

港燈電力投資

HK Electric Investments

(根據香港法律按日期為二零一四年一月一日的信託契約組成，其受託人為港燈電力投資管理人有限公司。)

(As constituted pursuant to a deed of trust on 1 January 2014 under the laws of Hong Kong, the trustee of which is HK Electric Investments Manager Limited.)

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港燈電力投資有限公司

HK Electric Investments Limited

(於開曼群島註冊成立的有限公司 Incorporated in the Cayman Islands with limited liability)

(股份代號 Stock Code : 2638)



港燈電力投資

HK Electric Investments

香港堅尼地道四十四號港燈中心
Hongkong Electric Centre, 44 Kennedy Road, Hong Kong
電話 / Tel 2843 3111 傳真 / Fax 2810 0506
電郵 / Email mail@hkei.hk
www.hkei.hk

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2019 INTERIM RESULTS **CHAIRMAN'S STATEMENT**

2019 has seen HK Electric Investments (HKEI) and its wholly-owned subsidiary HK Electric move into the implementation phase of the new Scheme of Control Agreement (SCA), which is in effect for a period of 15 years. To achieve the energy efficiency and conservation and renewable energy targets under this regulatory regime, we have launched a number of related schemes, services and programmes.

We have moved forward with the initiatives under the 2019-2023 Development Plan to invest HK\$26.6 billion over the next five years in improving our electricity generation, transmission and distribution, and customer service infrastructure. These projects will allow us to significantly expand our gas-firing generation capacity and facilitate the transition to a smart grid.

As we rolled out these strategic initiatives, we remained focused on providing our customers with highly reliable electricity supply and world-class services.

Half-year results

For the six months ended 30 June 2019, HKEI's EBITDA amounted to HK\$3,287 million (2018: HK\$3,809 million) and unaudited profit attributable to holders of Share Stapled Units (SSU) was HK\$709 million (2018: HK\$982 million).

Interim distribution

Under the new SCA, there is a material drop of approximately 20% in the rate of permitted return for electricity companies. As a result, distributable income for the period also dropped by about 20% to HK\$1,408 million (2018: HK\$1,760 million), which will be 100% distributed to SSU holders.

The Board of the Trustee-Manager has declared an interim distribution of HK15.94 cents (2018: HK19.92 cents) per SSU, payable on 23 August 2019 to SSU holders whose names appear on the Share Stapled Units Register on 14 August 2019.

Working towards a smart green energy future

Following the approval of our 2019-2023 Development Plan, we are investing HK\$16.2 billion in new generating units and other generation facilities to replace aged coal-fired generating units and at the same time reduce carbon emission from our electricity generation.

By constructing gas-fired combined-cycle generating units L10, L11 and L12, and developing an offshore liquefied natural gas receiving terminal (LNG Terminal) using Floating Storage and Regasification Unit (FSRU) technology, we will increase our gas-fired generation to about 70% of total output by 2023 and bring carbon emissions down by more than 25% as compared with that in 2018. The emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates would also drop by 45-55%.

L10 is scheduled to commence commercial operation in January 2020, with testing and commissioning works in progress. Construction of L11 and L12 is on schedule, with commercial operation planned for 2022 and 2023 respectively. Foundation work of the main station building associated with L11 is in full swing while L12 is being constructed in tandem, and piling work is ongoing.

Good progress has been made in the development of an offshore LNG Terminal which is an important piece of infrastructure to secure gas supplies and keep our fuel costs competitive. Following Government's approval of the construction and operation of the terminal, HK Electric and Castle Peak Power Company Ltd. (CAPCO) have entered into a long-term contract with Shell Eastern Trading (Pte.) Ltd. for natural gas supply. HK Electric and CAPCO have also formed a joint venture entity which signed an agreement with Mitsui O.S.K. Lines, Ltd. for the hire of an FSRU vessel.

Advanced Metering Infrastructure (AMI) plays an important role in a smart grid, which is a crucial element of Hong Kong's transformation into a smart city. Our AMI pilot project, which was launched in 2017, continued this year. Thanks to the pilot project, we have enhanced our understanding of and expertise in essential areas from metering and telecommunications to data management and analytics. During the period, an invitation of tender with a comprehensive set of technical specifications was issued for the upcoming full-scale AMI implementation.

High standards in operating performance

With milder weather in the first half of 2019, electricity sales were 1.1% lower than the same six-month period last year, which saw record high temperatures in May 2018.

Preventive maintenance and the latest technology allowed the transmission and distribution systems to maintain supply reliability and meet the stringent targets under the new SCA. During the period, we once again met or surpassed all our pledged service standards and achieved a reliability performance of over 99.999%.

