805,310
Regulatory	<u>147,643</u>	<u>282,187</u>
	<u>18,319,086</u>	<u>17,701,695</u>

40. CONTINGENT LIABILITIES (CONTINUED)

- (f) In 2016, the subsidiary CPFL Renováveis received a tax infringement notice in the amount of BRL 327,547 relating to the collection of Withholding Income Tax - IRRF on the remuneration of capital gain incurred with parties resident and/or domiciled abroad, arising from the sale of Jantus SL in December 2011, for which the Company's management, supported by the opinion of its outside legal counsellors, assessing the chances of loss as not probable;

In 2016 the subsidiary CPFL Geração received a tax infringement notice in the inflation adjusted amount of BRL 482,734 related to the collection of IRPJ and CSLL for the calendar year 2011, calculated on the alleged capital gain identified on the acquisition of ERSA Energias Renováveis S.A. and on the recording of differences in the fair value remeasurement of SMITA Empreendimentos e Participações S.A., company acquired in a downstream merger, for which the Company's management, supported by the opinion of its outside legal counsellors, assessing the chances of loss as not probable.

As regards labour contingencies, there is a discussion about the possibility of changing the inflation adjustment index adopted by the Labour Court. Currently there is a decision from the Supreme Federal Court (STF) that suspends the change ruled by the Superior Labour Court (TST), which intended to replace the index currently adopted by the Labour Court ("TR") by the IPCA-E. The Supreme Court considered that the TST's decision entailed an unlawful interpretation and was not compliant with the determination of the effects of prior court decisions, violating its competence to decide on a constitutional matter. In view of such decision, and until a final decision is issued by the STF, the current index adopted by the Labour Court ("TR") remains valid, which has been acknowledged by the TST in recent decisions. Therefore, the Group's management considers the risk of losses as possible and as the matter still requires definition by the Courts, it is not possible to reasonably estimate the amounts involved. In addition, in accordance with Law No. 13,467 of 11 November 2017, the TR is the inflation adjustment index of the Labour Court since the law came into effect.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's exposure to market risk (including interest rate risk and foreign currency risk), credit risk, equity price risk and liquidity risk arises in the normal course of its business. These risks are managed by the Group's financial management policies and practices described below:

*Interest rate risk*

The Group's exposure to interest rate risk relates principally to the Group's short term and long term bank loans which are based on the floating interest rates. The Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Group has used interest rate swap to hedge its exposure to interest rate risk.

As at 31 December 2019, if the interest rates on borrowings had been 100 basis points higher, with all other variables held constant, the profit after tax for the year would have been HK\$ 434,522,000 (2018:HK\$453,982,000) lower as a result of higher interest expenses on bank borrowings.

*Foreign currency risk*

The Group has its 92% of cash and cash equivalents at Brazilian Real ("BRL") and 5% at Euro ("EUR"), and its 44% of interest-bearing bank borrowings at United States dollars ("USD"), 35% at BRL, 11% at AUD and 10% at EUR at 31 December 2019. The exchange rate fluctuation would affect the Group's operation. The Group tries to minimize the foreign currency risk by monitoring and analysing the fluctuation of exchange rate on a daily basis.

Besides, the Group has net investments in foreign operation. The functional currencies of the Group's jointly-controlled ventures and associates mainly include Philippines Peso ("PHP"), AU\$ and Euro, while the functional currencies of the Group's subsidiaries in Brazil and Australia, are BRL and AUD respectively. The exchange rate fluctuation of those foreign currencies against HKD would significantly affect the Group's other comprehensive income. The Group tries to minimise the foreign currency risk by monitoring and analysing the fluctuation on a quarterly basis based on the management accounts reported. In addition, as at 31 December 2019, the Group designated loans of Euro1.5 billion as the hedging instruments to hedge the net investments in REN, CDP Reti in order to hedge the foreign currency risk.

*Credit risk*

The carrying amounts of cash and cash equivalents, trade receivables, investments and other current assets except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. All the Group's cash and cash equivalents are held in major financial institutions located in Hong Kong, Brazil and Australia, which management believes are of high credit quality. The Group has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers. The directors consider that the Group does not have a significant concentration of credit risk.

