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COMPANIES HOUSE

State Grid Europe Limited

Registered No. 07844667

Strategic report, Directors' report and Financial Statements

Year ended 31 December 2021

Contents

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 171,593,179 (2020: EUR 170,081,137). The increase in profit this year resulted from the growing dividend contributed by the company's investment.

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 Depositie 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"), issued two tranches of guaranteed bonds for a total of EUR 1,000,000,000, consisting of a EUR 700,000,000 tranche with 7-year maturity and EUR 300,000,000 tranche with 12-year maturity. The proceeds of this issuance, net of fees and expenses, were used to refinance the Company's acquisition of the 35% equity interest of CDP RETI.

In April 2022, the Company's wholly owned subsidiary, State Grid Europe Development (2014) Public Limited Company ("SGED"), issued a guaranteed bond for a total of USD 1,000,000,000 to refinance the EUR 700,000,000 that expired in January 2022. The Company's immediate parent, State Grid International Development Limited provided additional support in the period before refinancing.

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 2021 and 2020.

	Period ended 31 December 2021 EUR	Period ended 31 December 2020 EUR	Variance %
Net income	171,593,179	170,081,137	0.89
Finance cost	18,740,502	18,903,797	
Total	190,333,681	188,984,934	
EBITDA	190,333,681	188,984,934	0.71

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:

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.

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.
- 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 held by its subsidiary company, SGED. However, the company has 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 2) the Company has sufficient equity 3) the debt hold by its subsidiary company SGED is guaranteed by SGID (immediate parent company).

Statement of Compliance with Streamlined Energy and Carbon Reporting

The Company meets the definition of a low energy user with a minimal carbon footprint in the UK (<40MWh of energy consumption in the period) and consequently no further disclosure has been made.

By Order of the Board

Yu, Jun

For and on behalf of
State Grid Europe Limited
15 July 2022
Registered Office:
Level 3, 40 Bank Street
London, E14 5NR

DIRECTORS' REPORT

Board of Directors:

Yu, Jun

Wang, Ying

Liang, He

The directors present their report and the financial statements of State Grid Europe Limited for the year ended 31 December 2021.

Proposed dividends

The Company has no dividend declared during the year (2020: EUR 150,000,000).

Customers and suppliers.

As the principal activity of the Company is to make investments, the Company does not have customers or suppliers.

Financial instruments

The Company purchased Sinochem 4-year senior EUR bond from primary issue with a total of EUR24,911,000 in 2021.The Industrial and Commercial Bank of China (ICBC) preference shares held by the company were redeemed by the issuer in December 2021 as expected. These financial assets are not held for short-term trading purposes.

Future developments

The company will continue to pursue appropriate investment opportunities in the 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.

In April 2022, the Company's wholly owned subsidiary, State Grid Europe Development (2014) Public Limited Company ("SGED"), issued guaranteed bonds for a total of USD 1,000,000,000 to refinance the EUR 700,000,000 bond expired in January 2022.

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:

Li, Haixiang (appointed on 5 December 2019, resigned on 31 March 2021)

Wang, Ying

Yu, Jun (appointed on 31 March 2021)

Liang, He (appointed on 4 November 2021)

Directors' indemnity

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

Political donations

The Company has made nil (2020: 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

Directors' statements as to the disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board

Yu, Jun

For and on behalf of

State Grid Europe Limited

15 July 2022

Registered Office:

Level 3, 40 Bank Street

London, E14 5NR

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, 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 UK-adopted international accounting standards 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 UK-adopted international accounting standards;
- 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.

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 2021 which comprise the statement of comprehensive income, balance sheet, 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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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").

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.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions, only limited dividend income.

We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted outside the normal course of business.

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

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards) and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 6, 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.

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.

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.

M Hinchcliffe

Mary Hinchcliffe (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square,

Bristol,

BS1 4BE

18 July 2022

Statement of comprehensive income

For the year ended 31 December 2021

	Notes	Year 2021 EUR	Year 2020 EUR
Dividend income		200,232,690	190,925,365
Other income		1,239,508	1,495,483
Administrative and other expenses		(2,545,790)	(3,716,389)
OPERATING PROFIT		198,926,408	188,704,459
Financial expenses	4	(18,740,502)	(18,903,797)
Exchange (losses) / gains	3	(7,214)	280,475
PROFIT BEFORE TAX		180,178,692	170,081,137
Income tax expense	5	(8,585,513)	-
PROFIT FOR THE YEAR		171,593,179	170,081,137
OTHER COMPREHENSIVE INCOME			
Items will not be reclassified to P&L:			
Net change in fair value of financial assets at FVOCI		736,545	(931,140)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		172,329,724	169,149,997

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

The notes on pages 16 to 36 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED

Balance Sheet

At 31 December 2021

	Notes	31 December 2021 EUR	31 December 2020 EUR
NON-CURRENT ASSETS			
Property, plant and equipment		29,535	17,483
Investment in subsidiaries	7	62,570	62,570
Investment in associates	8	2,859,761,443	2,859,761,443
Financial assets	14	24,790,000	18,541,174
Long-term deferred expenses		44,986	92,697
Total non-current assets		2,884,688,534	2,878,475,367
CURRENT ASSETS			
Cash and cash equivalents	9	47,266,641	24,145,944
Other receivables		21,619	20,888
Total current assets		47,288,260	24,166,832
CURRENT LIABILITIES			
Loan payable	11	(699,961,644)	-
Interest payable	11	(16,578,493)	(16,578,338)
Other payables and accruals	10、12	(437,451,844)	(579,553,703)
Total current liabilities		(1,153,991,981)	(596,132,041)
NET CURRENT LIABILITIES		(1,106,703,721)	(571,965,209)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,777,984,813	2,306,510,158
NON-CURRENT LIABILITY			
Loan payable	11	(298,567,304)	(997,729,654)
Total non-current liability		(298,567,304)	(997,729,654)
NET ASSETS		1,479,417,509	1,308,780,504
EQUITY			
Share capital	13	897,768,438	897,768,438
Other reserve		(121,000)	(857,545)
Retained earnings		581,770,071	411,869,611
SHAREHOLDER'S FUNDS		1,479,417,509	1,308,780,504

The notes on pages 16 to 36 are an integral part of these financial statements

The financial statements were approved by the Board of Directors and signed on their behalf on 15 July 2022 by:

Director

Yu, Jun

STATE GRID EUROPE LIMITED

Statement of changes in equity

For the year ended 31 December 2021

	Share capital EUR	Other reserve EUR	Retained earnings EUR	Total EUR
At 31 December 2020	897,768,438	(857,545)	411,869,611	1,308,780,504
Profit for the year	-	-	171,593,179	171,593,179
Net change in fair value of financial assets at FVOCI	-	736,545	-	736,545
Total comprehensive (loss)/ income for the year	-	736,545	171,593,179	172,329,724
Fair value change	-	-	(1,692,719)	(1,692,719)
At 31 December 2021	897,768,438	(121,000)	581,770,071	1,479,417,509

	Share capital	Other reserve	Retained earnings	Total
At 31 December 2019	897,768,438	73,595	391,788,474	1,289,630,507
Profit for the year	-	-	170,081,137	170,081,137
Net change in fair value of financial assets at FVOCI	-	(931,140)	-	(931,140)
Total comprehensive income for the year	-	(931,140)	170,081,137	169,149,997
Distribution to shareholders	-	-	(150,000,000)	(150,000,000)
At 31 December 2020	897,768,438	(857,545)	411,869,611	1,308,780,504

The notes on pages 16 to 36 are an integral part of these financial statements

Statement of cash flows

For the year ended 31 December 2021

	Notes	Year 2021 EUR	Year 2020 EUR
Operating activities			
Profit for the year		171,593,179	170,081,137
Adjustments for:			
Dividend Income received		(200,232,690)	(190,925,365)
Dividends received (net of withholding tax paid)		191,647,177	190,925,365
Other income		(177,148)	(433,123)
Taxation		8,585,513	-
Investment income from financial assets		(1,062,360)	(1,062,360)
Interest expense		18,685,990	18,634,735
Foreign exchange (gains)/losses		7,214	(280,475)
Decrease / (Increase) in other receivables		(731)	(17,626)
Decrease in long term deferred expenses		47,711	27,321
Net cash inflow from operating activities		189,093,855	186,949,609
Investing activities			
Investment in PP&E		(12,052)	4,580
Investment income from financial assets		1,062,360	1,062,360
Available-for-sale financial Assets purchased		(24,911,000)	
Financial assets redeemed		17,706,000	
Associated Directors Fees		177,148	433,123
Net cash inflow from investing activities		(5,977,544)	1,500,063
Financing activities			
(Decrease) / Increase in other payables to parent		(18,270)	(40,430,679)
Dividends paid		(142,120,130)	(202,183,000)
Interest paid		(17,850,000)	(17,850,000)
Net cash outflow from financing activities		(159,988,400)	(260,463,679)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		23,127,911	(72,014,007)
Cash and cash equivalents at beginning of year		24,145,944	95,879,477
Effect of foreign exchange rate changes, net		(7,214)	280,474
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	47,266,641	24,145,944

The notes on pages 16 to 36 are an integral part of these financial statements.

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 86 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 15 July 2022.

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.

1.1 STATEMENT OF COMPLIANCE

The Company financial statements have been prepared and approved by the directors in accordance with international accounting standards in accordance with UK-adopted international accounting standards ("UK-adopted IFRS")

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.

1.3 BASIS OF PREPARATION

As at 31 December 2021, the Company's Statement of financial position had net current liabilities amounting to EUR1,106,703,721 (31 December 2020: EUR571,965,209). The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

1.3 BASIS OF PREPARATION (continued)

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 reasonably possible downsides, the Company will have sufficient funds, through support from its immediate parent company, State Grid International Development Limited ('SGID'), 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 2021 amounted to EUR437,451,844 as well as the EUR700,000,000 support provided for the debt repayment of the Company's fellow subsidiary company State Grid Europe Development (2014) Plc's ("SGED") EUR700,000,000 guaranteed bond which expired in January 2022. On 7 April 2022, SGED issued two tranches of guaranteed bond for a total of USD 1,000,000,000.

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 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.

- Annual Improvements to IFRS Standards 2018-2020 1 January 2022
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1) 1 January 2023
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements 1 January 2023

1.5 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.

1.5 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.

1.5 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, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the assets 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.

1.5 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.

1.5 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.

Estimation uncertainty stems from key assumptions which are: Cash flows, terminal value, and discount factor.

3 EXPENSES AND AUDITOR'S REMUNERATION

Included in profit/loss are the following:

	Year 2021 EUR	Year 2020 EUR
Foreign exchange (losses) / gains	(7,214)	280,475
Auditor's remuneration	46,295	42,320

4 NET FINANCE COSTS

	Year 2021 EUR	Year 2020 EUR
Interest income	(1,433)	(60)
Interest expense	18,679,563	18,892,856
Others	62,372	11,001
	18,740,502	18,903,797

5 TAX

(a) Analysis of tax charge

	Year 2021 EUR	Year 2020 EUR
United Kingdom corporation tax		
Current tax	–	–
Withholding tax in respect of current period	8,585,513	–
Total current tax (note 5(b))	8,585,513	–

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 2021	31 December 2020
	EUR	EUR
Profit on ordinary activities before tax	180,178,691	170,081,137
Tax charge on ordinary activities at UK tax rate	34,233,951	32,315,416
Dividend income not taxable	(38,044,211)	(36,275,819)
Non-recognised deductible temporary differences	3,109,866	3,144,739
Expenses not deductible	-	-
Unrecognised tax losses	700,394	815,664
Withholding tax in respect of current period	8,585,513	—
Total tax (note 5(a))	8,585,513	=

(c) Tax losses

	Year 2021 EUR	Year 2020 EUR
Tax losses brought forward, beginning of period	62,537,436	57,974,930
Tax losses prior year adjustment	665,271	-
Tax losses carried forward current year	3,686,282	4,562,506
Tax Losses utilised current year	-	-
Tax Losses carried forward, ending of period	66,888,989	62,537,436

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020, Budget was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. The UK Budget Announcement on 3 March 2021 stated that the corporation tax would increase to 25% (effective 1 April 2023), this increase was substantively enacted on 14 May 2021 will increase the company's future current tax charge accordingly and has increased the unrecognised deferred tax asset at 31 December 2021.

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.

(d) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom. Of the total, €77,926,308 (2020: €61,282,466) relate to losses restricted through the corporate interest restriction and are not available to offset against future profits.

	2021	2021	2020	2020
	EUR	EUR	EUR	EUR
	Gross amount	Tax effect	Gross amount	Tax effect
Tax losses	66,888,989	12,708,908	62,537,436	11,882,113
Corporate Interest Restriction	77,926,308	14,805,999	61,282,466	11,643,669
	144,815,297	27,514,906	123,819,902	23,525,781

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 INVESTMENTS 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 purposes.

Registered address

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

Company	31 December 2021	31 December 2020
	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

8 INVESTMENTS IN ASSOCIATES

	2021	2020
Cost	EUR	EUR
At 1 January	2,859,761,443	2,859,761,443
At 31 December	2,859,761,443	2,859,761,443

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 Depositie 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 Europa.

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%.

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.

The associated undertakings of the Company at 31 December 2021 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 (IPTO)	Ordinary	24%	Greece	Electric transmission network

8 INVESTMENTS 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 2021

	EUR		
	REN S.p.A.	CDP RETI S.p.A.	IPTO
Assets	5,588,516,000	65,991,111,000	3,313,639,000
Liabilities	4,178,686,000	49,228,729,000	1,908,949,000
Revenues	4,178,686,000	8,062,904,000	286,028,000
Profit	97,153,000	2,441,242,000	69,394,000

Year 2020

	EUR		
	REN S.p.A.	CDP RETI S.p.A.	IPTO
Assets	5,248,658,000	62,349,413,000	3,082,042,000
Liabilities	3,840,958,000	46,589,837,000	1,716,845,000
Revenues	758,333,000	7,471,431,000	286,674,000
Profit	109,249,000	1,973,926,000	84,938,000

Impairment testing

The entity tests its investment portfolio annually for impairment and calculates each investment's recoverable amount with reference to the specific investment's value in use. In the current period, the Company has performed value in use testing specifically for the REN S.p.A. investment in the current period, of which the remainder of this disclosure relates.

8 INVESTMENT IN ASSOCIATES (continued)

	2021	2020
Recoverable amount	543,509,783	544,498,974
Investment carrying value	426,959,443	426,959,443
Headroom	116,550,340	117,539,531

The key assumptions used in the VIU calculations are shown below:

	2021	2020
Dividend per share	€0.154	€0.171
Growth rate applied beyond approved forecast period	1.3%	1.3%
Discount rate	5.9%	6.3%

The growth rates used in the value in use calculation reflect the Director's expected growth in dividend inflows into perpetuity and equate to consumer price index inflation.

Sensitivity analysis for the REN investment in the current period has been performed as follows whereby key assumptions were sensitised to indicate the respective percentage reduction in net present value as a result. Compared to the recoverable amount of 543,509,783, the sensitivity analysis shows the following movements.

	Movement in Headroom 2021	Movement in Headroom 2020
+0.5% Discount rate	-9.86%	-9.04%
-0.5% Discount rate	12.29%	11.05%
-1% perpetuity growth rate	-15.72%	-13.66%
-5% Dividend per share	-5%	-5.00%

9 CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
	EUR	EUR
Cash and cash equivalents	47,266,641	24,145,944

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 2021	31 December 2020
	EUR	EUR
Dividend payable	7,879,870	150,000,000
Other payables to the immediate parent	429,571,974	429,553,703
	437,451,844	579,553,703

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.

11 BONDS, LOAN AND INTEREST PAYABLE

	31 December 2021	31 December 2020
	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	5,243,948	4,444,654
Loan payable (short term)	699,961,644	-
Loan payable (long term)	298,567,304	997,729,654
Total	998,528,948	997,729,654
Interest payable	16,578,493	16,581,967

On 26 January 2015, the Company's wholly owned subsidiary, State Grid Europe Development (2014) Public Limited Company ("SGED"), issued two tranches of guaranteed bond for a total of EUR 1,000,000,000, consisting of:

A. a EUR 700,000,000 tranche with 7-year maturity due in January 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. EUR 300,000,000 tranche with 12-year maturity due in January 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.

On 26 January 2015, the Company entered into EUR 1,000,000,000 back-to-back inter-company loan agreement with SGED. All expenses related to the bond incurred by SGED are borne by the Company. The interest and the principal repayment are directly paid to the bondholders by the Company.

On 7 April 2022, SGED issued two tranches of guaranteed bond for a total of USD 1,000,000,000 to refinance the EUR 700,000,000 bond expired in January 2022. The bond details are as below:

A. A USD 650,000,000 tranche with 3-year maturity due in April 2025, carries coupon interest at a rate of 3.125% per year, effective interest at a rate of 3.245% per year. Coupon interests are paid annually on 7 April;
B. A USD 350,000,000 tranche green bond with 5-year maturity due in April 2027, carries coupon interest at a rate of 3.25% per year, effective interest at a rate of 3.353% per year. Coupon interests are paid annually on 7 April.

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 considered carefully the Company's profits available for distribution, and 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.

The Company has no dividend declared during the year (2020: EUR 150,000,000).

	31 December 2021	31 December 2020
	EUR	EUR
Dividend payable	7,879,870	150,000,000

13 SHARE CAPITAL

Company	31 December 2021	31 December 2020
	EUR	EUR
Allotted, 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	58,438	58,438
9,950,000 ordinary shares of GBP1.00 each at 18 November 2014, rate of exchange of Euro 1.277/GBP	12,710,000	12,710,000
775,525,500 ordinary shares of GBP1.00 each at 17 October 2019, rate of exchange of Euro 1.141/GBP	885,000,000	885,000,000
Total	897,768,438	897,768,438

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 2021	31 December 2020
	EUR	EUR
Dividend payable	7,879,870	150,000,000
Other payables and accruals	429,571,974	429,553,703
Bonds payable	998,528,948	997,729,654
Less: Cash and cash equivalents	(47,266,641)	(24,145,944)
Net debt	1,405,296,271	1,553,137,413
Equity	1,479,413,882	1,308,780,504
Net debt and equity	2,884,710,152	2,861,917,917
Gearing ratio	49%	54%

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 Directors manage the capital structure and make adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Directors 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 2021.

14 Financial assets

	31 December 2021	31 December 2020
Financial assets measured at fair value through other comprehensive income	EUR	EUR
List of financial assets, at fair value		
Sinochem 4-year senior Euro bond	24,790,000	-
Preference shares of ICBC	-	18,541,174
	24,790,000	18,541,174

The Company purchased Sinochem 4-year senior Euro bond from primary issue with total consideration of EUR24,911,000 in 2021.

The Industrial and Commercial Bank of China (ICBC) preference shares held by the company were redeemed by the issuer in December 2021 as expected.

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 EUR736,545 (2020: loss of EUR931,140).

The fair values of listed financial assets are 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.