Following extreme weather events in recent years, we have carried out measures to enhance the security and resilience of our infrastructure, such as installing anti-flooding systems and replacing equipment with better flood-withstand capability at low-lying substations. We continued to identify other initiatives to further enhance supply reliability. These included replacement of our 132-kV transmission gas insulated switchgear at the Wong Nei Chong Gap and North Point Switching Stations and upgrading the 11-kV switchboards at Heung Yip and Chai Wan Zone Substations. In addition, more advanced online monitoring systems were installed in our transmission system to further enhance our asset management capabilities.

We implemented a more frequent adjustment of fuel clause charge mechanism to reflect changes in actual fuel costs in a timely and transparent manner in our tariffs. Thanks to lower fuel costs in the first half of the year, our net tariff in June was 3.3% lower than that in January 2019.

Diverse measures to reduce emissions

During the period, we launched a series of Smart Power Services to promote energy efficiency and conservation in the community, and drive the development of renewable energy. These services and schemes covered areas such as energy audits, subsidies for energy-efficient appliances and improvement works, as well as Feed-in Tariff to encourage customers to set up their own renewable energy installations. We are gratified by the positive response and uptake from the community.

We met statutory requirements in respect of emissions and are set to outperform our annual emission targets for sulphur dioxide, nitrogen oxides and respirable suspended particulates.

We have agreed with the Government on a set of even more stringent emissions allowances from January 2024 as proposed under the Eighth Technical Memorandum (TM8) of the Air Pollution Control Ordinance. Subject to the vetting result of the Legislative Council, TM8 is anticipated to be promulgated within 2019. The targets proposed under TM8 are very challenging and we will make our best efforts to achieve them.

We maintained our longstanding support of electric vehicles (EV) through the provision of free EV charging services and technical support to owners wishing to install charging facilities on their premises. We responded to about 130 enquiries to facilitate the setup of EV charging facilities on customer premises and provided some 6,000 free charges at our public EV charging stations.

Promoting energy efficiency the fun way

During the period, we continued to run community programmes with the twin focus of caring for the elderly and supporting environmental conservation.

Equipped with multi-media display and interactive games, the newly-opened Smart Power Gallery in Sheung Wan promotes public understanding of energy efficiency and conservation, climate change and the move to a smart city. More than 600 visitors have enjoyed the displays and the video games in the Gallery since its inauguration in April 2019. To enhance environmental awareness among the young, the Happy Green Campaign promoted the theme “Smart Power for Smart City” through various activities.

More than 400 elderly residents had an enjoyable time learning about energy efficiency and electrical safety at CAREnJOY for the Elderly talks in the first half of 2019, while 54 U3A students-turned-Smart Power Ambassadors pursued their mission to spread green messages to their communities.

Outlook

Our top priority for the remainder of the year is to complete all aspects of construction, testing and commissioning for the commercial operation of L10 in January 2020. We are also moving full steam ahead to ensure the smooth construction of the other two new gas-fired generating units, L11 and L12, and the offshore LNG Terminal. Looking ahead, we will continue our rollout of smart meters and invest in appropriate new technologies to help Hong Kong achieve its goals under the Climate Action Plan 2030+. With the progressive build-out of the asset base, we are delivering long-term value to our SSU holders.

Commissioned by the Hong Kong Government, the Council for Sustainable Development launched a public engagement on Hong Kong's Long-term Decarbonisation Strategy in mid-June 2019. As a major player in the city's power industry, we recognise the impact that our activities have on the environment and will actively participate in the public engagement to support the Government in mapping out Hong Kong's long-term decarbonisation strategy.

In closing, this has been a busy and productive period for HK Electric as we progress confidently to implement the different initiatives for which we have spent many months planning and preparing for. I would like to thank the Board, our SSU holders and each of our employees, without whose efforts none of this would be possible.

Fok Kin Ning, Canning
Chairman
Hong Kong, 30 July 2019

FINANCIAL REVIEW

Financial performance

The Trust Group's revenue and unaudited consolidated profit for the period ended 30 June 2019 were HK\$5,003 million (2018: HK\$5,457 million) and HK\$709 million (2018: HK\$982 million) respectively.

Distribution

The Trustee-Manager Board has declared an interim distribution of HK15.94 cents (2018: HK19.92 cents) per SSU for the six months ended 30 June 2019. In order to enable the Trust to pay that distribution, the Company Board has declared the payment of a first interim dividend in respect of the Company's ordinary shares held by the Trustee-Manager of HK15.94 cents (2018: HK19.92 cents) per ordinary share in respect of the same period.