The Group also exposes to credit risk arises from trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group applies the simplified approach to most of its trade receivables to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. In addition, trade receivables balance is monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	12-month ECLs	Lifetime ECLs			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified HK\$'000	
Trade receivable*	-	-	-	11,347,557	11,347,557
Contract assets*	-	-	-	44,840,207	44,840,207
Financial assets included in prepayments and other current assets					
- Normal**	1,359,596	-	-	-	1,359,596
- Doubtful**	-	-	56,076	-	56,076
Cash and cash equivalents	16,613,927	-	-	-	16,613,927
Financial assets in other non-current assets	<u>7,372,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,372,780</u>
Total	<u>25,346,303</u>	<u>-</u>	<u>56,076</u>	<u>56,187,764</u>	<u>81,590,143</u>

\*For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in Notes 24 and 27 to the consolidated financial statements.

\*\*The credit quality of the financial assets included in prepayments and other current assets and financial assets included in other non-current assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

*Maximum exposure as at 31 December 2018*

The carrying amounts of cash and cash equivalents, trade receivables, investments and other current assets except for prepayments represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers. The directors consider that the Group does not have a significant concentration of credit risk.

*Equity price risk*

The Group's exposure to equity price risk relates principally to the Group's investments in equity securities. Management manages this exposure by maintaining a portfolio of investments with different risks. The Group is exposed to equity price changes arising from equity investments classified as equity investments at fair value through other comprehensive income. Listed investment has been chosen based on its longer term growth potential and is monitored regularly for performance against expectations.

If the prices of the respective equity investments had been 1% higher/lower, with all other variables held constant, the Group's equity investment designated at fair value through other comprehensive income would have increased/decreased by approximately HK\$101,713,000 at 31 December 2019 (2018:HK\$97,627,000) as a result of the changes in the fair value.

*Liquidity risk*

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019/12/31	Financial assets at fair value through profit or loss Designated as such upon initial recognition HK\$'000	Financial assets at amortized cost HK\$'000	Financial assets at fair value through other comprehensive income Equity investment HK\$'000	Total HK\$'000
Equity investments designated at fair value through other comprehensive income	-	-	10,171,299	10,171,299
Other equity instrument investments*	-	-	244,031	244,031
Sector financial assets	-	2,118,560	-	2,118,560
Financial assets - concession rights	16,983,494	-	-	16,983,494
Financial assets at fair value through profit or loss	1,644,481	-	-	1,644,481
Trade receivables	-	10,692,714	-	10,692,714
Financial assets included in prepayments, other receivables and other assets	-	1,415,672	-	1,415,672
Derivative financial instruments	4,276,252	-	-	4,276,252
Cash and cash equivalents	-	16,613,927	-	16,613,927
Other non-current assets	-	7,372,780	-	7,372,780
	<u>22,904,227</u>	<u>38,213,653</u>	<u>10,415,330</u>	<u>71,533,210</u>

\*As at 31 December 2019, certain unlisted equity investments with a carrying amount of HK\$244,031,000 (2018:HK\$249,592,000) were stated at fair value. Because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably and cost is the best estimate of it. The Group does not intend to dispose of them in the near future.

2019/12/31	Financial liabilities at fair value through profit or loss designated as such upon initial recognition HK\$'000	Financial liabilities at amortized cost HK\$'000	Total HK\$'000
Sector financial liabilities	-	198,190	198,190
Trade payables	-	6,874,728	6,874,728
Financial liabilities included in other payables and accruals	-	4,911,644	4,911,644
Derivative financial instruments	1,517,394	-	1,517,394
Interest-bearing bank and other borrowings**	9,679,492	109,234,849	118,914,341
Lease liabilities	-	773,813	773,813
	<u>11,196,886</u>	<u>121,993,224</u>	<u>133,190,110</u>

\*\*The amount includes the part of recognising credit risk on financial liabilities designated at fair value through profit or loss in own credit reserve.