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 2021		
	Less than 1 year	1-5 years	More than 5 years
	EUR	EUR	EUR
Dividend payable	7,879,870		
Interest payable	16,578,493	-	-
Other payables due to immediate parent company	429,571,974	-	-
Loan payable	699,961,644	-	298,567,304

	31 December 2020		
	Less than 1 year	1-5 years	More than 5 years
	EUR	EUR	EUR
Dividend payable	150,000,000		
Interest payable	16,581,967	-	-
Other payables due to immediate parent company	429,553,703	-	-
Loan payable	-	699,423,778	298,305,718

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

Company:	Carrying amounts	Fair values	Carrying amounts	Fair values
	2021	2021	2020	2020
	EUR	EUR	EUR	EUR
Financial assets:	24,790,000	24,790,000	18,541,174	18,541,174
Cash and cash equivalents	47,266,641	47,266,641	24,145,944	24,145,944
Other receivables	21,619	21,619	20,888	20,888
Financial liabilities:				
Dividend payable	7,879,870	7,879,870	150,000,000	150,000,000
Other payables and accruals	429,571,974	429,571,974	429,553,703	429,553,703
Interest payable	16,578,493	16,578,493	16,581,967	16,581,967
Loan payable	998,528,948	1,028,981,000	997,729,654	1,043,264,000

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 approximates 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

On 26 January 2015, the Company's wholly owned subsidiary, State Grid Europe Development (2014) Public Limited Company ("SGED"), issued two tranches of guaranteed bond for a total of EUR 1,000,000,000, consisting of a EUR 700,000,000 tranche with 7-year maturity due in January 2022 and EUR 300,000,000 tranche with 12year maturity due in January 2027.

On the same day, the Company entered into EUR 1,000,000,000 back-to-back inter-company loan agreement with SGED. All expenses related to the bond incurred by SGED are borne by the Company. The interest and the principal repayment are directly paid to the bondholders by the Company.

On 7 April 2022, SGED issued two tranches of guaranteed bonds for a total of USD 1,000,000,000 to refinance the EUR 700,000,000 bond expired in January 2022.

The remaining EUR 300,000,000 tranche issued in 2015 will be implemented in accordance with the Inter-company Loan Agreement dated 26 January 2015.

An exemption has been taken with respect to disclosure of transactions with wholly owned subsidiaries.

Outstanding related party balances are as follows:

	31 December 2021	31 December 2020
	EUR	EUR
Amounts due to fellow subsidiary (State Grid Europe Development (2014) Public Limited Company)		
-Short-term payables	699,961,644	-
-Long-term payables	298,567,304	997,729,654
-Interest payable	16,578,493	16,578,338

16 RELATED PARTY TRANSACTIONS (continued)

	31 December 2021	31 December 2020
	EUR	EUR
Amounts due to parent company (State Grid International Development Limited)		
-Dividend payable	7,879,870	150,000,000
-Other payables	429,571,974	429,553,703

Interest expense of EUR18,683,190 was paid in the period to the Company's fellow subsidiary (2020: EUR 18,892,856).

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.

17 ULTIMATE PARENT COMPANY

The Company is a subsidiary undertaking of State Grid International Development Limited (SGID) which is the parent company incorporated in Hong Kong. The ultimate controlling party is State Grid Corporation of China.

The largest group in which the results of the Company are consolidated is that headed by State Grid Corporation of China. The smallest group in which they are consolidated is that headed by SGID and the consolidated financial statements of this group is available to the public at Companies House.

State Grid International Development Limited

31 December 2021

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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 5 to 137, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Independent auditor's report to the members of State Grid International Development Limited (continued)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the consolidated financial statements

The directors 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

KPMG

Independent auditor's report to the members of State Grid International Development Limited (continued)

(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 HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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.

KPMG

Independent auditor's report to the members of State Grid International Development Limited (continued)

(Incorporated in Hong Kong with limited liability)

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

We also provide the management with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

The engagement partner on the audit resulting in this independent auditor's report is Ng Kwok Keung.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 June 2022

Consolidated statement of profit or loss for the year ended 31 December 2021

(Expressed in Hong Kong dollars)

	Note	*2021* HK$'000	*2020* HK$'000
Revenue	5	82,742,128	62,657,387
Cost of sales		(61,907,993)	(45,778,626)
Gross profit		20,834,135	16,878,761
Other income and gains	6	2,911,008	2,709,010
Selling expenses		(655,939)	(696,530)
Administrative expenses		(1,539,135)	(2,012,731)
Impairment losses	8	(553,533)	(390,352)
Other expenses		(1,669,356)	(1,322,239)
Profit from operations		19,327,180	15,165,919
Finance costs	7	(6,308,036)	(4,613,704)
Foreign exchange (loss)/gain, net		(598,284)	398,491
Share of profit of associates		5,306,917	5,017,577
Share of profit of joint ventures		1,331,471	1,129,192
Profit before tax	8	19,059,248	17,097,475
Income tax expenses	10	(4,316,215)	(3,807,605)
Profit for the year		14,743,033	13,289,870
Attributable to:			
Owners of the Company		13,190,824	12,058,386
Non-controlling interests		1,552,209	1,231,484
Profit for the year		14,743,033	13,289,870

The notes on pages 16 to 137 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	2021 HK$'000	*2020* HK$'000
Profit for the year	14,743,033	13,289,870
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss		
- Net gain/(loss) on hedge of a net investment	1,593,364	(1,679,701)
- Gain/(loss) on cashflow hedge	1,877,201	(577,846)
- Income tax relating to (loss)/gain on cashflow hedge	(561,541)	169,409
- Exchange differences on translation of foreign operations	(12,088,627)	(15,953,410)
- Exchange reserve recycled to profit or loss upon disposal of subsidiaries	(44,662)	-
- Share of other comprehensive income of associates	403,372	48,915
- Share of other comprehensive income of joint ventures	216,499	(16,753)
	(8,604,394)	(18,009,386)

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 (continued)

(Expressed in Hong Kong dollars)

	2021 HK$'000	*2020* HK$'000
Other comprehensive income for the year (continued)		
Items that will not be reclassified to profit or loss:		
- Net change in fair value of equity investments designated at fair value through other comprehensive income	165,665	(1,263,350)
- Share of other comprehensive income of associates	172,195	15,238
- Share of other comprehensive income of joint ventures	61,879	76,649
- Actuarial reserve on defined benefit plans	(129,272)	(977,720)
- Income tax relating to actuarial reserve on defined benefit plans	50,934	281,740
- Credit risk in mark to market of financial liabilities	(64,732)	(6,250)
- Income tax relating to credit risk in mark to market of financial liabilities	22,009	2,125
	278,678	(1,871,568)
Other comprehensive income for the year	(8,325,716)	(19,880,954)
Total comprehensive income for the year	6,417,317	(6,591,084)
Attributable to:		
Owners of the Company	4,995,803	(5,238,911)
Non-controlling interests	1,421,514	(1,352,173)
Total comprehensive income for the year	6,417,317	(6,591,084)

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of financial position

(Expressed in Hong Kong dollars)

	Note	*31 December 2021* HK$'000	*31 December 2020* HK$'000
Non-current assets			
Property, plant and equipment	12	90,892,602	74,876,397
Investment properties	13	243,886	146,590
Right-of-use assets	14	560,250	561,110
Goodwill	15	18,238,011	14,272,071
Other intangible assets	16	61,147,982	52,947,635
Investment in associates	17	52,331,648	60,563,475
Investment in joint ventures	18	18,280,014	18,880,660
Equity investments designated at fair value through other comprehensive income	19	8,451,811	8,923,086
Other equity instrument investments	19	110,224	113,984
Financial assets-concession rights	20	18,559,596	15,506,421
Derivative financial assets	21	4,097,503	4,116,315
Deferred tax assets	22	1,109,418	1,631,513
Sector financial assets	23	1,141,309	163,070
Contract assets	24	35,151,780	31,288,775
Other non-current assets	25	11,066,164	5,850,475
Total non-current assets		321,382,198	289,841,577
Current assets			
Derivative financial assets	21	1,403,830	1,390,452
Sector financial assets	23	3,317,005	836,825
Inventories	26	929,452	660,112
Trade receivables	27	13,162,458	10,018,556
Contract assets	24	5,715,545	4,666,434
Prepayments, other receivables and other assets	28	5,234,476	3,262,759
Financial assets at fair value through profit or loss	29	818,669	2,952,848
Assets held for sale		3,899	-
Cash and cash equivalents	30	10,974,461	13,637,340
Total current assets		41,559,795	37,425,326

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of financial position (continued)

(Expressed in Hong Kong dollars)

	Note	31 December 2021 HK$'000	31 December 2020 HK$'000
Current liabilities			
Trade payables	31	10,545,348	7,495,556
Other payables and accruals	32	7,945,621	7,156,768
Derivative financial liabilities	21	124,781	302,978
Interest-bearing bank and other borrowings	34	46,016,155	49,467,881
Lease liabilities	14	159,945	113,864
Contract liabilities	35	1,512,906	1,195,662
Sector financial liabilities	23	-	62,160
Private pension plan	36	913,983	299,409
Tax payable		812,520	542,192
Provision	37	1,321,375	1,031,401
Total current liabilities		69,352,634	67,667,871
Net current liabilities		(27,792,839)	(30,242,545)
Total assets less current liabilities		293,589,359	259,599,032
Non-current liabilities			
Derivative financial liabilities	21	885,809	2,127,420
Sector financial liabilities	23	-	277,890
Interest-bearing bank and other borrowings	34	92,468,301	76,177,961
Lease liabilities	14	593,310	646,225
Contract liabilities	35	79,609	25,741
Private pension plan	36	4,430,955	4,331,545
Deferred tax liabilities	22	28,657,551	26,839,733
Provision	37	5,719,229	5,232,187
Other non-current liabilities	38	6,133,187	1,781,832
Total non-current liabilities		138,967,951	117,440,534
Net assets		154,621,408	142,158,498

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of financial position (continued)

(Expressed in Hong Kong dollars)

	Note	*31 December 2021* HK$'000	*31 December 2020* HK$'000
Capital and reserves			
Share capital	39	158,423,445	143,878,356
Reserves	40	(20,686,748)	(20,812,860)
Total equity attributable to owners of the Company		137,736,697	123,065,496
Non-controlling interests		16,884,711	19,093,002
Total equity		154,621,408	142,158,498

Yu Jun
Director

Chen Daobiao
Director

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2021

(Expressed in Hong Kong dollars)

	Attributable to owners of the Company											
	Share capital HK$'000	*Capital reserve* HK$'000	*Fair value reserve (non-recycling)* HK$'000	*Retained profits* HK$'000	*Hedging reserve* HK$'000	*Exchange reserve* HK$'000	*Reserve on credit risk* 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 2021	143,878,356	529,234	(1,780,872)	34,908,293	(802,330)	(51,435,209)	107,350	(2,327,626)	(11,700)	123,065,496	19,093,002	142,158,498
Profit for the year	-	-	-	13,190,824	-	-	-	-	-	13,190,824	1,552,209	14,743,033
Other comprehensive income for the year:												
Changes in fair value of equity investments designated at fair value through other comprehensive income (Note 19)	-	-	165,665	-	-	-	-	-	-	165,665	-	165,665
Exchange differences on translation of foreign operations	-	-	-	-	-	(11,492,979)	-	-	-	(11,492,979)	(595,648)	(12,088,627)
Hedges of net investments	-	-	-	-	1,593,364	-	-	-	-	1,593,364	-	1,593,364
Cashflow hedges	-	-	-	-	805,155	-	-	-	-	805,155	510,505	1,315,660
Actuarial reserve on defined benefit plans	-	-	-	-	-	-	-	(40,087)	-	(40,087)	(38,251)	(78,338)
Credit risk in mark to market of financial liabilities	-	-	-	-	-	-	(35,422)	-	-	(35,422)	(7,301)	(42,723)
Exchange reserve recycled to profit or loss upon disposal of subsidiaries	-	-	-	-	13,147	(57,809)	-	-	-	(44,662)	-	(44,662)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	575,567	575,567	-	575,567
Share of other comprehensive income of joint ventures	-	-	-	-	-	-	-	-	278,378	278,378	-	278,378
Total comprehensive income for the year	-	-	165,665	13,190,824	2,411,666	(11,550,788)	(35,422)	(40,087)	853,945	4,995,803	1,421,514	6,417,317
Issue of preference shares (Note 39)	14,545,089	-	-	-	-	-	-	-	-	14,545,089	-	14,545,089
Distribution to shareholders (Note 11)	-	-	-	(4,909,002)	-	-	-	-	-	(4,909,002)	(1,419,020)	(6,328,022)
Disposal of subsidiaries (Note 17)	-	-	-	-	-	-	-	-	-	-	(5,132,769)	(5,132,769)
Acquisition of subsidiaries (Note 1)	-	-	-	-	-	-	-	-	-	-	2,966,583	2,966,583
Other changes	-	-	(588)	588	-	-	-	-	39,311	39,311	(44,599)	(5,288)
At 31 December 2021	158,423,445	529,234	(1,615,795)	43,190,703	1,609,336	(62,985,997)	71,928	(2,367,713)	881,556	137,736,697	16,884,711	154,621,408

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2020

(Expressed in Hong Kong dollars)

	Attributable to owners of the Company											
	Share capital HK$'000	*Capital reserve* HK$'000	*Fair value reserve (non-recycling)* HK$'000	*Retained profits* HK$'000	*Hedging reserve* HK$'000	*Exchange fluctuation reserve* HK$'000	*Reserve on credit risk* 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 2020 (restated)	130,516,988	529,234	(517,522)	31,772,493	1,190,938	(37,871,307)	110,671	(1,730,121)	(135,749)	123,865,625	15,731,490	139,597,115
Profit for the year	-	-	-	12,058,386	-	-	-	-	-	12,058,386	1,231,484	13,289,870
Other comprehensive income for the year:												
Changes in fair value of equity investments designated at fair value through other comprehensive income (Note 19)	-	-	(1,263,350)	-	-	-	-	-	-	(1,263,350)	-	(1,263,350)
Exchange differences on translation of foreign operations	-	-	-	-	-	(13,563,902)	-	-	-	(13,563,902)	(2,389,508)	(15,953,410)
Hedges of net investments	-	-	-	-	(1,679,701)	-	-	-	-	(1,679,701)	-	(1,679,701)
Cashflow hedges	-	-	-	-	(313,567)	-	-	-	-	(313,567)	(94,870)	(408,437)
Actuarial reserve on defined benefit plans	-	-	-	-	-	-	-	(597,505)	-	(597,505)	(98,475)	(695,980)
Credit risk in mark to market of financial liabilities	-	-	-	-	-	-	(3,321)	-	-	(3,321)	(804)	(4,125)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	64,153	64,153	-	64,153
Share of other comprehensive income of joint ventures	-	-	-	-	-	-	-	-	59,896	59,896	-	59,896
Total comprehensive income for the year	-	-	(1,263,350)	12,058,386	(1,993,268)	(13,563,902)	(3,321)	(597,505)	124,049	(5,238,911)	(1,352,173)	(6,591,084)
Issue of preference shares (Note 39)	13,361,368	-	-	-	-	-	-	-	-	13,361,368	-	13,361,368
Increase in non-controlling capital	-	-	-	-	-	-	-	-	-	-	5,132,769	5,132,769
Distribution to shareholders (Note 11)	-	-	-	(9,065,579)	-	-	-	-	-	(9,065,579)	(1,142,353)	(10,207,932)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	723,269	723,269
Other changes	-	-	-	142,993	-	-	-	-	-	142,993	-	142,993
At 31 December 2020	143,878,356	529,234	(1,780,872)	34,908,293	(802,330)	(51,435,209)	107,350	(2,327,626)	(11,700)	123,065,496	19,093,002	142,158,498

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021

(Expressed in Hong Kong dollars)

	Note	*2021* HK$'000	*2020* HK$'000
Cash flows from operating activities			
Profit before tax		19,059,248	17,097,475
Adjustments for:			
Finance costs	7	6,308,036	4,613,704
Interest income	6	(2,319,969)	(2,080,573)
Foreign exchange loss/(gain), net	8	598,284	(398,491)
Fair value change recognised in profit and loss		(16,791)	29,789
Dividend income from equity investments designated at fair value through other comprehensive income	6	(700,080)	(638,641)
Share of profit of associates and joint ventures		(6,638,388)	(6,146,769)
Provision of impairment of trade receivables and contract assets	8	545,397	390,890
Provision of impairment of other assets	8	8,136	(538)
Depreciation of property, plant and equipment	12	3,212,528	2,677,511
Depreciation of right-of-use assets	14	156,694	134,715
Depreciation of investment properties	13	3,678	5,980
Amortisation of intangible assets	16	3,314,234	2,843,799
Increase in inventories		(262,879)	(333,121)
Increase in trade receivables		(344,083)	(2,018,012)
Increase in contract assets		(572,116)	(4,788,052)
Increase in contract liabilities		475,028	448,686
Increase in prepayments, other receivables and other assets		(702,130)	(255,768)
(Increase)/decrease in other non-current assets		(233,653)	163,660
Decrease in other non-current liabilities		(526,308)	(280,811)
Increase/(decrease) in trade payables		680,764	(1,780,597)
Increase in other payables and accruals		1,134,644	1,317,089
Private pension plan	36	358,686	261,082
(Increase)/decrease in sector financial assets/liabilities, net		(3,964,937)	1,300,882
Other operating items		660,983	138,193
Cash generated from operations		20,235,006	12,702,082
Income taxes paid		(2,716,541)	(2,409,369)
Net cash flow from operating activities		17,518,465	10,292,713

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021 (continued)

(Expressed in Hong Kong dollars)

	Note	*2021* HK$'000	*2020* HK$'000
Cash flows from investing activities			
Purchase of property, plant and equipment and addition of concession assets		(10,478,349)	(3,850,986)
Purchases of equity investments at fair value through profit or loss		-	(1,702,597)
Proceeds from disposal of equity investments at fair value through profit or loss		119,480	-
Purchase of interest in an associate	17	-	(7,466,942)
Net cash received from disposal of property, plant and equipment, intangible assets and other non-current assets		102,195	359,232
Net cash received from disposal of other equity instrument investments		468,296	96,927
Acquisition of subsidiaries, net of cash acquired	41	(24,830,965)	(18,357,021)
Loans to a fellow subsidiary		(1,957,817)	-
Interest received		2,319,969	2,080,573
Dividend received from equity investments designated at fair value through other comprehensive income	6	700,080	638,641
Dividend received from associates and joint ventures		3,808,521	4,434,049
Other investing activities		176,010	350,726
Net cash flows used in investing activities		(29,572,580)	(23,417,398)

The notes on pages 16 to 137 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021 (continued)

(Expressed in Hong Kong dollars)

	Note	*2021* HK$'000	*2020* HK$'000
Cash flows from financing activities			
Proceeds from issue of redeemable preference shareholders	39	14,545,089	8,751,600
Increase in capital from non-controlling shareholder		-	5,132,769
Proceeds from borrowings and issue of bonds	30(b)	68,585,822	61,506,147
Cash repayments of Interest-bearing bank and other borrowings	30(b)	(62,533,579)	(47,410,689)
Dividends paid	30(b)	(4,902,480)	(9,835,448)
Interest paid	30(b)	(5,359,317)	(4,570,594)
Payment of lease liabilities	30(b)	(167,081)	(157,710)
Net cash flows generated from financing activities		10,168,454	13,416,075
Net (decrease)/increase in cash and cash equivalents		(1,885,661)	291,390
Cash and cash equivalents at beginning of year		13,637,340	16,613,927
Effect of foreign exchange rate changes, net		(777,218)	(3,267,977)
Cash and cash equivalents at end of year	30	10,974,461	13,637,340

The notes on pages 16 to 137 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars, unless otherwise indicated)

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.