	Six months ended 30 June	
	2019	2018
	HK\$ million	HK\$ million
Consolidated profit attributable to SSU holders for the period	709	982
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	2,750	2,961
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	(82)	(713)
– changes in working capital	(587)	(224)
– adjustment for employee retirement benefit schemes	5	5
– taxes paid	(107)	(149)
	(771)	(1,081)
(iii) capital expenditure payment	(1,429)	(1,748)
(iv) net finance costs	(500)	(425)
Distributable income for the period	759	689
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	649	1,071
Distributable income for the period after adjustment of the discretionary amount	1,408	1,760
Distribution amount for the period	1,408	1,760
Interim distribution amount per SSU	HK15.94 cents	HK19.92 cents

In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the period under review and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the six months ended 30 June 2019, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

Note:

- (a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.
- (b) The Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per SSU and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.

Capital expenditure, liquidity and financial resources

Capital expenditure during the period amounted to HK\$1,270 million (2018: HK\$1,651 million), which was funded by cash from operations and external borrowings. Total external borrowings outstanding at 30 June 2019 were HK\$43,477 million (31 December 2018: HK\$41,965 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 30 June 2019 had undrawn committed bank facilities of HK\$4,900 million (31 December 2018: HK\$5,495 million) and bank deposits and cash of HK\$347 million (31 December 2018: HK\$34 million).

Treasury policy, financing activities, capital and debt structure

The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity bill collection, are placed on short term deposits denominated in Hong Kong dollars. The Trust Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

As at 30 June 2019, the net debt of the Trust Group was HK\$43,130 million (31 December 2018: HK\$41,931 million) with a net debt-to-net total capital ratio of 47% (31 December 2018: 46%). The Trust Group's financial profile remained strong during the period. On 10 June 2019, Standard & Poor's reaffirmed the "A-" long term credit rating of the Company with a stable outlook, unchanged since September 2015. The "A-" long term credit rating and "Stable" outlook for HK Electric have remained unchanged since January 2014.

The profile of the Trust Group's external borrowings as at 30 June 2019, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

- (1) 100% were in Hong Kong dollars;
- (2) 45% were bank loans and 55% were capital market instruments;
- (3) 59% were repayable after 1 year but within 5 years and 41% were repayable after 5 years; and
- (4) 67% were in fixed rate and 33% were in floating rate.

The Trust Group's policy is to maintain a portion of its debt at fixed interest rates taking into consideration business and operational needs. Interest rate risk is managed by either securing fixed rate borrowings or by using interest rate derivatives.

Currency and interest rate risks are actively managed in accordance with the Trust Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control counterparty risk exposure.

The Trust Group's principal foreign currency transaction exposures arise from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward foreign exchange contracts. As at 30 June 2019, over 90% of the Trust Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. The Trust Group is also exposed to foreign currency fluctuation arising from the foreign currency borrowings. Such exposures are, where appropriate, mitigated by the use of either forward foreign exchange contracts or cross currency swaps.

The contractual notional amounts of derivative financial instruments outstanding at 30 June 2019 amounted to HK\$43,259 million (31 December 2018: HK\$43,484 million).

Charge on assets

As at 30 June 2019, no assets of the Trust Group were pledged to secure its loans and banking facilities (31 December 2018: Nil).

Contingent liabilities

As at 30 June 2019, the Trust Group had no guarantee or indemnity to external parties (31 December 2018: Nil).

Employees

The Trust Group maintains a policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Trust Group's total remuneration costs for the six months ended 30 June 2019, excluding directors' emoluments, amounted to HK\$583 million (2018: HK\$564 million). As at 30 June 2019, the Trust Group employed 1,768 (31 December 2018: 1,763) permanent employees. No share option scheme is in operation.

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
OF THE TRUST AND OF THE COMPANY**

For the six months ended 30 June 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$ million	2018 \$ million
Revenue	6	5,003	5,457
Direct costs		<u>(2,676)</u>	<u>(2,628)</u>
		2,327	2,829
Other revenue and other net income		17	35
Other operating costs	8	<u>(531)</u>	<u>(481)</u>
Operating profit		1,813	2,383
Finance costs		<u>(491)</u>	<u>(473)</u>
Profit before taxation	9	1,322	1,910
Income tax:	10		
Current		<u>(209)</u>	<u>(195)</u>
Deferred		<u>(43)</u>	<u>(157)</u>
		<u>(252)</u>	<u>(352)</u>
Profit after taxation		1,070	1,558
Scheme of Control transfers	11	<u>(361)</u>	<u>(576)</u>
Profit for the period attributable to the holders of Share Stapled Units/shares of the Company		<u>709</u>	<u>982</u>
Earnings per Share Stapled Unit/ share of the Company			
Basic and diluted	12	<u>8.02 cents</u>	<u>11.11 cents</u>

As explained in note 3, the unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together.