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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

2018/12/31	Financial assets at fair value through profit or loss  Designated as such upon initial recognition HK\$'000	Financial assets at amortized cost  HK\$'000	Financial assets at fair value through other comprehensive income  Equity investment HK\$'000	Total HK\$'000
Equity investments designated at fair value through other comprehensive income	-	-	9,762,744	9,762,744
Other equity instrument investments	-	-	249,592	249,592
Sector financial assets	-	3,143,151	-	3,143,151
Financial assets - concession rights	15,070,775	-	-	15,070,775
Trade receivables	-	9,977,067	-	9,977,067
Financial assets included in prepayments, other receivables and other assets	-	1,913,348	-	1,913,348
Derivative financial instruments	3,821,873	-	-	3,821,873
Cash and cash equivalents	-	8,503,198	-	8,503,198
Other non-current assets	-	7,261,685	-	7,261,685
	<u>18,892,648</u>	<u>30,798,449</u>	<u>10,012,336</u>	<u>59,703,433</u>
2018/12/31	Financial liabilities at fair value through profit or loss designated as such upon initial recognition HK\$'000	Financial liabilities at amortized cost HK\$'000	Total HK\$'000	
Sector financial liabilities	-	94,410	94,410	
Trade payables	-	6,353,441	6,353,441	
Financial liabilities included in other payables and accruals	-	3,597,570	3,597,570	
Derivative financial instruments	661,652	-	661,652	
Interest-bearing bank and other borrowings	11,383,582	108,955,856	120,339,438	
Lease liabilities	-	268,350	268,350	
	<u>12,045,234</u>	<u>119,269,627</u>	<u>131,314,861</u>	

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

2018/1/1	Financial assets at fair value through profit or loss Designated as such upon initial recognition HK\$'000	Financial assets at amortized cost HK\$'000	Financial assets at fair value through other comprehensive income Equity investment HK\$'000	Total HK\$'000
Equity investments designated at fair value through other comprehensive income	-	-	11,204,413	11,204,413
Other equity instrument Investments*	-	-	284,059	284,059
Sector financial assets	-	1,335,262	-	1,335,262
Financial assets - concession rights	14,987,164	-	-	14,987,164
Trade receivables	-	10,822,200	-	10,822,200
Financial assets included in prepayments, other receivables and other assets	-	1,695,932	-	1,695,932
Derivative financial instruments	3,661,113	-	-	3,661,113
Cash and cash equivalents	-	14,487,713	-	14,487,713
Other non-current assets	-	7,475,954	-	7,475,954
	<u>18,648,277</u>	<u>35,817,061</u>	<u>11,488,472</u>	<u>65,953,810</u>
2018/1/1	Financial liabilities at fair value through profit or loss designated as such upon initial recognition HK\$'000	Financial liabilities at amortized cost HK\$'000	Total HK\$'000	
Sector financial liabilities	-	114,441	114,441	
Trade payables	-	9,311,165	9,311,165	
Financial liabilities included in other payables and accruals	-	3,163,336	3,163,336	
Derivative financial instruments	1,274,266	-	1,274,266	
Interest-bearing bank and other borrowings**	11,464,961	100,595,221	112,060,182	
Lease liabilities	-	309,344	309,344	
	<u>12,739,227</u>	<u>113,493,507</u>	<u>126,232,734</u>	

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (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:

2019/12/31	Less than 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Interest-bearing bank and other borrowings	42,697,224	58,523,435	71,663,431	172,884,090
Lease liabilities	153,136	600,642	145,557	899,335
Trade payables	6,874,728	-	-	6,874,728
Financial liabilities included in other payables and accrued liabilities, excluding accrued interest	4,911,644	-	-	4,911,644
Derivative financial liabilities	469,684	932,102	286,485	1,688,271
Sector financial liability	-	198,190	-	198,190
	<u>55,106,416</u>	<u>60,254,369</u>	<u>72,095,473</u>	<u>187,456,258</u>
2018/12/31	Less than 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Interest-bearing bank and other borrowings	35,227,177	59,767,955	74,263,465	169,258,597
Lease liabilities	37,824	157,005	351,676	546,505
Trade payables	6,353,441	-	-	6,353,441
Financial liabilities included in other payables and accrued liabilities, excluding accrued interest	3,597,570	-	-	3,597,570
Derivative financial liabilities	204,021	178,641	-	382,662
Sector financial liability	-	94,410	-	94,410
	<u>45,420,033</u>	<u>60,198,011</u>	<u>74,615,141</u>	<u>180,233,185</u>
2018/1/1	Less than 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Interest-bearing bank and other borrowings	40,550,298	50,818,560	48,249,072	139,617,930
Lease liabilities	43,726	180,216	451,996	675,938
Trade payables	9,311,165	-	-	9,311,165
Derivative financial liabilities	367,630	802,967	818,936	1,989,533
Financial liabilities included in other payables and accrued liabilities, excluding accrued interest	3,172,592	-	-	3,172,592
Sector financial liability	94,654	19,787	-	114,441
	<u>53,540,065</u>	<u>51,821,530</u>	<u>49,520,004</u>	<u>154,881,599</u>

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

*Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of interest-bearing bank borrowings, trade payables and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	31 December 2019 HK\$'000	31 December 2018 HK\$'000 Restated	1 January 2018 HK\$'000 Restated
Interest-bearing bank borrowings	65,039,172	67,258,110	52,194,026
Debt securities	53,875,169	53,081,328	59,866,156
Lease liabilities	773,813	268,350	309,344
Trade payables	6,874,728	6,353,441	9,311,165
Other payables and accruals	7,538,634	5,942,380	6,769,520
Less: Cash and cash equivalents	(16,613,927)	(8,503,198)	(14,487,713)
Net debt	117,487,589	124,400,411	113,962,498
Equity	139,125,573	133,812,282	154,166,092
Net debt and equity	256,613,162	258,212,693	268,128,590
Gearing ratio	46%	48%	43%

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42. RELATED PARTY TRANSACTIONS

In addition to the transaction disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2019 HK\$'000	2018 HK\$'000
<b>Assets</b>			
Intercompany loans receivable		3,970,589	5,517,169
Dividends and interests receivable		385,819	388,927
Energy purchases and sales, and charges	(i)	11,347	1,906
Intangible assets, property, plant and equipment, materials and services rendered	(ii)	408	1,117
Other		402,036	407,672
<b>Liabilities</b>			
Intercompany loans payable		12,773,776	12,887,036
Dividends payable		1,578,895	296,991
Energy purchases and sales, and charges	(i)	238,880	276,733
Advances	(iii)	-	6,388
Other payables and accruals		314,750	326,505
<b>P&amp;L</b>			
Energy purchases and sales, and charges	(i)	( 714,581)	( 803,746)
Loan interest expense		( 182,929)	( 152,432)
Intangible assets, property, plant and equipment, materials and services rendered	(ii)	13,462	13,508
Other		( 10,960)	( 15,662)
<b>Guarantee</b>	(iv)	4,624,413	5,751,625

Notes:

- (i) Purchase and sale of energy and charges - refer basically to energy purchased or sold by distribution, commercialization and generation subsidiaries through short or long-term agreements and tariffs for the use of the distribution system (TUSD). Such transactions, when conducted in the free market, are carried out under conditions considered by the Company as similar to market conditions at the time of the trading, according to internal policies previously established by the Company's management. When conducted in the regulated market, the prices charged are set through mechanisms established by the regulatory authority.
- (ii) Intangible assets, Property, plant and equipment, Materials and Service - refers mainly to rendered services in advisory and management of energy plants, consulting and engineering.
- (iii) Advances - refer to advances for investments in research and development.
- (iv) The amount represented the counter-guarantees provided by the Group to certain joint ventures for their bank loans and performance guarantee.