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

Name of company	*Place of incorporation*	*Principal activities*	*Paid-up capital*	*Percentage of equity interest attributable to the Company*
State Grid Brazil Holding S. A. (SGBH)	Brazil	Project investment and financing	Brazil Real (BRL) 9,787,203,751	100%
Expansion Transmissora Itumbiara Marimbondo S. A.	Brazil	Grid operating	BRL 88,108,634	100%
Expansion Transmissora de Energia Eletrica S. A.	Brazil	Grid operating	BRL 101,747,039	100%
Itumbiara Transmissora de Energia S. A.	Brazil	Grid operating	BRL 402,460,000	100%
Pocos de Caldas Transmissorade Energia Eletrica S. A.	Brazil	Grid operating	BRL 446,678,009	100%
Ribeirao Preto Transmissora de Energia Eletrica S. A.	Brazil	Grid operating	BRL 352,801,713	100%
Serra Paracatu Transmissora de Energia S. A.	Brazil	Grid operating	BRL 271,496,454	100%
Serra da Mesa Transmissora de Energia Eletrica S. A.	Brazil	Grid operating	BRL 520,358,824	100%
Araraquara Transmissora De Energia S. A.	Brazil	Grid operating	BRL 197,191,128	100%
Catxere Transmissora De Energia S. A.	Brazil	Grid operating	BRL 409,948,233	100%
Iracema Transmissora De Energia S. A.	Brazil	Grid operating	BRL 402,460,000	100%

1. Corporate information (continued)

Name of company	Place of incorporation	Principal activities	Paid-up capital	Percentage of equity interest attributable to the Company
Linhas De Transmissao Do Itatim S. A.	Brazil	Grid operating	BRL 261,360,000	100%
Linhas de Transmissão De Montes Claros S. A (LTMC)	Brazil	Grid operating	BRL 285,025,068	100%
Atlântico Concessionária de Transmissão de Energia do Brasil S. A. (ACTE)	Brazil	Grid operating	BRL 106,443,446	100%
Xingu Rio Transmissora de Energia S. A. (XRTE)	Brazil	Grid operating	BRL 2,291,001,000	100%
Porto Primavera Transmissora De Energia S. A. (PPTE)	Brazil	Grid operating	BRL 214,035,000	100%
Marechal Rondon Transmissora de Energia S. A. (MRTE)	Brazil	Grid operating	BRL 120,618,000	100%
Paranaita Ribeirozinho Transmissora de Energia S. A. (PRTE)	Brazil	Grid operating	BRL 675,001,000	100%
Canarana Transmissora de Energia S. A. (CNTE)	Brazil	Grid operating	BRL 84,001,000	100%
State Grid Brazil Power Participações Ltda. (SGBP)	Brazil	Project investment and financing	BRL 29,347,106,730	100%
CPFL Energia S. A. (CPFL)	Brazil	Grid operating	BRL 9,388,081,342	83. 71%
Companhia Paulista de Força Luz(CPFL Paulista)	Brazil	Grid operating	BRL 1,343,323,000	83. 71%
Companhia Piratininga Força Luz(CPFL Piratininga)	Brazil	Grid operating	BRL 258,497,000	83. 71%
RGE Sul Distribuidora de Energia S.A. .(RGE)	Brazil	Grid operating	BRL 2,831,534,000	83. 71%
CPFL Geração Energia S.A. (CPFL Geração)	Brazil	Grid operating	BRL 2,022,783,000	83. 71%
CPFL Brasil	Brazil	Grid operating	BRL 1,352,828,000	83. 71%
CPFL Energias Renováveis S. A. (CPFL Renováveis)	Brazil	Grid operating	BRL 3,698,060,000	83. 66%
Companhia Estadual de Transmissão de Energia Elétrica – CEEE-T (CPFL Transmissão) (Note(i))	Brazil	Grid operating	BRL 981,343,000	55.31%
International Grid Holdings Limited	Virgin Islands, British	Project investment and financing	United States Dollar (US$) 1	100%
Top View Grid Investment Limited	Virgin Islands, British	Project investment and financing	US$ 1	100%
State Grid Europe Limited	Britain	Project investment and financing	Great Britain Pound (GBP) 10,000,000 European Dollar (EUR) 885,000,000	100%
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	Hong Kong Dollar (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$10,000	100%
SGSP (Australia) Assets Pty Ltd. (SGSPAA)	Melbourne, Australia	Grid operating	Australian Dollor (AU$) 3,200,000,100	60%
Jemena Gas Trust	Australia	Project investment and financing	AU$ 357,929,002	60%

1. Corporate information (continued)

Name of company	*Place of incorporation*	*Principal activities*	*Paid-up capital*	*Percentage of equity interest attributable to the Company*
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	gas transmission	AU$ 2	60%
State Grid International Development Belgium Limited	Belgium	Project investment and financing	US$1,621,635,560 (EUR) 1,902,000,000	100%
State Grid Chile Holding SPA	Chile	Project investment and financing	Chilean Peso (CLP) 2,506,152,818,628	100%
State Grid Chile Investment SPA	Chile	Project investment and financing	CLP 1,018,057,618,628	100%
State Grid Bermuda Limited	Chile	Project investment and financing	US$ 10,000	100%
Inversiones State Grid Limitada (ISL)	Chile	Grid operating	US$ 750,050,644.25	100%
Chilquinta Energia S.A	Chile	Grid operating	CLP 191,022,362,652	100%
Tecnored S.A	Chile	Grid operating	CLP 36,140,189,318	100%
State Grid Chile Electricity SPA(Note(ii))	Chile	Project investment and financing	CLP 2,371,695,049	100%
CGE Servicios S.A. (Note(iii))	Chile	Grid operating	CLP 1,232,423,425	100%
Compañia General de Electricidad S.A. (Note(iii))	Chile	Grid operating	CLP 2,000,000	97.15%
CGE Transmisión S.A. (Note(iv))	Chile	Grid operating	CLP 306,181,134	97.15%

Notes:

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.

1. Corporate information (continued)

(i) On 16 July 2021, subsidiary CPFL Cone Sul was ranked first in the scope of Auction No. 01/2021, referring to disposal of shareholding control of CPFL Transmissão, held by B3 - Brasil, Bolsa, Balcão S.A.

CPFL Energia, within the scope of the public session of the Auction, through CPFL Cone Sul, presented the winning offer, amounting to R$ 2,670,000,000, for the acquisition of shares representing approximately 66.08% of the total capital stock of CPFL Transmissão (approximately 67.12% of common shares and 0.72% of preferred shares), previously held by the state of Rio Grande do Sul.

In September 2021, the transaction was approved by the Brazilian Antitrust Agency (CADE) and regulatory authority (ANEEL). On 14 October 2021, a Material Fact was announced to the market that the acquisition was concluded after all conditions precedent for the transaction were met, when CPFL Transmissão's control was undertook by CPFL Cone Sul and the ownership of the shares was transferred and the payment made.

(ii) On 22 February 2021, with the approval of the Company's board of directors, State Grid Chile Electricity SPA was registered with a registered capital of CLP2,371,695,049. The parent company is State Grid Chile Holding SPA.

(iii) On 26 July 2021, with the approval of the Company's board of directors, State Grid Chile Electricity SPA purchased 97.145% equity interest of Compañía General de Electricidad S.A. and 100% equity interest of CGE Servicios S.A. at a consideration equivalent to approximately HK$23,893,234,000.

(iv) On 24 September 2021, with the approval of the Company's board of directors, Companía General de Electricidad S.A. established CGE Transmisión S.A. as a spin-off of its power transmission and distribution business. The parent company of Companía General de Electricidad S.A and CGE Transmisión S.A is State Grid Chile Electricity SPA.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the company are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2.2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- Investments and other financial assets (see Note 2.3(i))
- Financial liabilities (see Note 2.3(l))
- Derivative financial instruments (see Note 2.3(o))
- Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see Note 2.3(cc)).

2.1 Basis of preparation (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Going concern

As of 31 December 2021, the Group had net current liabilities of HK$27,792,839,000 (31 December 2020: net current liabilities of HK$30,242,545,000). The directors of the Company have considered the Group's available sources of fund including the forecasted cash flows of the Group and the available banking facilities and concluded that the Group will have sufficient financial resources for its operations for at least 12 months from the end of the reporting period. As such, 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.

2.2 Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform - phase 2*

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The amendments did not have material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

2.3 Summary of significant accounting policies

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in associate or joint venture (see Note 2.3(b)).

In the Group's statement of financial position, an investment in subsidiaries is stated at cost less impairment losses (see Note 2.3(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale (see Note 2.3(cc))).

2.3 Summary of significant accounting policies (continued)

(b) Joint venture and associates

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement and have rights to the net assets of the arrangement.

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in a joint venture or an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2.3(d) and Note 2.3(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the Group's consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable (see Note 2.3(k)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2.3(l)).

2.3 Summary of significant accounting policies (continued)

(c) 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.

2.3 Summary of significant accounting policies (continued)

(d) Business combinations and goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.
The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 2.3(k)(iii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any noncontrolling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

2.3 Summary of significant accounting policies (continued)

(d) Business combinations and goodwill (continued)

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2.3(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) 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 (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.3 Summary of significant accounting policies (continued)

(f) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale 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 (see Note 2.3(cc). The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Land and buildings	1.67%-9.50%
Plant and equipment	2.00%-20.00%*
Office equipment	10.00%-20.00%
Transport equipment	4.75%-33.33%

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

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.

2.3 Summary of significant accounting policies (continued)

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.

(g) Investment properties

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

(h) 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.

2.3 Summary of significant accounting policies (continued)

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.

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.

(i) 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.

2.3 Summary of significant accounting policies (continued)

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.

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.

2.3 Summary of significant accounting policies (continued)

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.

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.

2.3 Summary of significant accounting policies (continued)

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.

(j) 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.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables HKFRS

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, including loans to associates and joint ventures, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

2.3 Summary of significant accounting policies (continued)

- contract assets as defined in HKFRS 15 (see Note 2.3(p));

- debt securities measured at FVOCI (recycling);

- lease receivables; and

- loan commitments issued, which are not measured at FVPL.

Other financial assets measured at fair value, including units in bond funds, equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;

- lease receivables: discount rate used in the measurement of the lease receivable;

- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

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

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2.3 Summary of significant accounting policies (continued)

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

- an actual or expected significant deterioration in the operating results of the debtor; and

- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

2.3 Summary of significant accounting policies (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2.3(w)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2.3 Summary of significant accounting policies (continued)

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the carrying amount in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 2.3(k)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

2.3 Summary of significant accounting policies (continued)

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets (other than property carried at revalued amounts);
- intangible assets;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

2.3 Summary of significant accounting policies (continued)

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) 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.

2.3 Summary of significant accounting policies (continued)

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.

(m) 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.

(n) 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.

2.3 Summary of significant accounting policies (continued)

(o) *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.

2.3 Summary of significant accounting policies (continued)

Cash flow hedges

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

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.

2.3 Summary of significant accounting policies (continued)

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.

Current versus non-current classification

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

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

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

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

2.3 Summary of significant accounting policies (continued)

(p) Leases

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. 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. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2.3(k), except for the following types of right-of-use asset:

- Right-of-use asset that meet the definition of investment property are carried at fair value; and

- Right-of-use asset related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair; and

- Right-of-use asset related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

2.3 Summary of significant accounting policies (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

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.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 2.3 (p), then the Group classifies the sub-lease as an operating lease.

(q) Provisions and contingent liabilities

Provisions are recognised when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

2.3 Summary of significant accounting policies (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2.3(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2.3 Summary of significant accounting policies (continued)

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2.3(k)(i).

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) 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 amortized, determined by the new replacement value;

d) The price (tariff) is regulated and denominated Annual Allowed Revenue ("RAP").

2.3 Summary of significant accounting policies (continued)

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.

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.

2.3 Summary of significant accounting policies (continued)

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.

(w) *Revenue recognition*

Revenue from contracts with customers is recognized 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 recognized 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 recognized 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.

(i) Distribution revenue

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

(ii) Rendering of services

Revenue from services is recognized 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.

2.3 Summary of significant accounting policies (continued)

(i) 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.

(ii) Concession revenues

Concession revenue is mainly derived from provision of infrastructure construction services, which is recognized 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 recognizes 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 Group 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.

(iii) Rental income from operating leases

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.

(iv) Interest income

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

(v) Dividends

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.

2.3 Summary of significant accounting policies (continued)

(x) *Contract assets and contract liabilities*

A contract asset is recognised when the Group recognises revenue (see Note 2.3(w)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2.3(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2.3(w)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2.3(w)).

(y) *Trade and other receivables*

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2.3(x)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see Note 2.3(k)(i)).

Insurance reimbursement is recognised and measured in accordance with Note 2.3(q).

2.3 Summary of significant accounting policies (continued)

(z) Sector financial asset and liability

According to the tariff pricing mechanism applicable to the distribution companies, the energy tariffs should be set at a price level (price cap) that ensures the economic and financial equilibrium of the concession. Therefore, the concessionaires and licensees are authorized to charge their consumers (after review and ratification by ANEEL) for: (i) the annual tariff increase; and (ii) every four or five years, according to each concession agreement, the periodic review for purposes of reconciliation of part of Parcel B (controllable costs) and adjustment of Parcel A (non-controllable costs).

The distributors' revenue is mainly comprised of the sale of electric energy and for the delivery (transmission) of the electric energy through the distribution infrastructure (network). The distribution concessionaires' revenue is affected by the volume of energy delivered and the tariff. The electric energy tariff is comprised of two parcels which reflect a breakdown of the revenue:

- Parcel A (non-controllable costs): this parcel should be neutral in relation to the entity's performance, i.e., the costs incurred by the distributors, classifiable as Parcel A, is fully passed through the consumer or borne by the Granting Authority; and

- Parcel B (controllable costs): comprised of capital expenditure on investments in infrastructure, operational costs and maintenance and remuneration to the providers of capital. It is this parcel that actually affects the entity's performance, since it has no guarantee of tariff neutrality and thus involves an intrinsic business risk.

This tariff pricing mechanism can cause temporary differences arising from the difference between the budgeted costs (Parcel A and other financial components) included in the tariff at the beginning of the tariff period and those actually incurred while it is in effect. This difference constitutes a right of the concessionaire to receive cash when the budgeted costs included in the tariff are lower than those actually incurred, or an obligation to pay if the budgeted costs are higher than those actually incurred.

2.3 Summary of significant accounting policies (continued)

(aa) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

- Electronic manufacturing

  Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

  Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

- Property development

  Cost and net realisable values are determined as follows:

- Property under development for sale

  The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of interests in freehold and leasehold land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 2.3(t)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

- Completed property held for resale

  The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

  In the case of completed properties developed by the Company, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

2.3 Summary of significant accounting policies (continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see Note 2.3(aa)(i)), property and plant and equipment (see Note 2.3(f)) or intangible assets.

Incremental costs of obtaining a contract are those costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Company entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2.3(w).

2.3 Summary of significant accounting policies (continued)

(bb) 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 assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

The functional currencies of certain overseas subsidiaries, 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.

2.3 Summary of significant accounting policies (continued)

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

(cc) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a noncontrolling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned98 are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the noncurrent asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

2.3 Summary of significant accounting policies (continued)

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(dd) Asset acquisition

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Group chooses to apply a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the Group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

(ee) 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.

(ff) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2.3 Summary of significant accounting policies (continued)

(ii) Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to 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.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

When the benefits of a plan are changed, or when a plan is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

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.

2.3 Summary of significant accounting policies (continued)

(iii) 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.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits..

(gg) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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. 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.

(a) *Critical accounting judgements in applying the Group's accounting policies*

Note 2.1(c) contain information the Group's material judgement related to going concern. In the process of applying the Group's accounting policies, management has made the following other accounting judgement:

(i) Holds more than half of the voting rights of the investee but does not have control

Even with more than half of the voting rights, MATRIXÃ TRANSMISSORA DE ENERGIA (TPNORTE) S.A., GUARACIABA TRANSMISSORA DE ENERGIA (TPSUL) S.A., LUZIÂNI-ANIQUELÂNDIA TRANSMISSORA S.A., PARANAIBA COMPANIES SUCH AS TRANSMISSORA DE ENERGIA S.A., BELO MONTE TRANSMISSORA DE ENERGIA S.A., FOZ do Chapecó Energia S.A., Centrais Elétricasda Paraíba S.A., etc., cannot be consider as subsidiaries of the Group. The Group, as the largest single shareholder of the above-mentioned companies, although it holds more than or equal to 51% of its shares, it can only jointly decide its major operating and financial decisions with other shareholders in accordance with the articles of association and other provisions of the Company, in this case it is judged to be a joint venture of the Group.

(ii) 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.

(b) *Sources of 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:

(i) 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).

3. Significant accounting judgements and estimates (continued)

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

(ii) Unbilled distribution revenue

Estimates, so called "unbilled distribution revenue", are made where required to account for the period between the meter reading date and the end of the accounting period. This unbilled revenue estimate is based on the total volume of energy of each distributor made available during the year and the annualized rate of technical and commercial losses or historical consumption patterns, base usage and weather conditions.

(iii) Private pension plan

The present value of the defined benefit obligations and the net expense for defined benefit superannuation plans depends on a number of factors that are determined on an actuarial basis using principal assumptions, key actuarial assumptions used in the measurement of defined benefit obligations set includes discount rate, expected long term salary increase rate, expected pension increase rate and weighted average duration of the defined benefit obligation etc.

(iv) Provision for tax, civil and labor risks and escrow deposits

A comprehensive estimation on the possible losses based on the available evidence, lawsuit in progress, the existing cases, the recent court judgments and their relevance, and the opinions of external legal is made by the Group. The Group's management check and adjust reserves in the light of changes in circumstances, such as changes in relevant regulations, conclusions of tax authorities, new evidence or court judgments. Provision for the outflow of economic benefits that may result from statutory and presumptive obligations related to past legal events, and the reserve established reflects the best estimate of the associated risks.

3. Significant accounting judgements and estimates (continued)

(v) 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 be required 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.

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.

3. Significant accounting judgements and estimates (continued)

(vi) 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, electricity and gas transmission and distribution, and operation and maintenance of electricity networks. For management purposes, the Group's business is mainly monitored in 4 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 Chile segment comprises the Group's subsidiaries engaged in the distribution, transmission, generation, supply and sale of electricity, which was acquired in 2020 and 2021 (see Note 1).

- The Corporate segment principally comprises 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.