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the period are set out in note 18.

**UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
OF THE TRUST AND OF THE COMPANY**

For the six months ended 30 June 2019

(Expressed in Hong Kong dollars)

	2019	2018
	\$ million	\$ million
Profit for the period attributable to the holders of Share Stapled Units/shares of the Company	709	982
Other comprehensive income for the period, after tax and reclassification adjustments		
Items that will not be reclassified to profit or loss		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments and cost of hedging recognised during the period	14	10
Net deferred tax charged to other comprehensive income	(2)	(2)
	12	8
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments and cost of hedging recognised during the period	140	371
Reclassification adjustments for amounts transferred to profit or loss	(45)	(23)
Net deferred tax charged to other comprehensive income	(20)	(52)
	75	296
Total comprehensive income for the period attributable to the holders of Share Stapled Units/shares of the Company	796	1,286

As explained in note 3, the unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together.

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OF THE TRUST AND OF THE COMPANY**

At 30 June 2019

(Expressed in Hong Kong dollars)

	Note	(Unaudited) 30 June 2019 \$ million	(Audited) 31 December 2018 \$ million
Non-current assets			
Property, plant and equipment		64,830	65,049
Interests in leasehold land held for own use		5,912	6,010
	13	<u>70,742</u>	<u>71,059</u>
Goodwill		33,623	33,623
Derivative financial instruments		444	568
Employee retirement benefit scheme assets		594	593
		<u>105,403</u>	<u>105,843</u>
Current assets			
Inventories		815	989
Trade and other receivables	14	1,439	1,028
Bank deposits and cash		347	34
		<u>2,601</u>	<u>2,051</u>
Current liabilities			
Trade and other payables and contract liabilities	15	(1,768)	(2,447)
Fuel Clause Recovery Account		(773)	(855)
Current portion of bank loans and other interest-bearing borrowings	16	(158)	(440)
Current tax payable		(239)	(137)
		<u>(2,938)</u>	<u>(3,879)</u>
Net current liabilities		<u>(337)</u>	<u>(1,828)</u>
Total assets less current liabilities		<u>105,066</u>	<u>104,015</u>
Non-current liabilities			
Bank loans and other interest-bearing borrowings	16	(43,319)	(41,525)
Derivative financial instruments		(90)	(411)
Customers' deposits		(2,214)	(2,195)
Deferred tax liabilities		(9,418)	(9,353)
Employee retirement benefit scheme liabilities		(399)	(393)
Provisions		(854)	(747)
		<u>(56,294)</u>	<u>(54,624)</u>
Scheme of Control Fund and Reserve	17	<u>(1,009)</u>	<u>(648)</u>
Net assets		<u>47,763</u>	<u>48,743</u>
Capital and reserves			
Share capital		8	8
Reserves		47,755	48,735
Total equity		<u>47,763</u>	<u>48,743</u>

As explained in note 3, the unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE TRUST AND OF THE COMPANY

(Expressed in Hong Kong dollars)

1. Review of unaudited interim financial statements

These unaudited consolidated interim financial statements have been reviewed by the Audit Committees.

2. General information

HK Electric Investments Limited (the “Company”) was incorporated in the Cayman Islands on 23 September 2013 as an exempted company with limited liability under the Companies Law 2011 (as consolidated and revised) of the Cayman Islands.

On 1 January 2014, HK Electric Investments (the “Trust”) was constituted by a Hong Kong law governed Trust Deed entered into between HK Electric Investments Manager Limited (the “Trustee-Manager”, in its capacity as the trustee-manager of the Trust) and the Company. The scope of activity of the Trust as provided in the Trust Deed is limited to investing in the Company.

3. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of interim financial statements on a consolidated basis. The unaudited consolidated interim financial statements of the Trust for the period ended 30 June 2019 comprise the unaudited consolidated interim financial statements of the Trust, the Company and its subsidiaries (together the “Trust Group”). The unaudited consolidated interim financial statements of the Company for the period ended 30 June 2019 comprise the unaudited consolidated interim financial statements of the Company and its subsidiaries (together the “Group”).