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43. FAIR VALUE HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>As at 31 December 2019</b>				
Equity investments designated at fair value through other comprehensive income	10,171,299	-	-	10,171,299
Other equity instrument investments	-	-	244,031	244,031
Derivative financial assets	13,027	4,252,753	10,472	4,276,252
Financial assets-concession rights	-	-	16,983,494	16,983,494
Financial assets at fair value through profit or loss	<u>1,644,481</u>	<u>-</u>	<u>-</u>	<u>1,644,481</u>
	<u>11,828,807</u>	<u>4,252,753</u>	<u>17,237,997</u>	<u>33,319,557</u>

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>As at 31 December 2018</b>				
Equity investments designated at fair value through other comprehensive income	9,762,744	-	-	9,762,744
Other equity instrument investments	-	-	249,592	249,592
Derivative financial assets	-	3,788,788	33,085	3,821,873
Financial assets-concession rights	-	-	15,070,775	15,070,775
	<u>9,762,744</u>	<u>3,788,788</u>	<u>15,353,452</u>	<u>28,904,984</u>

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>As at 1 January 2018</b>				
Equity investments designated at fair value through other comprehensive income	11,204,413	-	-	11,204,413
Other equity instrument investments	-	-	284,059	284,059
Derivative financial assets	1,798,866	1,739,402	122,845	3,661,113
Financial assets-concession rights	-	-	14,987,164	14,987,164
	<u>13,003,279</u>	<u>1,739,402</u>	<u>15,394,068</u>	<u>30,136,749</u>

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43. FAIR VALUE HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Liabilities measured at fair value:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>As at 31 December 2019</b>				
Interest-bearing bank borrowings	-	9,679,492	-	9,679,492
Derivative financial liabilities	<u>21,146</u>	<u>1,496,248</u>	<u>-</u>	<u>1,517,394</u>
	<u>21,146</u>	<u>11,175,740</u>	<u>-</u>	<u>11,196,886</u>
	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>As at 31 December 2018</b>				
Interest-bearing bank borrowings	-	11,383,582	-	11,383,582
Derivative financial liabilities	<u>39,865</u>	<u>621,787</u>	<u>-</u>	<u>661,652</u>
	<u>39,865</u>	<u>12,005,369</u>	<u>-</u>	<u>12,045,234</u>
	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>As at 1 January 2018</b>				
Interest-bearing bank borrowings	-	11,464,961	-	11,464,961
Derivative financial liabilities	<u>537,190</u>	<u>737,076</u>	<u>-</u>	<u>1,274,266</u>
	<u>537,190</u>	<u>12,202,037</u>	<u>-</u>	<u>12,739,227</u>

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43. FAIR VALUE HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts			Fair values		
	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
<b>Financial assets</b>						
Equity investments designated at fair value through other comprehensive income	10,171,299	9,762,744	11,204,413	10,171,299	9,762,744	11,204,413
Other equity instrument investments	244,031	249,592	284,059	244,031	249,592	284,059
Financial assets-concession rights	16,983,494	15,070,775	14,987,164	16,983,494	15,070,775	14,987,164
Financial assets at fair value through profit or loss	1,644,481	-	-	1,644,481	-	-
Derivative financial assets	<u>4,276,252</u>	<u>3,821,873</u>	<u>3,661,113</u>	<u>4,276,252</u>	<u>3,821,873</u>	<u>3,661,113</u>
	<u>33,319,557</u>	<u>28,904,984</u>	<u>30,136,749</u>	<u>33,319,557</u>	<u>28,904,984</u>	<u>30,136,749</u>
<b>Financial liabilities</b>						
Interest-bearing bank borrowings	118,914,341	120,339,438	112,060,182	118,914,341	120,339,438	112,060,182
Derivative financial liabilities	<u>1,517,394</u>	<u>661,652</u>	<u>1,274,266</u>	<u>1,517,394</u>	<u>661,652</u>	<u>1,274,266</u>
	<u>120,431,735</u>	<u>121,001,090</u>	<u>113,334,448</u>	<u>120,431,735</u>	<u>121,001,090</u>	<u>113,334,448</u>

Management has assessed that the fair values of cash and short-term deposits, trade receivables, amounts due from a director/a related company/fellow subsidiaries, trade payables, bank overdrafts and other current liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

Long-term loans are evaluated by management based on parameters such as interest rates and individual creditworthiness of the counterparties.