4 Operating segment information (continued)

Year ended 31 December 2021	Brazil HK$'000	Australia HK$'000	Chile HK$'000	Corporate HK$'000	Consolidated HK$'000
Segment revenue:					
Operating revenue	81,186,805	9,327,800	12,227,523	-	82,742,128
Revenue from continuing operations					82,742,128
Segment results	10,782,514	1,997,955	196,588	5,514,178	18,491,235
Reconciliation					
Elimination of exchange losses					568,013
Profit before tax					19,059,248
Segment assets	150,820,219	66,388,679	120,740,871	148,496,240	486,446,009
Reconciliation					
Elimination of other receivables					(15,596)
Elimination of long-term receivables					(123,488,420)
Total assets					362,941,993
Segment liabilities	88,808,539	54,214,135	46,890,719	141,881,484	331,794,879
Reconciliation					
Elimination of other payables and accruals					15,596
Elimination of long-term loans					(8,020,671)
Elimination of long-term payables					(115,469,219)
Total liabilities					208,320,585
Other segment information:					
Share of (losses)/profits of:					
Associates	(942)	89,369	-	5,218,490	5,306,917
Joint ventures	957,058	298,768	-	75,645	1,331,471
Impairment losses recognised in the statement of profit or loss	(499,903)	(3,598)	(50,032)	-	(553,533)
Other non-cash gains/(losses)	-	16,323	(375,369)	(222,447)	(581,493)
Depreciation and amortisation	(3,564,555)	(1,746,584)	(1,374,971)	(1,024)	(6,687,134)
Investment in associates	18,581	1,823,381	-	50,489,686	52,331,648
Investment in joint ventures	8,880,117	5,616,328	-	3,783,569	18,280,014
Capital expenditure*	1,157,808	2,342,186	3,692,311	117	7,192,422

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

4 Operating segment information (continued)

Year ended 31 December 2020	Brazil HK$'000	Australia HK$'000	Chile HK$'000	Corporate HK$'000	Consolidated HK$'000
Segment revenue:					
Operating revenue	51,358,172	8,965,412	2,333,803	-	62,657,387
Revenue from continuing operations					62,657,387
Segment results	7,336,043	1,876,637	692,708	5,254,698	15,160,086
Reconciliation					
Exchange losses					1,937,389
Profit before tax					17,097,475
Segment assets	150,367,611	68,826,757	40,272,230	193,501,772	452,968,370
Reconciliation					
Elimination of other receivables					(15,505)
Elimination of long-term receivables					(125,685,962)
Total assets					327,266,903
Segment liabilities	83,587,540	58,584,664	15,419,501	154,391,003	311,982,708
Reconciliation					
Elimination of short-term loans					(426,477)
Elimination of long-term loans					(7,576,711)
Elimination of long-term payables					(118,871,115)
Total liabilities					185,108,405
Other segment information:					
Share of profits of:					
Associates	-	174,763	-	4,842,814	5,017,577
Joint ventures	902,161	154,595	-	72,436	1,129,192
Impairment losses recognised in the statement of profit or loss	(348,210)	(5,108)	(37,034)	-	(390,352)
Other non-cash (losses)/gains	(153,042)	(19,681)	705,564	(153,390)	379,451
Depreciation and amortisation	(3,684,829)	(1,868,116)	(108,178)	(882)	(5,662,005)
Investment in associates	-	1,692,753	-	58,870,722	60,563,475
Investment in joint ventures	9,159,864	5,773,896	-	3,946,900	18,880,660
Capital expenditure*	895,921	2,213,682	702,986	301	3,812,890

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

The Group's 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, and the generation of electricity of conventional and renewable sources, its Australian subsidiaries, which are engaged in gas transmission and distribution, electricity distribution and water distribution, and its Chile subsidiaries, which are engaged in the distribution, transmission, generation, supply and sale of electricity.

5 Revenue

	2021 HK$'000	*2020* HK$'000
Distribution and transmission revenue (Note)	60,279,118	31,419,058
Electricity sales revenue	10,960,977	17,831,264
Service and construction revenue	10,149,934	12,610,556
Others	680,483	256,816
Revenue from contracts with customers	82,070,512	62,117,694
Rental income	671,616	539,693
Revenue from other sources	671,616	539,693
	82,742,128	62,657,387

Note: Distribution and transmission revenue includes revenue earned from the distribution and transmission of gas, electricity and water.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is set out below:

For the year ended 31 December 2021

	Brazil HK$'000	*Australia* HK$'000	*Chile* HK$'000	*Total* HK$'000
Type of goods or services				
Distribution and transmission revenue	47,980,836	4,846,048	7,452,234	60,279,118
Electricity sales revenue	7,724,611	-	3,236,366	10,960,977
Service and construction revenue	4,395,912	4,300,418	1,453,604	10,149,934
Others	424,043	181,334	75,106	680,483
Total revenue from contracts with customers	60,525,402	9,327,800	12,217,310	82,070,512
Timing of revenue recognition				
Goods/services transferred at a point in time	56,129,490	5,027,382	10,763,706	71,920,578
Goods/services transferred over time	4,395,912	4,300,418	1,453,604	10,149,934
Total revenue from contracts with customers	60,525,402	9,327,800	12,217,310	82,070,512

For the year ended 31 December 2020

	Brazil HK$'000	*Australia* HK$'000	*Chile* HK$'000	*Total* HK$'000
Type of goods or services				
Distribution and transmission revenue	26,445,707	4,835,320	138,031	31,419,058
Electricity sales revenue	16,131,078	-	1,700,186	17,831,264
Service and construction revenue	8,200,933	3,954,958	454,665	12,610,556
Others	42,905	175,134	38,777	256,816
Total revenue from contracts with customers	50,820,623	8,965,412	2,331,659	62,117,694
Timing of revenue recognition				
Goods/services transferred at a point in time	42,619,690	5,010,454	1,876,994	49,507,138
Goods/services transferred over time	8,200,933	3,954,958	454,665	12,610,556
Total revenue from contracts with customers	50,820,623	8,965,412	2,331,659	62,117,694

5. Revenue (continued)

	2021 HK$'000	2020 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period	1,195,662	689,115

6 Other income and gains

	2021 HK$'000	2020 HK$'000
Bank interest income	2,319,969	2,080,573
Dividend income from equity investments *designated at fair value through other* comprehensive income	700,080	638,641
Ineffectiveness of hedges	19,242	(19,040)
Loss from disposal of a subsidiary (Note 17)	(208,415)	-
Others	80,132	8,836
	2,911,008	2,709,010

7 Finance costs

	2021 HK$'000	2020 HK$'000
Interest on bank loans and other borrowings	6,343,762	4,637,187
Changes in fair value recognized in profit or loss	2,451	10,749
Interest on lease liabilities	31,071	31,648
Others	15,570	713
Less: Interest capitalised (Note)	84,818	66,593
	6,308,036	4,613,704

Note: The borrowing costs have been capitalised at interest rates ranging from 3.48% to 8.09% (2020: from 4.00% to 8.09%).

8. Profit before tax

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

	Note	*2021* *HK$'000*	*2020* *HK$'000*
(a) Staff costs			
Wages and salaries		6,261,422	5,448,191
Pension scheme contributions		384,445	290,299
		6,645,867	5,738,490
(b) Other items			
Cost of electricity sales and supplies		43,689,358	31,589,584
Depreciation of property, plant and equipment and investment properties	12&13	3,216,206	2,683,491
Depreciation of right-of-use assets	14	156,694	134,715
Amortisation of other intangible assets	16	3,314,234	2,843,799
Third party services		1,343,032	1,432,716
Minimum lease payments under operating leases		190,747	155,119
Fair value gains, net:			
- Derivative financial instruments at fair value through profit or loss		16,791	(29,789)
Impairment of contract assets, net	24	187	6,606
Impairment of trade receivables, net	27	545,210	384,284
Impairment of other assets		8,136	(538)
Foreign exchange loss/(gain), net		598,284	(398,491)

9 Directors' remuneration

No director of the Company received any fees or emoluments in respect of their services rendered to the Group during the year 2021 (2020: Nil).

10. Income tax

Hong Kong profits tax of the Company has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. Income tax rates of the major subsidiaries are listed as follows:

Company	Rate
State Grid Brazil Holding S.A.	34%
State Grid Brazil Power Participações S.A.	34%
SGSP (Australia) Assets Pty Ltd.	30%
State Grid Chile Holding SPA	27%
State Grid Chile Electricity SPA	27%

	2021 HK$'000	*2020* HK$'000
Provision for the year	3,100,375	2,246,264
Deferred tax (Note 22)	1,215,840	1,561,341
Tax charge for the year	4,316,215	3,807,605

10 Income tax (continued)

A reconciliation of between tax expense and the Group's profit before tax is as follows:

	2021 HK$'000	*2020* HK$'000
Profit before tax	19,059,248	17,097,475
Tax at the Hong Kong statutory tax rate of 16.5%	3,144,776	2,821,083
Income or expense taxed at different rates in other countries	1,871,382	1,601,536
Tax effect of non-deductible expenses	459,753	1,437,276
Tax effect of non-taxable income	(1,632,213)	(2,605,706)
Effect of withholding tax on the dividend income	96,149	85,548
Effect of withholding tax on profits attributable to the Group	299,873	368,509
Effect of withholding tax on the offshore interest income	71,801	96,582
Tax losses not recognized	4,694	2,777
Tax charge at the Group's effective rate of 22.6% (2020: 22.3%)	4,316,215	3,807,605

11 Dividends

	2021 HK$'000	*2020* HK$'000
Dividends-ordinary share	778,281	559,622
Dividends-preference share	4,130,721	8,505,957
	4,909,002	9,065,579

The dividends for the year were approved in January 2021, April 2021, August 2021, September 2021, October 2021 and December 2021, and paid partially during the year. At 31 December 2021, total outstanding amount to be paid is HK$1,915,048,000 (2020: HK$1,725,812,000).

12 Property, plant and equipment

31 December 2021	Land and buildings HK$'000	Office equipment HK$'000	Plant and equipment HK$'000	Transport equipment HK$'000	Construction in progress HK$'000	Others HK$'000	Total HK$'000
At 1 January 2021:							
Cost	10,362,191	766,904	84,679,739	505,609	5,714,181	28,102	102,056,726
Accumulated depreciation	(3,429,325)	(649,933)	(22,741,938)	(359,103)	-	(30)	(27,180,329)
Net carrying amount	6,932,866	116,971	61,937,801	146,506	5,714,181	28,072	74,876,397
At 1 January 2021, net of accumulated depreciation	6,932,866	116,971	61,937,801	146,506	5,714,181	28,072	74,876,397
Additions	86,322	15,878	1,449,753	89,476	4,012,910	-	5,654,339
Business combination (Note 41)	1,106,971	462	18,589,411	20,781	1,816,102	-	21,533,727
Transfer	127,371	20,144	2,971,297	41,538	(3,163,038)	-	(2,688)
Depreciation provided during the year	(295,383)	(26,993)	(2,846,640)	(43,512)	-	-	(3,212,528)
Disposals	(192,473)	(320)	(86,750)	(42,175)	(135)	-	(321,853)
Exchange realignment	(700,747)	(25,785)	(6,039,621)	(42,730)	(822,165)	(3,744)	(7,634,792)
At 31 December 2021, net of accumulated depreciation	7,064,927	100,357	75,975,251	169,884	7,557,855	24,328	90,892,602
At 31 December 2021							
Cost	10,607,210	790,327	105,913,120	567,140	7,557,855	30,198	125,465,850
Accumulated depreciation	(3,542,283)	(689,970)	(29,937,869)	(397,256)	-	(5,870)	(34,573,248)
Net carrying amount	7,064,927	100,357	75,975,251	169,884	7,557,855	24,328	90,892,602

12 Property, plant and equipment (continued)

	Land and buildings HK$'000	*Office equipment* HK$'000	*Plant and equipment* HK$'000	*Transport equipment* HK$'000	*Construction in progress* HK$'000	*Others* HK$'000	*Total* HK$'000
31 December 2020							
At 1 January 2020:							
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	7,686,256	163,269	55,745,713	178,108	3,422,612	-	67,195,958
At 1 January 2020, net of accumulated depreciation	7,686,256	163,269	55,745,713	178,108	3,422,612	-	67,195,958
Additions	453,961	5,843	1,571,983	660	1,465,337	-	3,497,784
Business combination	287,490	48	6,828,858	-	2,140,807	43,252	9,300,455
Transfer	186,111	15,598	593,618	40,404	(903,712)	-	(67,981)
Depreciation provided during the year	(306,706)	(69,618)	(2,257,962)	(43,225)	-	-	(2,677,511)
Disposals	(61,446)	(25)	(117,131)	(1,902)	(1,951)	-	(182,455)
Exchange realignment	(1,312,800)	1,856	(427,278)	(27,539)	(408,912)	(15,180)	(2,189,853)
At 31 December 2020, net of accumulated depreciation	6,932,866	116,971	61,937,801	146,506	5,714,181	28,072	74,876,397
At 31 December 2020							
Cost	10,362,191	766,904	84,679,739	505,609	5,714,181	28,102	102,056,726
Accumulated depreciation	(3,429,325)	(649,933)	(22,741,938)	(359,103)	-	(30)	(27,180,329)
Net carrying amount	6,932,866	116,971	61,937,801	146,506	5,714,181	28,072	74,876,397

13 Investment properties

	2021 HK$'000	2020 HK$'000
Carrying amount at 1 January	146,590	164,183
Additions	70,366	8,156
Business combination (Note 41)	82,034	23,149
Depreciation	(3,678)	(5,980)
Other decreases	(25,059)	(9,453)
Exchange realignment	(26,367)	(33,465)
Carrying amount at 31 December	243,886	146,590

The Group's investment properties are measured at cost and consist of offices, commercial premises, parking lots and warehouses under lease contracts with third parties.

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.

(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$'000	*Other* HK$'000	*Total* HK$'000
As at 1 January 2020	484,283	16,554	87,854	-	588,891
Additions	11,070	931	26,095	-	38,096
Business combination	-	-	-	23,237	23,237
Depreciation charge	(74,464)	(4,807)	(53,336)	(2,108)	(134,715)
Disposal	(123)	(5)	(1,440)	-	(1,568)
Exchange realignment	37,874	1,100	4,922	3,473	47,369
As at 31 December 2020	458,640	13,773	64,095	24,602	561,110
Additions	45,236	37,630	58,065	778	141,709
Business combination (Note 41)	27,843	-	26,507	-	54,350
Depreciation charge	(92,991)	(6,058)	(57,467)	(178)	(156,694)
Disposal	(1,134)	-	(47)	-	(1,181)
Exchange realignment	(26,959)	(4,393)	(5,703)	(1,989)	(39,044)
As at 31 December 2021	410,635	40,952	85,450	23,213	560,250

14 Leases (continued)

(b) *Lease liabilities*

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

	2021 HK$'000	2020 HK$'000
Carrying amount at 1 January	760,089	773,813
Addition from new leases	141,708	38,098
Business combination (Note 41)	61,752	27,209
Accretion of interest recognised during the year	31,071	31,648
Disposal	(725)	(6,237)
Payments	(167,081)	(157,710)
Exchange realignment	(73,559)	53,268
Carrying amount at 31 December	753,255	760,089
Analysed into:		
Current portion	159,945	113,864
Non-current portion	593,310	646,225

The maturity analysis of lease liabilities is disclosed in Note 43 to the financial statements.

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

	2021 HK$'000	2020 HK$'000
Interest on lease liabilities	31,071	31,648
Depreciation charge of right-of-use assets	156,694	134,715
Expense relating to short-term leases and low-value leases	190,747	155,119
Total amount recognised in profit or loss	378,512	321,482

The Group as a lessor

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

15. Goodwill

	2021 HK$'000	2020 HK$'000
At 1 January		
Cost	14,272,071	14,410,186
Accumulated impairment	-	-
Net carrying amount	14,272,071	14,410,186
Cost at 1 January, net of accumulated impairment	14,272,071	14,410,186
Utilize for deferred tax assets	(18,625)	(19,298)
Business combination*	5,429,303	1,157,760
Exchange realignment	(1,444,738)	(1,276,577)
Cost and net carrying amount at 31 December	18,238,011	14,272,071
At 31 December		
Cost	18,238,011	14,272,071
Accumulated impairment	-	-
Net carrying amount	18,238,011	14,272,071

* On 26 July 2021, the Group completed the acquisition of 97.145% equity interest in CGE Servicios S.A. at a consideration equivalent to HK$23,893,234,000. The fair value of the net asset on acquisition date was HK$18,463,931,000. The goodwill raised from this business combination amounted to HK$5,429,303,000 (see Note 41).

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 Concession and infrastructure		*Australian Concession and infrastructure*		*Chilean Concession and infrastructure*		*Total*	
	31 December 2021 HK$'000	*31 December 2020* HK$'000	*31 December 2021* HK$'000	*31 December 2020* HK$'000	*31 December 2021* HK$'000	*31 December 2020* HK$'000	*31 December 2021* HK$'000	*31 December 2020* HK$'000
Carrying amount of goodwill	6,113,008	6,560,358	6,124,419	6,457,033	6,000,584	1,254,680	18,238,011	14,272,071

15 Goodwill (continued)

(a) Brazilian concession and infrastructure cash-generating unit

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

(i) The nominal cash flows are discounted to the present value using post-tax discount rates ranging from 5.00% to 9.03%.

(ii) Cash flow time horizons used in valuing the CGU were 5 to 39 years.

(iii) CGU impairment testing was carried out at 31 December 2021 resulting in no impairments being recognised (2020: nil).

(b) Australian concession and infrastructure cash-generating unit

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

(i) TheAll nominal cash flows are discounted to the present value using post-tax discount rates ranging from 4.02% to 9.01%.

(ii) Cash flow time horizons used in the valuing the CGU were 5 to 10 years due to the long term nature of the CGU's activities.

(iii) 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 assumptions used to calculate the terminal value in non-regulated assets range from (0.5)% to 1.0% (2020: (0.5%) to 1.0%). For regulated assets, the terminal values are calculated by applying a multiple to the regulated assets base in the terminal year.

(iv) CGU impairment testing was carried out at 31 December 2021 resulting in no impairments being recognised (2020: nil).

(c) Chilean concession and infrastructure cash-generating unit

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

(i) The nominal cash flows are discounted to the present value using post-tax discount rates ranging from 6.42% to 8.61%.

(ii) Cash flow time horizons used in valuing the CGU were 19 to 32 years.

(iii) CGU impairment testing was carried out at 31 December 2021 resulting in no impairments being recognised (2020: nil).

16 Other intangible assets

	Software HK$'000	Contract intangibles HK$'000	Distribution licence HK$'000	Easement HK$'000	Other intangible assets HK$'000	Total HK$'000
At 1 January 2021:						
Cost	4,246,467	1,503,954	68,085,912	4,315,309	439,373	78,591,015
Accumulated depreciation	(3,244,947)	(464,759)	(21,669,010)	-	(264,664)	(25,643,380)
Net carrying amount	1,001,520	1,039,195	46,416,902	4,315,309	174,709	52,947,635
Cost at 1 January 2021, net of accumulated amortisation	1,001,520	1,039,195	46,416,902	4,315,309	174,709	52,947,635
Additions	1,042,119	-	318,190	63,393	74,204	1,497,906
Business combination (Note 41)	142,476	-	13,455,959	-	1,083,152	14,681,587
Disposal	-	-	(157,792)	(2,564)	-	(160,356)
Transfer	7,406	-	1,237,643	-	17,741	1,262,790
Amortisation for the year	(881,731)	(30,690)	(2,379,236)	-	(22,577)	(3,314,234)
Exchange realignment	(78,435)	(15,654)	(5,049,449)	2,915	(626,723)	(5,767,346)
At 31 December 2021	1,233,355	992,851	53,842,217	4,379,053	700,506	61,147,982
At 31 December 2021:						
Cost	5,150,153	1,511,635	76,351,713	4,379,053	971,157	88,363,711
Accumulated amortisation	(3,916,798)	(518,784)	(22,509,496)	-	(270,651)	(27,215,729)
Net carrying amount	1,233,355	992,851	53,842,217	4,379,053	700,506	61,147,982

16 Other intangible assets (continued)

	Software HK$'000	Contract intangibles HK$'000	Distribution licence HK$'000	Easement HK$'000	Other intangible assets HK$'000	Total HK$'000
At 1 January 2020:						
Cost	3,647,444	1,245,673	65,905,148	-	484,145	71,282,410
Accumulated depreciation	(2,780,629)	(249,184)	(24,657,025)	-	(306,748)	(27,993,586)
Net carrying amount	866,815	996,489	41,248,123	-	177,397	43,288,824
Cost at 1 January 2020, net of accumulated amortisation	866,815	996,489	41,248,123	-	177,397	43,288,824
Additions	175,580	-	84,699	-	46,671	306,950
Business combination	-	-	14,188,977	4,438,965	9,814	18,637,756
Disposals	(4,475)	-	(152,449)	-	(2,595)	(159,519)
Transfer	213,757	-	1,159,014	-	10,195	1,382,966
Amortisation for the year	(334,175)	(44,807)	(2,437,345)	-	(27,472)	(2,843,799)
Exchange realignment	84,018	87,513	(7,674,117)	(123,656)	(39,301)	(7,665,543)
At 31 December 2020	1,001,520	1,039,195	46,416,902	4,315,309	174,709	52,947,635
At 31 December 2020:						
Cost	4,246,467	1,503,954	68,085,912	4,315,309	439,373	78,591,015
Accumulated amortisation	(3,244,947)	(464,759)	(21,669,010)	-	(264,664)	(25,643,380)
Net carrying amount	1,001,520	1,039,195	46,416,902	4,315,309	174,709	52,947,635

17 Investment in associates

	31 December 2021 HK$'000	31 December 2020 HK$'000
Listed shares		
Redes Energeticas Nacionais, SGPS, S.A. (REN)	4,107,945	4,430,630
AusNet Services (Ausnet)	5,348,143	5,547,348
HK Electric Investments (HKEI)	10,291,325	10,154,825
	19,747,413	20,132,803
Unlisted shares		
United Energy Distribution Holdings Pty Ltd. (UEDH)	1,823,379	1,692,753
Cassa Depositi e Prestiti Reti.S.p.a. (CDP RETI)	21,293,782	21,918,547
National Grid Corporation of the Philippines (NGCP)	5,562,425	5,171,918
Independent Power Transmission Operator S.A. (IPTO)	3,886,068	4,105,752
Transmissora Porto Alegrense de Energia S.A.(TPAE)	5,031	-
Empresa de Transmissão do Alto Uruguai S.A.(ETAU)	13,550	-
Oman Electricity Transmission Company Saoc (OETC)	-	7,541,702
	32,584,235	40,430,672
	52,331,648	60,563,475

On February 2021, with the approval of the Company's board of directors, the 100% equity interest of the Company in State Grid International Development Singapore Private Limited ("SGID Singapore") was transferred to the Company's parent State Grid International Development Co., Ltd. at a total consideration of HK$11,076,000. SGID Singapore primarily owned equity interest in OETC. Therefore, together with the disposal of SGID Singapore, the equity interest in OETC was disposed as well. An investment loss of HK$208,415,000 was recognized upon disposal.