The Trust controls the Company and the sole activity of the Trust during the six months period ended 30 June 2019 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the unaudited consolidated interim financial statements of the Trust are identical to the consolidated financial results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Directors of the Trustee-Manager and Directors of the Company believe that it is clearer to present the unaudited consolidated interim financial statements of the Trust and of the Company together. The unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the “unaudited consolidated interim financial statements of the Trust and of the Company”.

The Trust Group and the Group are referred as the “Groups”.

4. Basis of preparation

The unaudited consolidated interim financial statements of the Trust and of the Company have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting* issued by the HKICPA and comply with the applicable disclosure provisions of the Listing Rules.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in and should be read in conjunction with the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in note 5.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial statements and selected explanatory notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

5. Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Groups. Of these, the following developments are relevant to the Trust’s and the Company’s unaudited consolidated interim financial statements:

- HKFRS 16, *Leases*
- HK(IFRIC)-Int 23, *Uncertainty over income tax treatments*
- Annual improvements to HKFRSs 2015-2017 Cycle
- Amendments to HKAS 19, *Plan amendments, curtailment or settlement*

The adoption of HKFRS 16, *Leases* and these amendments to HKFRSs does not have a material impact on the Groups’ results and financial positions for the current or prior periods. Details of the changes in accounting policies for HKFRS 16 are discussed below.

The Groups have not applied any new standard or amendment that is not effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*, HK(SIC)-Int 15, *Operating leases – incentives*, and HK(SIC)-Int 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Groups have initially applied HKFRS 16 as from 1 January 2019 and elected to use the modified retrospective approach. The adoption of HKFRS 16 does not have material effect to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. 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.

The Groups apply the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Groups have used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lease accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Groups are required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

When the Groups enter into a lease in respect of a low-value asset, the Groups decide 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.

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.

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 Groups' 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 Groups 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.

6. Revenue

The principal activity of the Groups is the generation and supply of electricity to Hong Kong Island and Lamma Island. Disaggregation of revenue by type of output and services is analysed as follows:

	Six months ended 30 June	
	2019	2018
	\$ million	\$ million
Sales of electricity	4,983	5,440
Less: Concessionary discount on sales of electricity	(2)	(2)
	4,981	5,438
Electricity-related income	22	19
	5,003	5,457

7. Segment reporting

The Groups have one reporting segment which is the generation and supply of electricity to Hong Kong Island and Lamma Island. All segment assets are located in Hong Kong. The Groups' chief operating decision-maker reviews the consolidated results of the Groups for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

8. Other operating costs

	Six months ended 30 June	
	2019	2018
	\$ million	\$ million
Administrative expenses, government rent and rates	168	170
Staff costs in relation to corporate and administrative supports	114	104
Provisions for asset decommissioning obligation	107	85
Portion of depreciation and amortisation of leasehold land included in other operating costs	86	82
Net loss on disposal and written off of property, plant and equipment	56	40
	531	481

9. Profit before taxation

	Six months ended 30 June	
	2019	2018
	\$ million	\$ million
Profit before taxation is arrived at after charging/(crediting):		
Finance costs		
Interest on borrowings and other finance costs	617	566
Less: Interest expense and other finance costs capitalised to assets under construction	(117)	(84)
Interest expense transferred to fuel costs	(9)	(9)
	491	473
Depreciation		
Depreciation charges for the period	1,417	1,385
Less: Depreciation capitalised to assets under construction	(40)	(45)
	1,377	1,340
Amortisation of leasehold land	98	97

10. Income tax

	Six months ended 30 June	
	2019	2018
	\$ million	\$ million
Current tax		
Provision for Hong Kong Profits Tax for the period	209	195
Deferred tax		
Origination and reversal of temporary differences	43	157
	252	352

The provision for Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rate regime for the six months ended 30 June 2019 and 2018. Under the two-tiered profits tax rate regime, the first \$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Groups are exempt from any income tax in these jurisdictions.

11. Scheme of Control transfers

The Scheme of Control transfers are mid-year notional transfers. The actual Scheme of Control transfers can only be determined in accordance with the Scheme of Control at the year end. Notional Scheme of Control transfers during the period represent transfer to the following:

	Six months ended 30 June	
	2019	2018
	\$ million	\$ million
Tariff Stabilisation Fund	356	574
Rate Reduction Reserve	5	2
	361	576

12. Earnings per Share Stapled Unit/share of the Company

The calculation of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the profit attributable to the holders of Share Stapled Units/shares of the Company of \$709 million for the six months ended 30 June 2019 (2018: \$982 million) and the weighted average of 8,836,200,000 Shares Stapled Units/ordinary shares of the Company (2018: 8,836,200,000 Shares Stapled Units/ordinary shares of the Company) in issue throughout the period.