The fair values of the Group's interest-bearing borrowings and obligations under finance leases are determined by using the DCF method using the discount rate that reflects the Group's borrowing rates as at the end of the reporting period. Changes in the own non-performance risk as at 31 December 2019 and 2018 were assessed to be insignificant.



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44. COMMITMENTS

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

Capital commitments

	2019 HK\$'000	2018 HK\$'000
Contracted, but not provided for:		
Plant and machinery	<u>5,405,382</u>	<u>380,650</u>

45. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Interest- bearing bank and other borrowings HK\$'000	Lease liabilities HK\$'000	Other payables and accruals HK\$'000	Total HK\$'000
At 1 January 2019	120,339,438	1,162,418	5,942,380	127,444,236
Changes from				
financing cash flows	( 5,707,977)	( 202,190)	( 5,893,188)	( 11,803,355)
New finance lease	-	16,853	-	16,853
Foreign exchange movement	( 1,652,347)	( 11,842)	-	( 1,664,189)
Dividend proposed	-	-	6,319,720	6,319,720
Interest expense	5,935,227	56,261	-	5,991,488
Capitalized interest	-	1,641	-	1,641
Decrease arising from disposal of subsidiaries	-	( 249,328)	-	( 249,328)
Reclassified as operating cash flows	-	-	1,169,722	1,169,722
At 31 December 2019	<u>118,914,341</u>	<u>773,813</u>	<u>7,538,634</u>	<u>127,226,788</u>

46. EVENTS AFTER THE REPORTING PERIOD

Significant events after the reporting period comprise the following:

(1) Events after the reporting period related to the COVID-19

Since the outbreak of novel coronavirus (COVID-19) continues to spread throughout China and the other countries across the world in January 2020, the epidemic preventive measures have been going on through the country. Up to the date of the report, COVID-19 has no material impact on the Group's operations. The Group will implement the relevant measures and strengthen the support for the prevention and control of the epidemic. The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group.

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46. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

Significant events after the reporting period comprise the following (continued):

(2) Events after the reporting period related to SGSPAA

On 17 February 2020, SGSPAA successfully completed a Bond issuance of AU\$99 million at a coupon of 2.68% with a maturity date of 27 February 2035. The transaction delivers good value as well as supports the Group's funding strategy achieving further diversification of maturity and funding sources with new investors.

(3) Events after the reporting period related to the Company

On 15 December 2019, the Company signed an share purchase agreement with Nama Electric Holding Company, stipulating that the Company will pay a cash consideration of US\$ 1 billion through the wholly-owned subsidiary State Grid International Development Singapore Private Limited established in Singapore, acquiring 49% equity of Oman Electricity Transmission Company from Nama Electric Holding Company. On 11 March 2020, the deal was settled at the stipulated terms. Oman Electricity transmission Company is Oman's national transmission company. It is responsible for the construction, operation and maintenance of Oman's transmission grid. It has 7,240 kilometres of transmission lines and 89 substations.

On 12 October 2019, the Company and Semptra Energy signed an equity purchase agreement, and the Company will acquire 100% equity of Chilquinta Energía S.A. held by Semptra Energy, through the wholly-owned subsidiaries State Grid International Development Belgium Limited and State Grid Chile Investment SpA established in Belgium and Chile separately. As of the date of approval of this report, the equity transaction has not been settled. Chilquinta Energía S.A. is the third largest distribution company in Chile, with 16,911 kilometres of distribution lines, serving a population of more than 2 million, and the quality of distribution services is in a leading position among similar companies in Chile. Chilquinta Energía S.A. is also engaged in power transmission business and owns a wholly-owned 880-kilometer transmission line.