17 Investment in associates (continued)

Particulars of the major 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 Group*	*Principal activities*
National Grid Corporation of the Philippines (NGCP)	PHP2,000,000,000	Manila, Philippines	40.00%	Operate electric transmission grid
HK Electric Investments (HKEI)	HK$8,000,000	Hong Kong, China	21.00%	Generate electric/operate electric/gas transmission/ distribution grid
Redes Energeticas Nacionais, SGPS, S.A. (REN)	EUR667,191,000	Lisbon, Portugal	25.00%	Operate electric/gas transmission grid
Independent Power Transmission Operator S.A. (IPTO)	EUR38,444,000	Athens, Greece	24.00%	Transmission of electricity
Cassa Depositi e Prestiti Reti S.p.a. (CDP RETI)	EUR161,514	Italy	35.00%	Operate electric transmission grid
AusNet Services (Ausnet)	AU$5,537,100,000	Victoria, Australia	19.90%	Operate electric transmission/ distribution grid
United Energy Distribution Holdings Pty Ltd. (UEDH)	AU$306,112,000	Victoria, Australia	34.00%	Operate electric distribution grid

17. Investment in associates (continued)

NGCP and HKEI are directly held by the Company. REN, CDP RETI and IPTO are held by State Grid Europe Limited. AusNet 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 HKEI, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	NGCP		*HKEI*	
	2021	*2020*	*2021*	*2020*
	HK$'000	HK$'000	HK$'000	HK$'000
Current assets	6,988,429	9,975,045	2,347,000	1,729,000
Non-current assets, excluding goodwill	47,599,245	44,012,744	112,481,000	109,838,000
Current liabilities	10,868,594	11,764,303	5,817,000	8,341,000
Non-current liabilities	29,813,017	29,293,692	60,618,000	55,483,000
Net assets	13,906,063	12,929,794	48,393,000	47,743,000
Reconciliation to the Group's interest in the associates:				
Proportion of the Group's ownership	40.00%	40.00%	21.00%	21.00%
The Group's share of net assets of the associates, excluding goodwill	5,562,425	5,171,918	10,162,530	10,026,030
Goodwill on acquisition	-	-	128,795	128,795
Carrying amount of the investment	5,562,425	5,171,918	10,291,325	10,154,825
Revenue	7,664,883	7,599,733	11,344,000	10,389,000
Profit for the year	3,646,729	3,673,751	2,933,000	2,732,000
Other comprehensive income	16,426	(28,915)	546,000	(671,000)
Total comprehensive income for the year	3,663,155	3,644,836	3,479,000	2,061,000
Dividend received by the Group	756,960	750,508	594,090	594,300

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*	
	2021	*2020*	*2021*	*2020*
	HK$'000	HK$'000	HK$'000	HK$'000
Current assets	7,558,372	4,882,355	4,537,651	5,649,242
Non-current assets, excluding goodwill	41,790,460	45,163,375	24,723,107	23,737,892
Current liabilities	9,241,596	8,819,824	3,175,995	3,955,281
Non-current liabilities	27,657,872	27,803,549	13,680,789	12,414,760
Net assets	12,449,364	13,422,357	12,403,974	13,017,093
Reconciliation to the Group's interest in the associates:				
Proportion of the Group's ownership	25.00%	25.00%	24.00%	24.00%
Group's share of net assets of the associates, excluding goodwill	3,112,341	3,355,589	2,976,954	3,124,102
Goodwill on acquisition	995,604	1,075,041	909,114	981,650
Carrying amount of the investment	4,107,945	4,430,630	3,886,068	4,105,752
Revenue	7,707,734	6,710,829	2,629,713	2,536,907
Profit for the year	893,215	966,793	638,001	751,654
Other comprehensive income	169,195	(303,235)	111,927	16,026
Total comprehensive income for the year	1,062,410	663,558	749,928	767,680
Dividend received by the Group	260,707	250,939	92,838	109,288

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*	
	2021	*2020*	*2021*	*2020*
	HK$'000	HK$'000	HK$'000	HK$'000
Current assets	5,645,526	10,972,635	1,370,080	983,901
Non-current assets, excluding goodwill	73,281,135	76,221,964	19,480,642	20,047,790
Current liabilities	4,865,623	4,549,382	2,841,642	805,812
Non-current liabilities	54,208,141	62,172,701	16,655,899	19,474,680
Net assets	19,852,897	20,472,516	1,353,181	751,199
Reconciliation to the Group's interest in the associates:				
Proportion of the Group's ownership	19.90%	19.90%	34.00%	34.00%
The Group's share of net assets of the associates, excluding goodwill	3,950,727	4,074,031	460,082	255,408
Goodwill on acquisition	1,397,416	1,473,317	1,363,297	1,437,345
Carrying amount of the investment	5,348,143	5,547,348	1,823,379	1,692,753
Revenue	12,042,550	10,301,740	3,728,890	3,837,140
Profit for the year	1,994,496	1,617,124	258,379	515,020
Other comprehensive income	672,273	1,934,554	512,855	(122,425)
Total comprehensive income for the year	2,666,769	3,551,678	771,234	392,595
Dividend received by the Group	321,322	389,557	38,880	160,874

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	
	2021 HK$'000	*2020* HK$'000
Current assets	113,224,607	107,780,058
Non-current assets, excluding goodwill	469,503,299	486,718,824
Current liabilities	153,576,003	134,862,593
Non-current liabilities	281,133,365	309,369,433
Net assets	148,018,538	150,266,856
Net asset attributable to the parent company, excluding goodwill	41,614,399	41,865,530
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	35.00%	35.00%
Group's share of net assets of the associates, excluding goodwill	14,565,040	14,652,936
Goodwill on acquisition	6,728,742	7,265,611
Carrying amount of the investment	21,293,782	21,918,547
Revenue	74,129,533	19,557,204
Profit for the year attributable to the parent company	6,772,981	5,166,945
Other comprehensive income attributable to the parent company	441,372	(156,458)
Total comprehensive income for the year attributable to the parent company	7,214,353	5,010,487
Dividend received by the Group	1,485,843	1,327,887

18. Investment in joint ventures

	31 December 2021 HK$'000	*31 December 2020* HK$'000
ElectraNet Pty Ltd. (ElectraNet)	3,783,569	3,946,900
ActewAGL Distribution Partnership (ActewAGL)	5,616,328	5,773,896
Energética Barra Grande S.A. (BAESA)	45,584	58,599
Campos Novos Energia S.A. (ENERCAN)	1,517,363	1,698,841
Foz do Chapecó Energia S.A. (Chapecoense)	1,424,946	1,398,596
Centrais Elétricas da Paraíba S.A. (EPASA)	527,880	578,166
Other joint ventures held by SGBH in Brazil (defined below)	5,364,344	5,425,662
	18,280,014	18,880,660

18. Investment in joint ventures (continued)

Name	*Particulars of registered capital/paid-in capital*	*Place of registration 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	50.00%	Operate electric transmission grid gas transmission and distribution
Matrincha Transmissora de Energia (TP North) S.A.*	BRL1,508,073	Rio de Janeiro Brazil	51.00%	Operate electric transmission grid
Guaraciaba Transmissora de Energia (TP Sul) S.A.*	BRL803,832	Rio de Janeiro Brazil	51.00%	Operate electric transmission grid
Luziania-Niquelandia Transmissora S.A.*	BRL33,305	Rio de Janeiro Brazil	51.00%	Operate electric transmission grid
Paranaiba Transmissora de Energia S.A.*	BRL534,761	Rio de Janeiro Brazil	51.00%	Operate electric transmission grid
Belo Monte Transmissora De Energia S.A.*	BRL3,011,000,000	Rio de Janeiro Brazil	51.00%	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 held by SGBH in Brazil".

ActewAGL is a joint venture of SGSPAA. ElectraNet is a joint venture of State Grid International Development Asia and Australia Holding Company Limited. BAESA, ENERCAN, Chapecoense and EPASA are joint venture of SGBP.

18. Investment in joint ventures (continued)

All above joint ventures are accounted for using the equity method.

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*	
	2021 HK$'000	*2020* HK$'000	*2021* HK$'000	*2020* HK$'000
Current assets	1,092,238	866,353	355,930	321,252
Non-current assets	8,283,056	8,586,225	21,713,229	21,455,345
Current liabilities	760,152	698,987	3,460,449	2,614,121
Non-current liabilities	208,142	175,847	15,121,347	14,861,632
Net assets	8,407,000	8,577,744	3,487,363	4,300,844
Reconciliation to the Group's interest in the joint ventures:				
Proportion of the Group's interest	50.00%	50.00%	46.56%	46.56%
The Group's share of net assets of the joint ventures, excluding goodwill	4,203,500	4,288,872	1,623,716	2,002,473
Goodwill on acquisition	1,412,828	1,485,024	2,159,853	1,944,427
Carrying amount of the investment	5,616,328	5,773,896	3,783,569	3,946,900
Revenue	2,653,306	2,188,005	2,534,906	1,648,707
Profit for the year	584,197	298,732	162,466	63,165
Other comprehensive income	-	-	597,891	126,329
Total comprehensive income for the year	584,197	298,732	760,357	189,494
Dividend received by the Group	154,397	110,078	-	-

18. Investment in joint ventures (continued)

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	
	2021	2020	2021	2020
	HK$'000	HK$'000	HK$'000	HK$'000
Current assets	179,834	132,932	510,690	397,308
Non-current assets	1,575,075	1,590,701	1,499,934	1,552,570
Current liabilities	145,501	111,617	838,195	668,094
Non-current liabilities	739,297	593,085	290,621	424,189
Net assets	870,111	1,018,931	881,808	857,595
Reconciliation to the Group's interest in the joint ventures:				
Proportion of the Group's interest	25.01%	25.01%	48.72%	48.72%
The Group's share of net assets of the joint ventures, excluding adjustment	217,615	254,835	429,617	417,820
Consolidation adjustments	(172,031)	(196,236)	1,087,746	1,281,021
Carrying amount of the investment	45,584	58,599	1,517,363	1,698,841
Revenue	660,578	449,645	1,269,052	1,092,806
Profit for the year	56,056	221,862	604,450	624,735
Total comprehensive income for the year	56,056	221,862	604,450	624,735
Dividend received by the Group	36,417	77,156	175,638	169,213

18. Investment in joint ventures (continued)

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*	
	2021	*2020*	*2021*	*2020*
	HK$'000	HK$'000	HK$'000	HK$'000
Current assets	686,175	396,952	664,351	523,217
Non-current assets	3,368,389	3,487,084	390,626	572,088
Current liabilities	571,454	556,124	146,283	135,399
Non-current liabilities	2,294,317	2,389,232	171,154	291,683
Net assets	1,188,793	938,680	737,540	668,223
Reconciliation to the Group's interest in the joint ventures:				
Proportion of the Group's interest	51.00%	51.00%	53.34%	53.34%
The Group's share of net assets of the joint ventures, excluding adjustment	606,284	478,727	393,404	356,430
Consolidation adjustments	818,662	919,869	134,476	221,736
Carrying amount of the investment	1,424,946	1,398,596	527,880	578,166
Revenue	1,539,057	1,417,531	1,976,664	616,085
Profit for the year	661,057	379,962	192,876	129,888
Total comprehensive income for the year	661,057	379,962	192,876	129,888
Dividend received by the Group	172,560	343,500	40,191	34,182

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

	2021	*2020*
	HK$'000	HK$'000
Share of the joint ventures' profit for the year	419,222	441,504
Aggregate carrying amount of the Group's investments in joint ventures	5,364,344	5,425,662

19. Equity investments designated at fair value through other comprehensive income/other equity instrument investments

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value:		
China Construction Bank	7,102,527	7,747,016
China Datang Corporation Renewable Power Co., Ltd.	-	203,525
Guodian Technology & Environment Group Corporation Ltd.	44,245	14,799
China Energy Engineering Corporation Ltd.	1,237,425	731,169
China Datang Environment Industry Group Co., Ltd.	67,614	49,788
Industrial and Commercial Bank of China	-	176,789
	8,451,811	8,923,086

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 and amounted to HK$165,665,000 (2020: loss HK$1,263,350,000).

The fair values of listed equity investments are based on market prices 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 2021 HK$'000	*31 December 2020* HK$'000
Other equity instrument investments		
Unlisted equity investments, at fair value:		
Investco S.A.	106,377	113,984
Centrais Eletricas ELETROSUL	3,847	-
	110,224	113,984

5.94% equity 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. Investco's shares are not traded on the stock exchange and the main objective of its operation is to generate electric energy for commercialization by the shareholders holding the concession. As at 31 December 2021, unlisted equity investments with a carrying amount of HK$110,224,000 were stated at fair value (2020: HK$113,984,000). 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.

20. Financial assets-concession rights

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Concession revenue receivables		
Non-current	18,559,596	15,506,421
	18,559,596	15,506,421

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

The financial assets-concession rights are measured at fair value, determined in accordance with the remuneration base for the concession assets, pursuant to the legislation in force established by the regulatory authority, and take into consideration changes in the fair value, mainly based on factors such as new replacement value and adjustment on price. The fair value of the financial assets-concession rights falls into the Level 3 of the fair value hierarchy.

21. Derivative financial instruments

	Assets		Liabilities	
	31 December 2021 HK$'000	31 December 2020 HK$'000	31 December 2021 HK$'000	31 December 2020 HK$'000
Cross currency swap contracts - cash flow hedges	-	(147,501)	-	365,943
Cross currency swap contracts - fair value hedges	4,011,555	5,400,668	29,340	(150,137)
Cross currency swap contracts - hedges of net investments in foreign operations	536,169	-	-	238,108
Interest rate swap contracts - cash flow hedges	830,873	2,070	879,425	1,970,078
Interest rate swap contracts - fair value hedges	121,497	251,459	100,146	2,782
Forward foreign exchange contracts - fair value hedges	626	-	1,383	2,028
Forward foreign exchange contracts - cash flow hedges	613	71	296	1,596
	5,501,333	5,506,767	1,010,590	2,430,398
Portion classified as non-current:				
Cross currency swap contracts - cash flow hedges	-	(147,419)	-	365,943
Cross currency swap contracts - fair value hedges	3,145,133	4,010,205	23,642	(198,276)
Interest rate swap contracts - cash flow hedges	830,873	2,070	762,021	1,956,581
Interest rate swap contracts - fair value hedges	121,497	251,459	100,146	2,782
Forward foreign exchange contracts - cash flow hedges	-	-	-	390
	4,097,503	4,116,315	885,809	2,127,420
Current portion	1,403,830	1,390,452	124,781	302,978

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

Forward currency contracts are designated as hedging instruments in respect of forecast future sales, forecast purchases and investments in Euros, Canadian Dollars ("CADs") and US Dollars. The forward currency contract balances vary with the levels of expected foreign currency sales, purchases, investments and changes in foreign exchange forward rates.

21. Derivative financial instruments (continued)

Cross currency swaps

Besides, the Group held cross currency swaps for its EUR, USD, HKD and AUD 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, Chile 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.

22. Deferred tax

	Opening balance HK$'000 Restated	*Effect of subsidiary acquisition* HK$'000 (Note 41)	*Charged to profit or loss* HK$'000	*Charged to equity*	*Exchange alignment* HK$'000	*Closing balance* HK$'000
2021						
Contractual asset of SGBH	(6,002,905)	-	(508,810)	18,625	368,205	(6,124,885)
Fair value adjustments arising from acquisition of CPFL	(7,999,160)	-	434,455	-	520,449	(7,044,256)
Fair value adjustments arising from acquisition of ISL	(5,167,666)	-	(264,620)	-	784,470	(4,647,816)
Fair value adjustments arising from acquisition of CGE	-	(1,694,138)	(60,997)	-	251,681	(1,503,454)
Allowance for doubtful accounts	270,811	-	55,155	-	(27,222)	298,744
Free energy supply	55,777	-	2,050	-	(3,786)	54,041
Research and development and energy efficiency programs	135,699	-	(34,404)	-	(7,995)	93,300
Value added derived from determination of deemed cost	(103,645)	-	31,606	-	(14,405)	(86,444)
Withholding taxes-Philippines	(149,007)	-	(105,331)	-	(155)	(254,493)
Property, plant and equipment	(6,752,226)	(1,633,982)	(275,245)	-	624,110	(8,037,343)
Hedged items, hedging instruments and financial instruments	(480,850)	(467,540)	484,067	(561,541)	76,083	(949,781)
Concession-financial assets	(1,177,486)	-	(1,087,530)	-	67,364	(2,197,652)
Intangible assets	(1,070,458)	(1,235,522)	35,903	-	331,061	(1,939,016)
Provision	606,868	161,169	178,494	-	(57,821)	888,710
Defined benefits	1,195,283	95,073	(266,484)	50,934	(148,618)	926,188
Tax loss carryforwards	1,227,569	773,141	204,177	-	(225,288)	1,979,599
Other items	203,176	1,013,431	(38,326)	-	(181,856)	996,425
Balance at 31 December 2021	(25,208,220)	(2,988,368)	(1,215,840)	(491,982)	2,356,277	(27,548,133)

22. Deferred tax (continued)

	Opening balance HK$'000 Restated	Effect of subsidiary acquisition HK$'000	Charged to profit or loss HK$'000	Charged to equity	Exchange alignment HK$'000	Closing balance HK$'000
2020						
Contractual asset of SGBH	(7,323,956)	-	(313,670)	-	1,634,721	(6,002,905)
Fair value adjustments arising from acquisition of CPFL Energia S.A.	(10,274,362)	-	(38,644)	-	2,313,846	(7,999,160)
Fair value adjustments arising from acquisition of ISL	-	(4,630,610)	(61,561)	1,104	(476,599)	(5,167,666)
Allowance for doubtful accounts	243,007	40,515	32,166	-	(44,877)	270,811
Free energy supply	70,316	-	1,311	-	(15,850)	55,777
Research and development and energy efficiency programs	243,013	-	(53,349)	-	(53,965)	135,699
Value added derived from determination of deemed cost	(139,997)	-	(15,086)	19,986	31,452	(103,645)
Withholding taxes-Philippines	(140,814)	-	(174,329)	-	166,136	(149,007)
Property, plant and equipment	(4,931,005)	(769,991)	(465,422)	-	(585,808)	(6,752,226)
Hedged items, hedging instruments and financial instruments	(21,995)	-	(782,908)	171,535	152,518	(480,850)
Concession-financial assets	(1,252,703)	-	(209,783)	-	285,000	(1,177,486)
Intangible assets	(1,224,225)	(95,654)	90,023	-	159,398	(1,070,458)
Provision	723,666	-	(41,780)	-	(75,018)	606,868
Defined benefits	1,176,230	385	21,299	281,740	(284,371)	1,195,283
Tax loss carryforwards	908,835	91,569	422,542	-	(195,377)	1,227,569
Other items	65,834	63,003	27,850	-	46,489	203,176
Balance at 31 December 2020	(21,878,156)	(5,300,783)	(1,561,341)	474,365	3,057,695	(25,208,220)

Deferred tax	*2021* HK$'000	*2020* HK$'000
Deferred tax assets	1,109,418	1,631,513
Deferred tax liabilities	(28,657,551)	(26,839,733)
	(27,548,133)	(25,208,220)

23. Sector financial assets and liabilities

The breakdown of sector financial asset and liability for the year is as follows:

	31 December 2021 HK$'000	31 December 2020 HK$'000
Parcel "A" (Note)	**4,130,504**	**1,456,429**
CVA (*) (note (a))		
CDE (**)	(161,476)	141,508
Electric energy cost	(580,196)	(447,345)
ESS and EER (***)	2,188,311	34,992
Proinfa	33,775	(40,032)
Basic network charges	326,675	579,687
Pass-through from Itaipu	2,908,023	1,558,446
Transmission from Itaipu	24,267	86,085
Neutrality of sector charges (note (b))	(192,019)	(187,485)
Over contracting (note (c))	(416,856)	(269,427)
Other financial components (note (d))	**327,810**	**(796,584)**
Total	**4,458,314**	**659,845**
Current assets	**3,317,005**	**836,825**
Non-current assets	**1,141,309**	**163,070**
Current liabilities	**-**	**(62,160)**
Non-current liabilities	**-**	**(277,890)**

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 (ESS) 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 (Special System for Settlement and Custody) rate and are compensated in the subsequent tariff processes.