13. Property, plant and equipment and interests in leasehold land

\$ million	Site formation and buildings	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use	Total
Net book value at 1 January 2019	14,167	43,375	482	7,025	65,049	6,010	71,059
Additions	2	65	7	1,196	1,270	-	1,270
Transfers between categories	-	117	1	(118)	-	-	-
Disposals	-	(72)	-	-	(72)	-	(72)
Depreciation/ amortisation	(254)	(1,112)	(51)	-	(1,417)	(98)	(1,515)
Net book value at 30 June 2019	13,915	42,373	439	8,103	64,830	5,912	70,742
Cost	16,675	53,257	851	8,103	78,886	6,958	85,844
Accumulated depreciation and amortisation	(2,760)	(10,884)	(412)	-	(14,056)	(1,046)	(15,102)
Net book value at 30 June 2019	13,915	42,373	439	8,103	64,830	5,912	70,742

14. Trade and other receivables

The ageing analysis of trade debtors based on invoice date, which are neither individually nor collectively considered to be impaired, is as follows:

	30 June 2019 \$ million	31 December 2018 \$ million
Current and within 1 month	706	513
1 to 3 months	32	35
More than 3 months but less than 12 months	12	15
Trade debtors	750	563
Other receivables	628	402
	1,378	965
Derivative financial instruments	9	2
Deposits and prepayments	52	61
	1,439	1,028

Electricity bills issued to residential, small industrial, commercial and miscellaneous customers for electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, a surcharge of 5% can be added to the electricity bills.

15. Trade and other payables and contract liabilities

	30 June 2019 \$ million	31 December 2018 \$ million
Due within 1 month or on demand	683	1,316
Due after 1 month but within 3 months	133	139
Due after 3 months but within 12 months	891	948
Creditors measured at amortised cost	1,707	2,403
Derivative financial instruments	24	6
Contract liabilities	37	38
	1,768	2,447

16. Bank loans and other interest-bearing borrowings

	30 June 2019 \$ million	31 December 2018 \$ million
Bank loans	19,411	17,755
Current portion	(158)	(110)
	19,253	17,645
Hong Kong dollar medium term notes		
Fixed rate notes	5,967	6,295
Zero coupon notes	714	702
	6,681	6,997
Current portion	-	(330)
	6,681	6,667
United States dollar medium term notes		
Fixed rate notes	11,721	11,673
Zero coupon notes	5,664	5,540
	17,385	17,213
Non-current portion	43,319	41,525

17. Scheme of Control Fund and Reserve

The Tariff Stabilisation Fund, Rate Reduction Reserve and Smart Power Fund/Smart Power Care Fund of the Groups' major subsidiary, HK Electric, are collectively referred to as Scheme of Control Fund and Reserve. The respective balances at the end of the period/year are:

	30 June 2019 \$ million	31 December 2018 \$ million
Tariff Stabilisation Fund	982	620
Rate Reduction Reserve	5	6
Smart Power Fund/Smart Power Care Fund	22	22
	1,009	648

18. Interim distribution/dividend

The distributable income for the period was as follows:

	Six months ended 30 June	
	2019	2018
	\$ million	\$ million
Consolidated profit attributable to the holders of Share Stapled Units for the period	709	982
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	2,750	2,961
(ii) (deducting)/adding		
- movement in Fuel Clause Recovery Account	(82)	(713)
- changes in working capital	(587)	(224)
- adjustment for employee retirement benefit schemes	5	5
- taxes paid	(107)	(149)
	(771)	(1,081)
(iii) capital expenditure payment	(1,429)	(1,748)
(iv) net finance costs	(500)	(425)
Distributable income for the period	759	689
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note (d) below)	649	1,071
Distributable income for the period after adjustment of discretionary amount	1,408	1,760
Distribution amount for the period	1,408	1,760
Number of Share Stapled Units/ordinary shares of the Company	8,836,200,000	8,836,200,000
Interim distribution per Share Stapled Unit/first interim dividend per ordinary share of the Company (see note (e) below)	15.94 cents	19.92 cents

- (a) Pursuant to clause 1.1 of the Trust Deed, “Adjustments” includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.
- (b) The Trust Deed requires the Trustee-Manager (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received by the Trustee-Manager in respect of the ordinary shares from the Company, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.
- (c) The distributions received by the Trustee-Manager from the Company will be derived from the Group Distributable Income which is referred as audited consolidated profit attributable to the holders of Share Stapled Units for the relevant financial year or distribution period, after making adjustments in respect of items as set out in the Trust Deed.
- (d) In determining the distribution amount, the Company Board has taken into account the Group’s financial performance achieved during the period under review and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the six months ended 30 June 2019, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.
- (e) Interim distribution per Share Stapled Unit/first interim dividend per ordinary share of the Company of 15.94 cents (2018: 19.92 cents) is calculated based on the interim distribution of \$1,408 million for the six months ended 30 June 2019 (2018: \$1,760 million) and the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 in issue as at 30 June 2019 (2018: 8,836,200,000).

**UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME OF HK ELECTRIC INVESTMENTS MANAGER LIMITED**

For the six months ended 30 June 2019

(Expressed in Hong Kong dollars)

	Note	2019	2018
		<u> \$ </u>	<u> \$ </u>
Revenue		-	-
Administrative expenses		<u>-</u>	<u>-</u>
Profit before taxation	6	-	-
Income tax	7	<u>-</u>	<u>-</u>
Profit and total comprehensive income for the period		<u><u>-</u></u>	<u><u>-</u></u>

**UNAUDITED STATEMENT OF FINANCIAL POSITION
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED**

At 30 June 2019

(Expressed in Hong Kong dollars)

	(Unaudited) 30 June 2019 \$	(Audited) 31 December 2018 \$
Current assets		
Amount due from immediate holding company	<u>1</u>	<u>1</u>
Net assets	<u><u>1</u></u>	<u><u>1</u></u>
Capital and reserves		
Share capital	1	1
Reserves	<u>-</u>	<u>-</u>
Total equity	<u><u>1</u></u>	<u><u>1</u></u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED**
(Expressed in Hong Kong dollars)

1. Review of unaudited interim financial statements

These unaudited interim financial statements have been reviewed by the Audit Committee.

2. General information

HK Electric Investments Manager Limited (the “Company”) was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets.

The principal activity of the Company is administering HK Electric Investments (the “Trust”), in its capacity as trustee-manager of the Trust. The costs and expenses of administering the Trust may be deducted from all property and rights of any kind whatsoever which are held on trust for the registered holders of units of the Trust but, commensurate with its specific and limited role, the Company will not receive any fee for administering the Trust.

3. Basis of presentation

The Trust Deed requires the Company (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received in respect of the ordinary shares from HK Electric Investments Limited, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 18 to the unaudited consolidated interim financial statements of the Trust and of HK Electric Investments Limited on pages 21 and 22, no distributions statement is therefore presented in these unaudited interim financial statements.

4. Basis of preparation

These unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting* issued by the HKICPA and comply with the applicable disclosure provisions of the Listing Rules.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in and should be read in conjunction with the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in note 5.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial statements and selected explanatory notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial statements as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company's financial statements together with the consolidated financial statements of the Trust and of HK Electric Investments Limited for the year ended 31 December 2018 will be delivered to the Registrar of Companies in due course.

The Company's auditor has reported on the financial statements of the Company for the year ended 31 December 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

5. Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company. The adoption of HKFRS 16, *Leases* and these amendments to HKFRSs has no material impact on the Company's result and financial position for the current or prior periods. The Company has not applied any new standard or amendment that is not effective for the current accounting period.

6. Profit before taxation

All expenses of the Company which were incurred for the administering of the Trust of \$186,000 for the six months ended 30 June 2019 (2018: \$249,000) have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

Except for the above, the Company did not incur any administrative expenses during the current and prior periods.

7. Income tax

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company did not have any assessable profits during the current and prior periods.

OTHER INFORMATION

Interim distribution

The Trustee-Manager Board has declared an interim distribution by the Trust for 2019 of HK15.94 cents per Share Stapled Unit. The distribution will be payable on Friday, 23 August 2019 to Holders of Share Stapled Units whose names appear in the Share Stapled Units Register at the close of business on Wednesday, 14 August 2019, being the record date for determination of entitlement to the interim distribution. To qualify for the interim distribution, all transfers accompanied by the relevant Share Stapled Unit certificates should be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 14 August 2019.

Purchase, sale or redemption of Share Stapled Units

Pursuant to the Trust Deed, the Holders of Share Stapled Units have no right to demand for repurchase or redemption of their Share Stapled Units. Unless and until expressly permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission from time to time, the Trustee-Manager shall not repurchase or redeem any Share Stapled Units on behalf of the Trust.

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of the issued Share Stapled Units during the six months ended 30 June 2019.