On 2 March 2020, the board of directors of the Company approved the issue and allotment of 13,362 million preference shares of HK\$ 1 par value to State Grid Overseas Investment (Europe) Limited, a related party commonly controlled by State Grid Corporation of China. Among that, 8,752 million shares amounted to EUR 1,020 million (equivalent to HK\$ 8,752 million) were received in cash, 4,610 million shares amounted to EUR 537 million (equivalent to HK\$ 4,610 million) were converting from the remaining principal of loans due to State Grid Overseas Investment (Europe) Limited.

On 3 March 2020, the board of directors of State Grid International Development Singapore Private Limited approved the issue and allotment of 596 million preference shares of EUR1 par value to State Grid Overseas Investment (Europe) Limited. 596 million shares amounted to EUR 596 million were received in cash.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
<b>Non-current assets</b>		
Property, plant and equipment	1,621	2,025
Investment in associates	14,606,741	14,372,178
Investment in subsidiaries	13,245,312	5,522,714
Equity investments designated at fair value through other comprehensive income	10,001,407	9,762,744
Due from subsidiaries	123,394,622	133,519,330
Other non-current assets	-	-
<b>Total non-current assets</b>	<b>161,249,703</b>	<b>163,178,991</b>
<b>Current assets</b>		
Prepayments, other receivables and other assets	2,254,802	108,808
Derivative financial assets	13,027	-
Cash and cash equivalents	298,869	265,364
<b>Total current assets</b>	<b>2,566,698</b>	<b>374,172</b>
<b>Current liabilities</b>		
Other payables and accruals	1,704,599	1,228,272
Tax payable	2,578	29,103
Amount due to related parties	314,750	320,508
Derivative financial liabilities	21,145	39,866
Interest-bearing bank and other borrowings	23,472,460	22,638,144
<b>Total current liabilities</b>	<b>25,515,532</b>	<b>24,255,893</b>
<b>NET CURRENT LIABILITIES</b>	<b>( 22,948,834)</b>	<b>( 23,881,721)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>138,300,869</b>	<b>139,297,270</b>
<b>Non-current liabilities</b>		
Interest-bearing bank and other borrowings	4,687,564	4,989,054
Long-term payables to subsidiaries	782,482	759,023
Deferred tax liabilities	140,814	114,006
<b>Total non-current liabilities</b>	<b>5,610,860</b>	<b>5,862,083</b>
<b>Net assets</b>	<b>132,690,009</b>	<b>133,435,187</b>
<b>Equity</b>		
Share capital	130,516,988	130,516,988
Reserves (Note)	2,173,021	2,918,199
<b>Total equity</b>	<b>132,690,009</b>	<b>133,435,187</b>

Li Haixiang  
Director

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
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47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve HK\$'000	Fair value reserve of financial assets at fair value through other comprehensive income HK\$'000	Hedging reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1 January 2018	<u>529,234</u>	<u>684,837</u>	<u>(238,391)</u>	<u>(531,356)</u>	<u>5,413,896</u>	<u>1,358,431</u>	<u>7,216,651</u>
Total comprehensive income for the year	-	<u>(1,441,668)</u>	<u>864,177</u>	<u>(90,056)</u>	<u>2,011,753</u>	<u>(1,210,368)</u>	<u>133,838</u>
Distribution to shareholders	-	-	-	-	<u>(4,432,290)</u>	-	<u>(4,432,290)</u>
At 31 December 2018	<u>529,234</u>	<u>(756,831)</u>	<u>625,786</u>	<u>(621,412)</u>	<u>2,993,359</u>	<u>148,063</u>	<u>2,918,199</u>
Total comprehensive income for the year	-	<u>238,663</u>	<u>408,376</u>	<u>111,076</u>	<u>5,521,715</u>	<u>(1,365,829)</u>	<u>4,914,001</u>
Distribution to shareholders	-	-	-	-	<u>(5,659,179)</u>	-	<u>(5,659,179)</u>
At 31 December 2019	<u>529,234</u>	<u>(518,168)</u>	<u>1,034,162</u>	<u>(510,336)</u>	<u>2,855,895</u>	<u>(1,217,766)</u>	<u>2,173,021</u>

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorised for issue by the board of directors on 12 June 2020.