(b) Neutrality of sector charges 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.

23. Sector financial assets and liabilities (continued)

(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 refer 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.

24. Contract assets

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Contract assets arising from:		
Sale of goods	799,092	787,969
Construction services	40,073,728	35,173,676
Impairment	(5,495)	(6,436)
Total	40,867,325	35,955,209

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 financial assets or intangible assets. The increase in contract assets in 2021 and 2020 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 2021, HK$187,000 (2020: HK$6,606,000) was recognised as an allowance for expected credit losses on contract assets.

24. Contract assets (continued)

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

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Within one year	5,715,545	4,666,434
After one year	35,151,780	31,288,775
Total contract assets	40,867,325	35,955,209

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

	2021 HK$'000	*2020* HK$'000
At beginning of year	(6,436)	(8,888)
Impairment losses, net	(187)	(6,606)
Amounts utilized	817	9,550
Exchange realignment	311	(492)
At end of year	(5,495)	(6,436)

25 Other non-current assets

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Loans due from an associate (Note(i))	514,500	542,442
Loans due from joint ventures (Note(ii))	904,942	1,062,573
Loans due from a fellow subsidiary (Note(iii))	1,880,400	-
Escrow deposits	1,200,325	1,145,086
Pledges, funds and restricted deposits	25,189	20,953
Taxes recoverable	610,415	552,478
Reserve accounts	408,047	279,644
Receivable arising from price stabilization mechanisms in Chile (Note(iv))	3,794,528	-
Others	1,727,818	2,247,299
	11,066,164	5,850,475

Notes:

(i) Loans are granted to an associate to support investment activities.

(ii) Loans are granted to joint ventures to support investment activities.

(iii) The loan bears interest at -0.1175% per annum and will mature on 7 September 2026.

(iv) In Chile, the energy and power purchase prices established in the various supply contracts and transmission costs are passed to the tariffs of regulated customers through tariff decrees published by Ministry of Energy periodically. Accordingly, distributors pay the average node prices with an adjustment factor ("the adjusted price") that ensures consistency with the expected collection of the tariffs. The differences between the adjusted price and the price in supply contracts will be incorporated in the next tariff decrees which are usually published after their effective dates. The differences arising from the application of the aforementioned tariff decrees are reflected in the balance sheets as receivables and payables.

26 Inventories

	31 December 2021 HK$'000	31 December 2020 HK$'000
Materials	929,452	660,112

27 Trade receivables

	31 December 2021 HK$'000	31 December 2020 HK$'000
Trade receivables	15,170,003	10,582,007
Impairment	(2,007,545)	(563,451)
	13,162,458	10,018,556

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

	31 December 2021 HK$'000	31 December 2020 HK$'000
Neither past due nor impaired	9,525,616	7,924,782
Past due but not impaired:		
Less than 90 days	3,212,159	2,060,940
Over 90 days	2,432,228	596,285
	15,170,003	10,582,007

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

	2021 HK$'000	2020 HK$'000
At beginning of year	(563,451)	(654,843)
Business combination	(1,213,624)	-
Impairment losses	(845,419)	(682,223)
Impairment reversed	300,210	297,939
Amounts written-off	346,179	329,629
Exchange realignment	(31,440)	146,047
	(2,007,545)	(563,451)

27 Trade receivables (continued)

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 2021

	Past due		
	Less than 90 days	*Over 90 days*	*Total*
Expected credit loss rate	18%	59%	36%
Gross carrying amount	3,212,159	2,432,228	5,644,387
Expected credit losses	578,189	1,429,356	2,007,545

As at 31 December 2020

	Past due		
	Less than 90 days	*Over 90 days*	*Total*
Expected credit loss rate	18%	33%	21%
Gross carrying amount	2,060,940	596,285	2,657,225
Expected credit losses	366,677	196,774	563,451

28 Prepayments, other receivables and other assets

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Tax recoverable	1,129,103	1,127,206
Prepayments	521,067	365,752
Receivables-CDE (Note(i))	265,190	213,222
Orders in progress (Note(ii))	616,059	459,739
Pledges, funds and restricted deposits	38,028	2,384
Dividend and interest on capital	340,377	301,718
Incentive program for the voluntary reduction of electricity consumption (Note(iii))	519,143	-
Loans to the third parties (Note(iv))	273,469	-
Receivable arising from price stabilization mechanisms in Chile (Note 25(iv))	376,084	-
Other receivables	1,235,940	835,907
	5,314,460	3,305,928
Impairment allowance	(79,984)	(43,169)
	5,234,476	3,262,759

28 Prepayments, other receivables and other assets (continued)

Notes:

(i) Receivables-CDE refer to:

- low-income subsidies amounting to HK$47,700,000 (31 December 2020: HK$39,923,000).
- other tariff discounts granted to consumers amounting to HK$217,490,000 (31 December 2020: HK$173,298,000).

(ii) 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 and research and development programs. Upon the closing of the respective projects, the balances are amortized against the respective liability recognized in other payables.

(iii) Consumers in Brazil who reduced electricity consumption by an amount equal to or greater than 10%, limited to 20%, in the period from September to December 2021 compared to September to December 2020, was qualified to receive a bonus of fifty reais for every 100kWh reduced, provided they had a measurement history. The bonus will be paid by the Group subsidiaries on behalf of related government. The distribution subsidiaries recorded payables to consumers and receivables from related government at the same amount and the settlement will be done in early 2022.

(iv) The loan bears interest at 100% of the Interbank Certificate of Deposit ("CDI") per annum and is amortized in 23 installments.

29 Financial assets at fair value through profit or loss

	31 December *2021* HK$'000	*31 December* *2020* HK$'000
Marketable securities		
Through investment funds (Note(i))	662,595	611,652
Direct investment (Note(ii))	156,074	2,341,196
	818,669	2,952,848

Notes:

(i) It mainly represents amounts invested in government securities, financial bills and financial treasury bills, through investment fund quotas, yielding on average 101.4% of the CDI (2020: 81.64% of the CDI).

(ii) This refers to amounts invested in government securities and financial treasury bills, yielding on average 100% of the Sistema Especial de Liquidação e Custodia (SELIC) (2020: 100% of SELIC).

30. Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Cash and cash equivalents	10,974,461	13,637,340
Denominated in:		
BRL	5,869,414	10,413,816
USD	683,058	1,668,901
CLP	3,019,132	911,324
AUD	226,486	223,780
EUR	471,884	390,051
HKD	64,053	13,625
CNY	636,893	959
Others	3,541	14,884
	10,974,461	13,637,340

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$5,869,414,000 (2020: HK$10,413,816,000). The BRL is not freely convertible into other currencies. However, according to the Brazilian regulation, the Group is permitted to exchange BRL to other currencies through financial institutions authorised to conduct foreign exchange business on certain conditions.

30. Cash and cash equivalents and other cash flow information (continued)

(b) Changes in liabilities arising from financing activities:

	Interest-bearing bank and other borrowings HK$'000	*Lease liabilities* HK$'000	*Dividend payable* HK$'000	*Total* HK$'000
At 1 January 2021	125,645,842	760,089	1,951,379	128,357,310
Changes from financing cash flows:				
Proceeds from borrowings and issue of bonds	68,585,822	-	-	68,585,822
Cash repayments of interest-bearing bank and other borrowings	(62,533,579)	-	-	(62,533,579)
Dividends paid	-	-	(4,902,480)	(4,902,480)
Interest paid	(5,359,317)	-	-	(5,359,317)
Payment of lease liabilities	-	(167,081)	-	(167,081)
Total changes from financing cash flows	692,926	(167,081)	(4,902,480)	(4,376,635)
Exchange adjustments	(9,477,290)	(73,559)	-	(9,550,849)
Other Changes:				
New leases	-	141,708	-	141,708
Dividend proposed	-	-	4,909,002	4,909,002
Interest expense	6,343,762	31,071	-	6,374,833
Capitalized interest	84,818	-	-	84,818
Decrease arising from disposal	-	(725)	-	(725)
Business combination	17,275,297	61,752	-	17,337,049
Disposal subsidiary	(2,080,899)	-	(34,857)	(2,115,756)
Total other changes	21,622,978	233,806	4,874,145	26,730,929
At 31 December 2021	138,484,456	753,255	1,923,044	141,160,755

	Interest- bearing bank and other borrowings HK$'000	*Lease liabilities* HK$'000	*Dividend payable* HK$'000	*Total* HK$'000
At 1 January 2020	118,914,341	773,813	1,578,895	121,267,049
Changes from financing cash flows:				
Proceeds from bank loans and issue of bonds	61,506,147	-	-	61,506,147
Cash repayments of borrowings and bonds	(47,410,689)	-	-	(47,410,689)
Dividends paid	-	-	(9,835,448)	(9,835,448)
Interest paid	(4,570,594)	-	-	(4,570,594)
Payment of lease liabilities	-	(157,710)	-	(157,710)
Total changes from financing cash flows	9,524,864	(157,710)	(9,835,448)	(468,294)
Exchange adjustments	(4,847,955)	53,268	-	(4,794,687)
Other Changes:				
New leases	-	38,098	-	38,098
Dividend proposed	-	-	10,207,932	10,207,932
Interest expense	4,570,594	31,648	-	4,602,242
Capitalized interest	66,593	-	-	66,593
Decrease arising from disposal	-	(6,237)	-	(6,237)
Business combination	2,027,173	27,209	-	2,054,382
Conversion to preference shares	(4,609,768)	-	-	(4,609,768)
Total other changes	2,054,592	90,718	10,207,932	12,353,242
At 31 December 2020	125,645,842	760,089	1,951,379	128,357,310

31. Trade payables

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Trade payables	10,545,348	7,495,556

The trade payables are unsecured and interest-free.

As of 31 December 2021 and 2020, 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 2021 HK$'000	*31 December 2020* HK$'000
Amounts due to related parties (Notes 33&44)	340,436	337,250
Professional fees	123,989	290,484
Dividend payable	1,923,044	1,951,379
Research & development and energy efficiency programs (Note)	861,136	886,062
Other tax payable and regulatory charges	2,220,711	1,768,532
Advances	739,470	759,389
Other payables	1,736,835	1,163,672
	7,945,621	7,156,768

Note: The Group 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.

33. Amounts due to related parties

Name	*31 December 2021* HK$'000	*31 December 2020* HK$'000
State Grid International Development Co., Ltd.	181,117	178,860
State Grid Qinghai Electric Power Company	159,319	158,390
	340,436	337,250

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.

34. Interest-bearing bank and other borrowings

	31 December 2021			31 December 2020		
	Effective interest rate	*Maturity*	HK$'000	*Effective interest rate*	*maturity*	HK$'000
Current						
Short-term bank Loans	(i)	2022	27,556,503	(i)	2021	37,079,221
Current portion of long-term bank loans	(ii)	2022	4,885,436	(ii)	2021	4,653,699
Current portion of debt securities	(iii)	2022	13,574,216	(iii)	2021	7,277,281
Loans due to a fellow subsidiary			-	(iv)	2021	457,680
			46,016,155			49,467,881

	31 December 2021			31 December 2020		
	Effective interest rate	*Maturity*	HK$'000	*Effective interest rate*	*Maturity*	HK$'000
Non-current						
Bank Loans	(ii)	2023-2043	38,025,584	(ii)	2022-2042	27,527,221
Debt securities	(iii)	2023-2036	52,485,622	(iii)	2022-2035	48,650,740
Loans due to a fellow subsidiary	(v)	2026	1,957,095			-
			92,468,301			76,177,961

(i) fixed rate of 0.00%~6.35%, Libor+0.45%~0.50%, 1M EURIBOR+0%, 0.53%~0.552% p.a, 1M BBSY+0.33%, 1Month Labor+0.44

(ii) fixed rate of 0.43%~10%, IPCA+1.06%~5.62%, TJLP+1.72%~6%, Libor+2%~2.706%, 105% of CDI, CDI-1.25% ~+ 1.90%, IGPM+8.63%, Libor 3 months+0.87%~1.41%

(iii) fixed rate of 1.2%~ 5.50%, IPCA+4.30%~8.75%, 104.75% ~109.75% of CDI, CDI+1.58%

(iv) fixed rate of 0.00%

(v) The Group borrowed the loan from its fellow subsidiary State Grid Overseas Investment Limited which bears fixed rate of 1.125%

34. Interest-bearing bank and other borrowings (continued)

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	32,441,939	41,732,920
In the second year	11,469,826	3,272,302
In the third to fifth years, inclusive	20,835,146	13,687,752
Beyond five years	5,720,612	10,567,167
	70,467,523	69,260,141

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Other borrowings and debt securities repayable:		
Within one year	13,574,216	7,734,961
In the second year	9,125,076	13,419,965
In the third to fifth years, inclusive	13,773,685	14,759,588
Beyond five years	31,543,956	20,471,187
	68,016,933	56,385,701

Notes:

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

	31 December 2021 HK$'000	*31 December 2020* HK$'000
USD	27,394,989	22,206,355
BRL	11,541,433	13,661,760
EUR	12,627,479	20,619,159
AUD	9,492,425	5,752,017
CLP	9,411,197	7,020,850
	70,467,523	69,260,141

(ii) The carrying amount of interest-bearing bank borrowings approximates their fair value since almost all of the bank borrowings are bearing floating interest rates. The fair value of the interest-bearing bank borrowings falls into the level 2 of the fair value hierarchy.

Certain bank borrowings borrowed by Group subsidiaries are guaranteed by the Company.

(iii) 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.

34. Interest-bearing bank and other borrowings (continued)

Bonds	*Maturity*	*Interest rate*
USD 500 million	Apr 2023	3.30%
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%
AUD 159 million	Feb 2035	2.68%
AUD 350 million	Sep 2028	1.84%
HKD 900 million	Jan 2027	1.44%
AUD 100 million	Nov 2028	2.53%
AUD 300 million	Dec 2029	2.62%

(iv) The Group's subsidiaries in Europe have following issued debt securities in EUR. 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%

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

Bonds	*Maturity*	*Interest rate*
BRL 25 million	Apr 2029	IPCA+8.75%
BRL 112 million	Feb 2029	IPCA+4.45%
BRL 15 million	Jun 2026	IPCA+8.00%
BRL 1,100 million	Dec 2034	IPCA+4.8304%
BRL 214 million	Sep 2022	IPCA+4.42%
BRL 356 million	Sep 2024	IPCA+4.66%
BRL 130 million	Sep 2027	IPCA+5.05%
BRL 1,380 million	May 2024	107% of CDI
BRL 246 million	Feb 2022	109.5% of CDI
BRL 60 million	Feb 2024	IPCA+5.29%
BRL 197 million	Aug 2025	IPCA+5.80%
BRL 215 million	May 2024	107% of CDI
BRL 274 million	May 2031	IPCA+4.30%
BRL 680 million	May 2031	IPCA+4.30%
BRL 220 million	Aug 2025	IPCA+5.80%
BRL 250 million	Feb 2022	109.75% of CDI
BRL 130 million	Feb 2024	IPCA+5.35%
BRL 740 million	May 2024	107% of CDI
BRL 603 million	Sep 2028	CDI+1.58%
BRL 190 million	May 2024	107% of CDI
BRL 700 million	May 2023	107.5% of CDI
BRL 220 million	Jan 2024	108.25% of CDI
BRL 250 million	Jul 2022	IPCA+5.62%
BRL 300 million	May 2022	104.75% of CDI
BRL 538 million	Nov 2023	106% of CDI
BRL 212 million	Dec 2022	107.75% of CDI

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

Bonds	*Maturity*	*Interest rate*
Unidad de fomento (UF) 5,500 million	Aug 2029	4.65%
UF 500 million	Jan 2029	4.75%
UF 2,000 million	Dec 2031	4.00%
UF 3,500 million	Sep 2030	4.30%
UF 4,000 million	Sep 2034	3.85%
UF 2,000 million	Dec 2025	1.95%
UF 3,000 million	Dec 2041	2.85%
UF 2,000 million	Jun 2025	1.20%
UF 2,000 million	Jun 2030	1.70%
USD 180 million	Dec 2037	4.06%
UF 4,700 million	Oct 2030	4.25%

35. Contract liabilities

	31 December 2021 HK$'000	31 December 2020 HK$'000
Contract liabilities arising from:		
Sale of goods	1,592,515	1,221,403
Total	1,592,515	1,221,403

	31 December 2021 HK$'000	31 December 2020 HK$'000
Within one year	1,512,906	1,195,662
More than one year	79,609	25,741
Total contract liabilities	1,592,515	1,221,403

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.