Corporate governance practices

The Boards are committed to maintaining high standards of corporate governance, and recognise that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of the Trustee-Manager and the Trust Group, and the ability to attract investment, protect the rights of Holders of Share Stapled Units and other stakeholders, and enhance the value of the Share Stapled Units. The corporate governance policies of the Trustee-Manager and the Trust Group are designed to achieve these objectives and are maintained through a framework of processes, policies and guidelines.

The Trust and the Company are both listed on the Main Board of the Stock Exchange, and are subject to the provisions of the Listing Rules. Pursuant to the Trust Deed, the Trustee-Manager is responsible for compliance by the Trust with the Listing Rules applicable to the Trust and other relevant laws and regulations, the Company is responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant laws and regulations, and each of the Trustee-Manager and the Company will co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.

The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the six months ended 30 June 2019, except as noted hereunder.

The Trustee-Manager does not have a remuneration committee as provided for in code provision B.1, since under the terms of their letters of appointment the Directors of the Trustee-Manager are not entitled to any remuneration.

The Nomination Committee of the Company established on 1 January 2019 comprises all Directors of the Company, and accordingly its membership deviates from the requirements in code provision A.5. In discharging its responsibilities, the Nomination Committee of the Company is, however, assisted by an ad hoc sub-committee which is chaired by the Chairman of the Company Board and its membership is compliant with the requirements under the Listing Rules for a nomination committee. The Trustee-Manager does not have a nomination committee as provided for in code provision A.5, since in accordance with the Trust Deed and the Trustee-Manager's articles of association, the Trustee-Manager Board shall at all times comprise the same individuals who serve as Directors of the Company, and the requirement to establish a nomination committee is hence considered irrelevant to the Trustee-Manager.

The Trust Group is committed to achieving and maintaining standards of openness, probity and accountability. In line with this commitment and in compliance with the Corporate Governance Code, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the procedures for reporting possible improprieties in financial reporting, internal control or other matters. In addition, the Trustee-Manager and the Company have established a policy relating to inside information and securities dealing for compliance by all employees of the Group.

Model Code for securities transactions by Directors

The Boards have adopted the Model Code as their code of conduct regulating directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

Boards composition

As at the date of this announcement, the Directors are:

Executive Directors : Mr. FOK Kin Ning, Canning (Chairman) (Mrs. CHOW WOO Mo Fong, Susan as his alternate), Mr. WAN Chi Tin (Chief Executive Officer), Mr. CHAN Loi Shun, Mr. CHEN Daobiao and Mr. CHENG Cho Ying, Francis

Non-executive Directors : Mr. LI Tzar Kuoi, Victor (Deputy Chairman) (Mr. Frank John SIXT as his alternate), Mr. Fahad Hamad A H AL-MOHANNADI, Mr. Ronald Joseph ARCULLI, Mr. DUAN Guangming, Mr. Deven Arvind KARNIK and Mr. ZHU Guangchao

Independent Non-executive Directors : Mr. FONG Chi Wai, Alex, Mr. KWAN Kai Cheong, Mr. LEE Lan Yee, Francis, Mr. George Colin MAGNUS, Mr. Donald Jeffrey ROBERTS and Mr. Ralph Raymond SHEA

GLOSSARY

In this interim results announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

Term(s)	Definition
“Boards” or “Boards of Directors”	Trustee-Manager Board and Company Board
“Company”	HK Electric Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
“Company Audit Committee”	Audit committee of the Company
“Company Board”	Board of directors of the Company
“Corporate Governance Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“Government”	HKSAR Government
“Group”	The Company and its subsidiaries
“HK Electric”	The Hongkong Electric Company, Limited, a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
“HKASs”	Hong Kong Accounting Standards
“HKEI”	The Trust and the Company
“HKFRSs”	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Holder(s) of Share Stapled Units” or “SSU holder(s)”	Person(s) who holds Share Stapled Units issued by HKEI

Term(s)	Definition
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“Power Assets”	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)
“Share Stapled Unit(s)” or “SSU(s)”	<p>Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others:</p> <ul style="list-style-type: none"> (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and (c) a specifically identified preference share of the Company stapled to the unit.
“Share Stapled Units Register”	The register of registered Holders of Share Stapled Units
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust”	HK Electric Investments, as constituted pursuant to the Trust Deed under the Laws of Hong Kong
“Trust Deed”	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company
“Trust Group”	The Trust and the Group

Term(s)	Definition
“Trustee-Manager”	HK Electric Investments Manager Limited, a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
“Trustee-Manager Audit Committee”	Audit committee of the Trustee-Manager
“Trustee-Manager Board”	Board of directors of the Trustee-Manager