36. Private pension plan

The subsidiaries of the Company sponsor supplementary retirement and pension plans for their employees. Balances recognised in the consolidated statement of financial position are as follows:

	31 December 2021 HK$'000	31 December 2020 HK$'000
Within one year		
CPFL and its subsidiaries	844,374	299,168
State Grid Chile Electricity SPA and its subsidiaries	53,520	-
State Grid Chile Investment SPA and its subsidiaries	16,089	241
	913,983	299,409
More than one year		
CPFL and its subsidiaries	3,996,760	4,132,328
State Grid Chile Electricity SPA and its subsidiaries	241,618	-
State Grid Chile Investment SPA and its subsidiaries	142,131	154,246
SGSPAA and its subsidiaries	50,446	44,971
	4,430,955	4,331,545
Total private pension plan	5,344,938	4,630,954

36. Private pension plan (continued)

The main characteristics of the plans of CPFL and its subsidiaries are as follows:

36.1 Characteristics

<u>*CPFL Paulista*</u>

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

(i) Defined Benefit Plan ("BD")-in force until October 31, 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 October 31, 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.

<u>*CPFL Piratininga*</u>

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.

36. Private pension plan (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.

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

<u>*RGE Sul (RGE)*</u>

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

(i) "Plan 1": 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": 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 Família Previdência, "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.

<u>*CPFL Santa Cruz*</u>

With the event of the grouping of subsidiaries occurred in 2017, CPFL'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.

36. Private pension plan (continued)

CPFL Renováveis

After the integration of CPFL Renováveis, part of the employees of the subsidiary CPFL Renováveis started to participate in the same pension plan as CPFL Paulista. For managers may opt for a Free Benefit Generator Plan – PGBL (defined contribution), operated by either Banco do Brasil or Bradesco.

CPFL Transmissão

The indirect subsidiary CPFL Transmissão maintains supplementary retirement and pension plans for its employees and former employees, managed by Fundação Família Previdência, formerly called Fundação CEEE de Previdência Privada, as follows:

"CEEEPREV Plan": CEEEPREV is a plan with defined contribution characteristics, except for the risk benefits and part of the settled benefits.

The CEEEPREV Plan contains a defined contribution part and a defined benefit part.

In 2014, a lawsuit was filed (Case nº 0065790-57.2014.4.01.3400) related to non-parity contributions, filed by Fundação Família Previdência (Former Fundação ELETROCEEE) against PREVIC, due to the Ordinance of the regulatory body that required the presentation of definitive solution on the articles of the Regulation of the Benefit Plan that deal with the employer's liability in the event of a possible insufficiency of equity coverage in the reserves that support the benefits, which are irregular under the applicable legislation.

This is because the CEEEPREV Benefit Plan provided for the sponsor's exclusive liability in the event of an eventual insufficiency of equity coverage, which, according to PREVIC, and an understanding supported by the subsidiary's Management, violates the provisions of Complementary Law No. 108/2001. The result in the 1st and 2nd instance was unfavorable to the Foundation and favorable to the subsidiary, with no suspensive effect on pending appeals.

The second lawsuit (Case No. 5051477-51.2019.8.21.0001) of 2019 was filed by CEEE-GT (before the split between the Generation and Transmission segments), whose purpose is to recognize the nullity of the clauses of the CEEEPREV Benefit Plan, in order to make the sponsors' exclusive liability null and void in the event of an eventual insufficiency of equity coverage.

On 14 October 2021, the sentence was judged partially valid, determining the nullity of the clauses of the Benefit Plan that do not apply the contributory parity. After the 1st degree judgment, the process is in the 2nd instance awaiting judgment of the appeal filed by the parties, the legal advisors assess the chance of success as possible with a probable bias.

Considering the legal grounds, supported by recent court decisions, in the cases that deal with the matter in detail, the subsidiary, as a sponsor of the CEEEPREV Plan, understands that from the new court decision, the best estimate for measuring this liability is to use risk sharing as a reducer of the actuarial liability.

36. Private pension plan (continued)

On 31 December 2021, the subsidiary reassessed the estimate related to the actuarial liability of the CEEEPREV Plan referring to the sharing of risk on actuarial deficits, and considering the legal grounds, corroborated by recent court decisions in the proceedings that deal in detail with the matter, the liability of the CEEEPREV Plan was recognized on an equal basis, showing a reduction of R$ 412,896,000 on the net value of the defined benefit liability previously recorded, reaching a balance of R$ 498,066,000. The movement in the last quarter of 2021 was an increase in the "risk sharing" effect in the amount of R$ 45,428,000, representing an actuarial gain in the period.

Previously, the liability of the CEEEPREV Plan was evaluated without considering risk sharing, and with this evaluation of the subsidiary, there was a change in estimate in light of what is defined in " HKAS 8 – Accounting policies, change in estimate and error correction". The effects of this change in estimate were recognized in other comprehensive income in Shareholders' Equity.

"Plan Único": Plan Único has a defined benefit modality and has been closed to new participants since 2 September 2002. This plan receives equal contributions between the sponsor and employees.

The Plan Único Regulation establishes that any insufficiencies (deficits) will be addressed in accordance with the applicable legislation. CNPC Resolution No. 30 of 10/30/2018 (Article 14) establishes that for the allocation of the special reserve or deficit equation, the amounts attributable to participants and beneficiaries and which attributable to the sponsor must be identified, observing the contributory proportion of the normal contributions in the period in which the special reserve was constituted (in the case of a surplus), and contributions in force in the period in which the deficit result was determined (in the case of a deficit). Without prejudice to regressive action against directors or third parties who have caused damage or loss to the benefit plan managed by EFPC (Closed Private Pension Entity), SGBPP and its subsidiaries as sponsors of the Single Plan, according to the content of the Brazilian legal system, cannot exceed the contributory parity in case of deficit equation, that is, the liability of the Single Plan is recognized in the parity proportion.

"Accounts Payable Incentive Retirement – CTP": As a result of a collective bargaining agreement, as of 1997, SGBPP was responsible for paying the pension supplementation benefit for length of service that has been granted by the Social Security to the participant regularly enrolled with Fundação Família Previdência and who has not yet completed all the requirements for its enjoyment, at which time the former employee was definitively retired by the Foundation. Currently, they receive the complement of funds that were not included in the INSS calculation, and the company is sentenced by the court to pay for life. For this, SGBPP provided the full amounts of future commitments related to these salary supplements, considering the average payment term of these benefits, adjusted to present value, including contributions to the Foundation.

36. Private pension plan (continued)

36.2 Balance sheet amounts of the defined benefit plans of CPFL and its subsidiaries

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Present value of actuarial obligations	19,007,301	15,698,437
Fair value of plan's assets	(14,192,667)	(11,296,620)
Present value of obligations (fair value of assets), net	4,814,634	4,401,817
Effect of asset ceiling	-	16,712
Net actuarial liability recognized in the statement of financial position	4,814,634	4,418,529

Movements in the present value of the actuarial obligations are as follows:

	2021 HK$'000	*2020* HK$'000
At 1 January	15,698,437	17,845,861
Business combination	4,441,437	-
Gross current service cost	18,320	16,270
Interest on actuarial obligations	1,200,536	1,024,743
Participants' contributions transferred during the year	10,138	6,930
Actuarial loss/(gain): effect of changes in demographic assumptions	74,685	(1,464)
Actuarial (gain)/loss: effect of changes in financial assumptions	(35,453)	1,802,167
Effect of risk sharing (parcel attributed to participants)	(118,604)	-
Benefits paid during the year	(1,265,924)	(978,025)
Exchange realignment	(1,016,271)	(4,018,045)
At 31 December	19,007,301	15,698,437

36. Private pension plan (continued)

Movements in plan assets are as follows:

	2021 HK$'000	*2020* HK$'000
At 1 January 2021	(11,296,620)	(13,423,390)
Business combination	(3,445,300)	-
Expected return during the year	(861,413)	(791,587)
Participants' contributions transferred during the year	(10,138)	(6,930)
Sponsors' contributions	(569,879)	(274,350)
Actuarial gain: return on actuarial assets	(13,269)	(800,703)
Benefits paid during the year	1,265,790	978,025
Exchange realignment	738,162	3,022,315
At 31 December 2021	(14,192,667)	(11,296,620)

36.3 Movements in recognized assets and liabilities of CPFL and its subsidiaries

The changes in net liability are as follows:

	2021 HK$'000	*2020* HK$'000
Net actuarial liability at 1 January	4,418,529	4,571,080
Business combination	996,137	-
Expenses recognized in the statement of profit or loss	358,686	260,349
Sponsors' contributions transferred during the year	(569,879)	(274,350)
Actuarial loss/(gain): effect of changes in demographic assumptions	74,685	(1,464)
Actuarial (gain)/loss: effect of changes in financial assumptions	(35,453)	1,802,167
Actuarial gain: return on actuarial assets	(13,269)	(800,703)
Effect of risk sharing	(118,604)	-
Effect of asset ceiling	(18,089)	(109,359)
Exchange realignment	(278,109)	(1,029,191)
Net actuarial liability at 31 December	4,814,634	4,418,529
Other contributions	26,500	12,967
Total liability	4,841,134	4,431,496
Current	844,374	299,168
Non-current	3,996,760	4,132,328

36. Private pension plan (continued)

36.4 *Amounts recognised in the consolidated statement of profit or loss and other comprehensive income of CPFL and its subsidiaries are as follows:*

	2021 HK$'000	2020 HK$'000
Service cost	18,320	16,300
Interest on actuarial obligations	1,200,536	1,024,743
Expected return on plan assets	(861,413)	(791,587)
Amortisation of unrecognised actuarial gains	1,243	11,626
Total amounts recognised in profit or loss	358,686	261,082

	2021 HK$'000	2020 HK$'000
Actuarial loss/(gain): effect of changes in demographic assumptions	74,685	(1,464)
Actuarial (gain)/loss: effect of changes in financial assumptions	(35,453)	1,802,167
Actuarial gain: return on actuarial assets	(13,269)	(800,703)
Total defined benefit costs	25,963	1,000,000

36.5 *Principal actuarial assumptions of plans of CPFL and its subsidiaries*

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

	CPFL Paulista, CPFL Renováveis and CPFL Piratininga 31 December 2021	*RGE (Plans 1 and 2) 31 December 2021*	*CPFL Transmissão (Plan Único and CEEEPREV BD) 31 December 2021*
Nominal discount rate for actuarial liabilities:	9.41% p.a.	9.41% p.a.	10.38% p.a
Nominal return rate on plan assets:	9.41% p.a.	9.41% p.a.	5.09% p.a
Estimated rate of nominal salary increase:	6.40% p.a. (*)	5.74% p.a. (**)	5.03% p.a
Estimated rate of nominal benefits increase:	4.00% p.a.	4.00% p.a.	5.03% p.a
Estimated long-term inflation rate (basis for determining the nominal rates above)	4.00% p.a.	4.00% p.a.	5.03% p.a
General biometric mortality table:	AT-2000 (-10)	BR-EMS sb v.2015	BR-EMSsb-2015 MF(***)
Biometric table for the onset of disability:	Low Light (-30)	Medium Light	Low Light
Expected turnover rate:	ExpR-2012	Null	Null
Likelihood of reaching retirement age:	After 15 years of filiation and 35 years of service time for men and 30 years of service time for women	100% when a beneficiary first becomes eligible for a full benefit	When filling the regulatory grace period

36. Private pension plan (continued)

(*) Estimated rate of nominal salary increase for CPFL Piratininga was 6.55% in 2021 and 6.14% in 2020.

(**) Estimated rate of nominal salary increase for RGE (plan 1) was 5.22% in 2021 and 4.96% in 2020.

(***) The biometric table for the onset of disability for the "Plan Único" is the AT-2000 by sex.

36.6 Plan assets of CPFL and its subsidiaries

The following tables show the allocation (by asset segment) of the assets of the Group CPFL pension plans, at 31 December 2021 and 2020 managed by VIVEST, Fundação Previdência and CEEEPREV. The tables also show the distribution of the guarantee resources established as target for 2021, obtained in light of the macroeconomic scenario in December 2020.

Assets managed by the plans are as follows:

	Assets managed by VIVEST		*Assets managed by Fundação Família Previdência*		*Assets managed by CEEEPREV*	
	CPFL Paulista and CPFL Renováveis 2021	*CPFL Piratininga 2021*	*RGE Plan 1 2021*	*RGE Plan 2 2021*	*CPFL Transmissão Plan Unico 2021*	*CPFL Transmissão CEEEPREV BD 2021*
Fixed rate	69%	71%	78%	77%	70%	64%
Federal government bonds	38%	37%	68%	65%	59%	56%
Corporate bonds (financial institutions)	1%	1%	4%	5%	4%	4%
Corporate bonds (non-financial institutions)	1%	1%	3%	3%	4%	3%
Multimarket funds	1%	1%	3%	4%	3%	1%
Other fixed income investments	28%	31%	0%	0%	0%	0%
Variable income	26%	26%	13%	15%	21%	23%
Investment funds-shares	26%	26%	13%	15%	21%	23%
Structured investments	1%	1%	7%	5%	6%	8%
Equity funds	0%	0%	0%	0%	0%	0%
Real estate funds	0%	0%	0%	0%	0%	0%
Multimarket fund	1%	1%	7%	5%	6%	8%
Total quoted in an active market	96%	98%	98%	97%	97%	95%
Real estate	1%	0%	1%	1%	2%	2%
Transactions with participants	1%	2%	2%	3%	2%	4%
Other investments	2%	0%	-1%	-1%	-1%	-1%
Escrow deposits and others	2%	0%	-1%	-1%	-1%	-1%
Total not quoted in an active market	4%	2%	2%	3%	3%	5%

36. Private pension plan (continued)

36.7 Sensitivity analysis of assumption of CPFL and its subsidiaries

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.
See below the effects on the defined benefit obligation if the discount rate were 0.25 percentage points lower (higher) and if general biometric mortality table were to be softened (aggravated) in one year:

	Increase (decrease)	*CPFL Paulista* HK\$'000	*CPFL Piratininga* HK\$'000	*CPFL Renováveis* HK\$'000	*RGE Plan 1* HK\$'000	*RGE Plan 2* HK\$'000	CPFL Transmissao Plan Unico HK\$'000	CPFL Transmissão CEEEPREV Plan HK\$'000	*Total* HK\$'000
Nominal discount (p.a.)	- 0,25p.p.	217,113	73,789	5,420	16,655	23,139	43,025	192,937	572,078
	+ 0,25p.p.	(208,911)	(70,541)	(5,208)	(15,944)	(22,101)	(41,466)	41,045	(323,126)
General biometric mortality table	+ 1 year	(246,451)	(57,054)	(5,789)	(12,555)	(16,824)	(60,368)	44,447	(354,594)
	- 1 year	243,650	55,842	5,728	12,241	16,435	59,928	184,995	578,819

37. Provision

		31 December 2021 HK$'000	31 December 2020 HK$'000
Current provision			
Employee benefits		1,095,400	683,605
Environmental and restoration	(i)	40,594	120,893
Other provision		185,381	226,903
		1,321,375	1,031,401
Non-current provision			
Environmental and restoration	(i)	56,986	334,724
Employee benefits		-	8,462
Decommissioning	(ii)	686,106	438,256
Tax proceedings	(iii)	3,267,030	2,396,016
Civil proceedings	(iii)	907,502	1,032,038
Labour proceedings	(iii)	636,109	729,134
Other provision	(iii)	165,496	293,557
		5,719,229	5,232,187

Notes:

(i) 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.

(ii) 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.

(iii) The Group's subsidiaries in Brazil and Australia are involved in tax, civil, labour, environmental and other 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.

38. Other non-current liabilities

	31 December 2021 HK$'000	31 December 2020 HK$'000
Suppliers of energy and other electricity (Note 25(iv))	4,098,366	-
Energy purchased	528,753	645,398
Income tax and social contribution payable	325,034	248,405
Others	1,181,034	888,029
	6,133,187	1,781,832

39 Share capital

	31 December 2021 HK$'000	31 December 2020 HK$'000
Issued and fully paid: 21,429,327,845 (31 December 2020: 21,429,327,845) ordinary shares of HK$1.00 each	21,429,328	21,429,328
Issued and fully paid: 136,994,116,840 (31 December 2020: 122,449,027,720) preference shares of HK$1.00 each	136,994,117	122,449,028
Total	158,423,445	143,878,356

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:

	2021 HK$'000	2020 HK$'000
At 1 January	122,449,028	109,087,660
New issues	16,872,800	13,361,368
Redemption	(2,327,711)	-
At 31 December	136,994,117	122,449,028

40. 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. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out note 48.

41. Acquisition

On 26 July 2021, the Group completed the acquisition of 97.145% equity interest in Compañía General de Electricidad S.A. at a consideration equivalent to HK$23,893,234,000. The fair value of the net asset on acquisition date was HK$18,463,931,000. The goodwill raised from this business combination amounted to HK$5,429,303,000.

The identifiable assets acquired and liabilities assumed in the above acquisition at the date of acquisition were as follows:

	Recognised values on acquisition HK$'000
Cash and cash equivalents	2,105,670
trade receivables	4,215,123
Inventories	82,479
Prepayment, deposits and other receivables	103,670
Property, plant and equipment	21,409,930
Intangible assets	13,502,510
Investment properties	82,034
Right-of-use assets	54,350
Deferred tax assets	1,790
Other non-current assets	3,648,116
Trade payables and other accounts payables	(2,932,033)
Other non-current liabilities	(3,694,247)
Lease liabilities	(61,752)
Deferred tax liabilities	(2,652,200)
Interest-bearing bank and other borrowings	(16,337,828)
Total identifiable net assets	19,527,612
Non-controlling interests	(1,063,681)
The Group's share of the net assets acquired	18,463,931
Consideration satisfied in cash	(23,893,234)
Less: cash and cash equivalents acquired	2,105,670
Net cash outflow	(21,787,564)

Goodwill was recognised as a result of the acquisition:

	HK$'000
Consideration satisfied in cash	23,893,234
Less: the Group's share of the net assets acquired	(18,463,931)
Goodwill	5,429,303

41. Acquisition (continued)

On 14 October 2021, CPFL completed the acquisition of shares representing 66.08% of the total capital stock of CPFL Transmissão (approximately 67.12% of common shares and 0.72% of preferred shares) at a consideration equivalent to HK$3,707,747,000. The fair value of net asset on acquisition date was HK$3,707,747,000. There is no goodwill raised from this business combination.

The identifiable assets acquired and liabilities assumed in the above acquisition at the date of acquisition were as follows:

	Recognised values on acquisition HK$'000
Cash and cash equivalents	664,346
Prepayments, other receivables and other assets	304,074
Property, plant and equipment	123,797
Other intangible assets	1,179,077
Financial assets- concession rights	151,905
Contract assets	5,697,059
Other non-current assets	783,155
Trade payables	(47,554)
Other payables and accruals	(245,361)
Interest-bearing bank and other borrowings	(937,469)
Private pension plan	(996,137)
Deferred tax liabilities	(337,958)
Provisions	(437,977)
Other non-current liabilities	(290,308)
Total identifiable net assets	5,610,649
Non-controlling interests	(1,902,902)
The Group's share of the net assets acquired	3,707,747
Consideration satisfied in cash	(3,707,747)
Less: cash and cash equivalents acquired	664,346
Net cash outflow	(3,043,401)

No goodwill was recognised from the acquisition:

	HK$'000
Consideration satisfied in cash	(3,707,747)
Less: the Group's share of the net assets acquired	3,707,747
Goodwill	-

42. Contingent assets and liabilities

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

(a) At 31 December 2021, the Group provided guarantees to certain joint ventures amounting to approximately HK$9,174,274,000 (31 December 2020: HK$1,713,471,000).

(b) The Company's subsidiaries are involved in tax, civil, labour and other 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, based on external legal advice obtained. Details of accrued provisions can be found in Note 37.

The maximum exposure risk of the subsidiaries for which provision was not recognized is presented according to the nature of the corresponding proceedings:

	2021 HK$'000	*2020* HK$'000
Tax (note (i))	9,052,162	10,728,081
Civil (note (ii))	3,008,903	3,225,705
Labor (note (iii))	810,958	925,500
Environmental	14,352	3,409
Others	189,016	151,459
	13,075,391	15,034,154

(i) Tax:

- *One of the main cases refers to litigation about deductibility for income tax purposes of expenses recognized in 1997 relating to novation of debt in connection with the pension plan of employees of subsidiary CPFL Paulista to Fundação CESP ("VIVEST") in the estimated amount of R$1,517,293,000 with escrow deposits in the amount of R$23,700,000 and financial guarantees (insurance and letters of guarantee) in the total amount of R$1,648,985,000 under the terms required by the relevant procedural law.*

  Based on the current stage of the appeals, both at the Higher Court of Justice ("STJ") and at the Federal Supreme Court ("STF"), and the opinion of its legal advisors, the subsidiary remains confident in the legal grounds consubstantiating the appeal and will continue to defend its arguments before the Judiciary Branch. The subsidiary assesses the chances of loss as not probable, as there is a new opportunity for the analysis of the case at the STF. With a constitutional approach with solid bases, indicating possible success in the extraordinary appeals, the subsidiary will continue to try to avoid possible cash outflows should it be required to replace existing judicial guarantees with cash deposits.

42. Contingent assets and liabilities (continued)

- In 2016, the subsidiary CPFL Renováveis received a tax infringement notice in the update amount of R$356,870,000 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 CPFL's management, supported by the opinion of its outside legal advisors, 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 R$607,527,000 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., a company acquired in a downstream merger, for which the CPFL's management, supported by the opinion of its outside legal advisors, assessing the chances of loss as not probable. As of September 2020, as a result of the integration of CPFL Renováveis, the processes migrated to CPFL Renováveis.

(ii) Civil:

Civil lawsuits refer to lawsuits of compensation claims, electrical damages, overfed tariffs and charges for occupation of the right-of-way.

(iii) Labor:

Labor proceedings refer to lawsuits filed by employees, former employees and third-party employees involving collection of indemnity amounts and others. Based on the opinion of the outside legal advisors, the management believes that the amounts provided for reflect the current best estimate.

(c) Exclusion of ICMS from PIS and COFINS calculation base

Some subsidiaries of CPFL filed lawsuits in progress involving the Federal Government claiming recognition of the right to exclude ICMS amounts from the PIS and COFINS calculation basis, as well as the right to recover amounts previously paid. As at 31 December 2021, total claimed tax credits of these subsidiaries amounted to HK$12,681,338,000. By the date of this report, a few subsidiaries have obtained the final decision in their lawsuits that address the exclusion of ICMS amounts from the PIS and COFINS tax base, as well as the rights to receive refunds of those amounts previously paid. On the other hand, with the interpretation under regulatory standards from the electric sector and the concession contract, the Group understands that the amounts to be settled through compensation of tax credits must be fully transferred to the consumers. Considering the above tax credits do not meet the criteria of "practically certain", the Group does not recognise them as tax recoverable.

43. 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 2021, if the interest rates on bank loans and borrowings had been 100 basis points higher, with all other variables held constant, the total comprehensive income for the year would have been HK$363,157,000 (2020: HK$468,272,000) lower as a result of higher interest expenses on bank loans and borrowings.

Foreign currency risk

The Group is exposed to currency risk primarily through investing and financing activities which give rise to interest-bearing bank and other borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD, EUR and AUD. The Group tries to minimize the foreign currency risk by monitoring and analysing the fluctuation of exchange rate on a timely basis and using forward exchange contracts where necessary.

Besides, the Group has net investments in foreign operation. The exchange rate fluctuation of those foreign currencies against HKD would significantly affect the carrying amount of the Group's net investments. The Group monitors and analyses the exposure of net investments to foreign currencies on a quarterly basis. As at 31 December 2021, the Group designated loans of EUR1.9 billion as the hedging instruments to hedge the net investments in REN and CDP RETI.

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, Australia, Chile and Europe, which management believe are of high credit quality.

The Group also exposes to credit risk arising from the possibility that the Group subsidiaries incur losses resulting from difficulties in collecting amounts billed to customers. For sales and services transactions, this risk is managed through norms and guidelines applied in terms of the approval, guarantees required and monitoring of the operations. For distribution business, even though it is highly pulverized, the risk is managed through monitoring of defaults, collection measures and cutting off supply. The directors consider that the Group does not have a significant concentration of credit risk.

43. Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging as at 31 December 2021

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 2021.

	12-month ECLs	*Lifetime ECLs*			
	Stage 1	*Stage 2*	*Stage 3*	*Simplified*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables*	-	-	-	13,162,458	13,162,458
Contract assets*	-	-	-	40,867,325	40,867,325
Financial assets included in prepayments and other current assets					
- Normal**	3,489,314	-	-	-	3,489,314
- Doubtful**		-	79,984	-	79,984
Cash and cash equivalents	10,974,461	-	-	-	10,974,461
Financial assets in other non-current assets	10,455,748	-	-	-	10,455,748
Total	24,919,523	-	79,984	54,029,783	79,029,290

* 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 and year-end staging as at 31 December 2020

	12-month ECLs	*Lifetime ECLs*			
	Stage 1	*Stage 2*	*Stage 3*	*Simplified*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables*	-	-	-	10,018,556	10,018,556
Contract assets*	-	-	-	35,955,209	35,955,209
Financial assets included in prepayments and other current assets					
- Normal**	1,310,062	-	-	-	1,310,062
- Doubtful**	-	-	43,169	-	43,169
Cash and cash equivalents	13,637,340	-	-	-	13,637,340
Financial assets in other non-current assets	5,297,997	-	-	-	5,297,997
Total	20,245,399	-	43,169	45,973,765	66,262,333

43. Financial risk management objectives and policies (continued)

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$84,518,000 at 31 December 2021 (2020: HK$89,231,000) 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.

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

As at 31 December 2021	*Financial assets measured at fair value with changes charged to profit or loss* HK$'000	*Financial assets at amortized cost* HK$'000	*Financial assets at fair value through other comprehensive income* HK$'000	*Total* HK$'000
Equity investments designated at fair value through other comprehensive income	-	-	8,451,811	8,451,811
Other equity instrument investments	-	-	110,224	110,224
Sector financial assets	-	4,458,314	-	4,458,314
Financial assets-concession rights	18,559,596	-	-	18,559,596
Financial assets at fair value through profit or loss	818,669	-	-	818,669
Trade receivables	-	13,162,458	-	13,162,458
Financial assets included in prepayments, other receivables and other assets	-	3,489,314	-	3,489,314
Derivative financial instruments	5,501,333	-	-	5,501,333
Cash and cash equivalents	-	10,974,461	-	10,974,461
Other non-current assets	-	10,455,748	-	10,455,748
	24,879,598	42,540,295	8,562,035	75,981,928

43. Financial risk management objectives and policies (continued)

As at 31 December 2021	Financial liabilities measured at fair value with changes charged to profit or loss HK$'000	Financial liabilities at amortized cost HK$'000	Total HK$'000
Trade payables	-	10,545,348	10,545,348
Financial liabilities included in other payables and accruals	-	5,724,909	5,724,909
Derivative financial instruments	1,010,590	-	1,010,590
Interest-bearing bank and other borrowings**	9,456,457	129,027,999	138,484,456
Lease liabilities	-	753,255	753,255
Other non-current liabilities	-	5,808,153	5,808,153
	10,467,047	151,859,664	162,326,711

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

As at 31 December 2020	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 HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	-	-	8,923,086	8,923,086
Other equity instrument investments*	-	-	113,984	113,984
Sector financial assets	-	999,895	-	999,895
Financial assets-concession rights	15,506,421	-	-	15,506,421
Financial assets at fair value through profit or loss	2,952,848	-	-	2,952,848
Trade receivables	-	10,018,556	-	10,018,556
Financial assets included in prepayments, other receivables and other assets	-	1,342,815	-	1,342,815
Derivative financial instruments	5,506,767	-	-	5,506,767
Cash and cash equivalents	-	13,637,340	-	13,637,340
Other non-current assets	-	5,297,997	-	5,297,997
	23,966,036	31,296,603	9,037,070	64,299,709

As at 31 December 2020	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	-	340,050	340,050
Trade payables	-	7,495,556	7,495,556
Financial liabilities included in other payables and accruals	-	5,096,564	5,096,564
Derivative financial instruments	2,430,398	-	2,430,398
Interest-bearing bank and other borrowings**	9,513,308	116,132,534	125,645,842
Lease liabilities	-	760,089	760,089
Other non-current liabilities	-	1,533,427	1,533,427
	11,943,706	131,358,220	143,301,926

43. 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:

As at 31 December 2021	*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	46,016,155	55,203,733	37,264,568	138,484,456
Lease liabilities	159,945	484,447	108,863	753,255
Trade payables	10,545,348	-	-	10,545,348
Financial liabilities included in other payables and accrued liabilities, excluding accrued interest	5,724,909	-	-	5,724,909
Derivative financial instruments	124,781	342,187	543,622	1,010,590
	62,571,138	56,030,367	37,917,053	156,518,558

As at 31 December 2020	*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	65,933,264	58,987,963	52,839,511	177,760,738
Lease liabilities	113,864	448,951	333,820	896,635
Trade payables	7,495,556	-	-	7,495,556
Financial liabilities included in other payables and accrued liabilities, excluding accrued interest	5,096,564	-	-	5,096,564
Derivative financial instruments	302,978	3,834,838	(1,707,418)	2,430,398
Sector financial liability	62,160	277,890	-	340,050
	79,004,386	63,549,642	51,465,913	194,019,941

43. 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 2021 and 2020.

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 and other borrowings, lease liabilities, trade payables and other payables and accruals, less cash and cash equivalents. Equity represents equity attributable to owners of the Company.

	31 December 2021 HK$'000	*31 December 2020* HK$'000
Interest-bearing bank loans and other loans	72,424,618	69,717,821
Debt securities	66,059,838	55,928,021
Lease liabilities	753,255	760,089
Trade payables	10,545,348	7,495,556
Other payables and accruals	7,945,621	7,156,768
Less: Cash and cash equivalents	(10,974,461)	(13,637,340)
Net debt	146,754,219	127,420,915
Equity	155,512,268	142,158,498
Net debt and equity	302,266,487	269,579,413
Gearing ratio	49%	47%

44. Related party transactions

In addition to disclosures elsewhere in these financial statements, the Group had the following balances and transactions with related parties during the year:

	Note	*2021* HK$'000	*2020* HK$'000
Assets			
Intercompany loans receivable		3,299,843	1,605,016
Dividends and interest receivable		332,618	138,790
Receivables from energy purchases and sales, and charges	(i)	311,433	267,459
Intangible assets, property, plant and equipment, materials and services rendered	(ii)	251	266
Other		11,933	9,530
Liabilities			
Intercompany loans payable		1,949,525	457,680
Dividends payable		1,923,044	1,725,812
Payables for energy purchases and sales, and charges	(i)	271,691	236,009
Other payables and accruals		340,436	337,250
P&L			
Energy purchases and sales, and charges	(i)	(1,696,598)	(675,737)
Loan interest expense		(176,255)	(59,236)
Loan interest income		209,240	192,816
Intangible assets, property, plant and equipment, materials and services rendered	(ii)	9,849	12,152
Other		(10,577)	(14,145)
Guarantee	(iii)	9,174,274	1,713,471

Notes:

(i) Purchase and sale of energy and charges basically refer 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 Group as similar to market conditions at the time of the trading, according to internal policies previously established by the Group'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 services rendered mainly refer to rendered services in advisory and management of energy plants, consulting and engineering.

(iii) The amount represents the balance of guarantees provided by the Group to certain joint ventures for their bank loans and performance guarantee.

45. Fair value measurement

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

HKFRS 13, Fair value measurement categorises fair value measurements into a three-level hierarchy. The level into which fair value is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

During the years ended 31 December 2020 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
As at 31 December 2021	*Quoted prices in active markets (Level 1)* HK$'000	*Significant observable inputs (Level 2)* HK$'000	*Significant unobservable inputs (Level 3)* HK$'000	***Total*** HK$'000
Equity investments designated at fair value through other comprehensive income	8,451,811	-	-	8,451,811
Other equity instrument investments	-	-	110,224	110,224
Derivative financial assets (a)	-	5,501,333	-	5,501,333
Financial assets-concession rights (b)	-	-	18,559,596	18,559,596
Financial assets at fair value through profit or loss	818,669	-	-	818,669
	9,270,480	5,501,333	18,669,820	33,441,633

	Fair value measurement using			
As at 31 December 2020	*Quoted prices in active markets (Level 1)* HK$'000	*Significant observable inputs (Level 2)* HK$'000	*Significant unobservable inputs (Level 3)* HK$'000	***Total*** HK$'000
Equity investments designated at fair value through other comprehensive income	8,923,086	-	-	8,923,086
Other equity instrument investments	-	-	113,984	113,984
Derivative financial assets (a)	-	5,506,767	-	5,506,767
Financial assets-concession rights (b)	-	-	15,506,421	15,506,421
Financial assets at fair value through profit or loss	2,952,848	-	-	2,952,848
	11,875,934	5,506,767	15,620,405	33,003,106

45. Fair value hierarchy of financial assets and liabilities (continued)

Liabilities measured at fair value:

As at 31 December 2021	Fair value measurement using Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank borrowings	-	9,456,457	-	9,456,457
Derivative financial liabilities	-	1,003,509	7,081	1,010,590
	-	10,459,966	7,081	10,467,047

As at 31 December 2020	Fair value measurement using Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank borrowings	-	9,513,308	-	9,513,308
Derivative financial liabilities	-	2,428,371	2,027	2,430,398
	-	11,941,679	2,027	11,943,706

(a) The fair value of forward exchange contracts in Level 2 is determined by discounting the difference between the contractual forward price and the current forward price.

The fair value of Interest-bearing bank borrowings, interest rate swaps and currency swap is the estimated amount that the Group would receive or pay to transfer the swap at the end of the reporting period, taking into account current interest rates, exchange rates and the current creditworthiness of the swap counterparties.

(b) The fair value of financial assets-concession rights is based on Brazil's tariff model and the significant unobservable input used in the fair value measurement is periodic tariff review and annual tariff adjustment.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2020 and 2021.

46 Non-adjusting events after the reporting period

On 16 February 2022, according to the scheme of arrangement between AusNet and its shareholders, the Group sold its 19.9% equity interest in AusNet for a cash consideration of AUD$2.65 per share. The scheme of arrangement involves the proposal of Australian Energy Holding No 4 Pty Ltd to acquire AusNet. The proposal was approved by qualified AusNet shareholders on 28 January 2022 and the Supreme Court of New South Wales on 3 February 2022.

47. Capital commitments

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

	2021 HK$'000	*2020* HK$'000
Contracted, but not provided for:		
Plant and machinery	2,332,679	1,765,441

48. Statement of financial position of the Company

	2021 HK$'000	*2020* HK$'000
Non-current assets		
Property, plant and equipment	946	1,424
Investment in associates	15,853,750	15,326,743
Investment in subsidiaries	43,243,812	21,965,369
Equity investments designated at fair value through other comprehensive income	8,451,811	8,746,297
Amounts due from subsidiaries	124,557,561	124,850,152
Other non-current assets	56,808	-
Total non-current assets	192,164,688	170,889,985
Current assets		
Prepayments, other receivables and other assets	237,484	1,711,719
Derivative financial assets	536,169	-
Cash and cash equivalents	1,259,511	1,264,007
Total current assets	2,033,164	2,975,726

48. Statement of financial position of the Company (continued)

	2021 HK$'000	2020 HK$'000
Current liabilities		
Other payables and accruals	2,065,071	2,007,748
Tax payable	2,578	2,577
Amounts due to related parties	314,750	314,750
Derivative financial liabilities	-	238,108
Interest-bearing bank and other borrowings	22,384,670	25,383,831
Total current liabilities	24,767,069	27,947,014
Net current liabilities	(22,733,905)	(24,971,288)
Total assets less current liabilities	169,430,783	145,918,697
Non-current liabilities		
Interest-bearing bank and other borrowings	1,957,095	-
Long-term payables to subsidiaries	811,259	855,311
Deferred tax liabilities	254,493	149,007
Total non-current liabilities	3,022,847	1,004,318
Net assets	166,407,936	144,914,379
Equity		
Share capital	158,423,445	143,878,356
Reserves	7,984,491	1,036,023
Total equity	166,407,936	144,914,379

于军
Yu Jun
Director

陈道彪
Chen Daobiao
Director

48. Statement of financial position of the Company (continued)

The Company statement of changes in equity for the year ended 31 December 2021

	Share capital HK$'000	Capital reserve HK$'000	Fair value reserve of financial assets at fair value through other comprehensive income HK$'000	Retained profits HK$'000	Hedging reserve HK$'000	Exchange fluctuation reserve HK$'000	Other reserves HK$'000	Total equity HK$'000
At 1 January 2021	143,878,356	529,234	(1,773,278)	3,027,558	(645,539)	560,860	(662,812)	144,914,379
Profit for the year	-	-	-	11,443,753	-	-	-	11,443,753
Other comprehensive income for the year:								
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	130,235	-	-	-	-	130,235
Exchange differences on translation of foreign operations	-	-	-	-	-	(1,474,719)	-	(1,474,719)
Hedges of net investments	-	-	-	-	1,593,364	-	-	1,593,364
Other comprehensive income from associates	-	-	-	-	-	-	121,232	121,232
Total comprehensive income for the year	-	-	130,235	11,443,753	1,593,364	(1,474,719)	121,232	11,813,865
Issued of preference shares (Note 39)	14,545,089	-	-	-	-	-	-	14,545,089
Retained profits recognised upon disposal of equity investments designated at fair value through other comprehensive income	-	-	28,070	15,535	-	-	-	43,605
Distribution to shareholders	-	-	-	(4,909,002)	-	-	-	(4,909,002)
At 31 December 2021	158,423,445	529,234	(1,614,973)	9,577,844	947,825	(913,859)	(541,580)	166,407,936

48. Statement of financial position of the Company (continued)

	Share capital HK$'000	Capital reserve HK$'000	Fair value reserve of financial assets at fair value through other comprehensive income HK$'000	Retained profits HK$'000	Hedging reserve HK$'000	Exchange fluctuation reserve HK$'000	Other reserves HK$'000	Total equity HK$'000
At 1 January 2020	130,516,988	529,234	(518,168)	2,855,895	1,034,162	(1,217,766)	(510,336)	132,690,009
Profit for the year	-	-	-	9,202,106	-	-	-	9,202,106
Other comprehensive income for the year:								
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	(1,255,110)	-	-	-	-	(1,255,110)
Exchange differences on translation of foreign operations	-	-	-	-	-	1,778,626	-	1,778,626
Hedges of net investments	-	-	-	-	(1,679,701)	-	-	(1,679,701)
Other comprehensive income from associates	-	-	-	-	-	-	(152,476)	(152,476)
Total comprehensive income for the year	-	-	(1,255,110)	9,202,106	(1,679,701)	1,778,626	(152,476)	7,893,445
Issued of preference shares (Note 39)	13,361,368	-	-	-	-	-	-	13,361,368
Distribution to shareholders	-	-	-	(9,030,443)	-	-	-	(9,030,443)
At 31 December 2020	143,878,356	529,234	(1,773,278)	3,027,558	(645,539)	560,860	(662,812)	144,914,379

49. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts-Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, Classification of liabilities as current or non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of accounting policies	1 January 2023
Amendments to HKAS 8, Definition of accounting estimates	1 January 2023
Amendments to HKAS 12, Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

50. Approval of the financial statements

The financial statements were authorised for issue by the board of directors on 29 June 2022.