

# CHAIRMAN'S LETTER



**LI TZAR KUOI, VICTOR**  
Chairman

For the year ended 31st December, 2016, Cheung Kong Infrastructure Holdings Limited (“CKI”, the “Company” or the “Group”) recorded profit attributable to shareholders of HK\$9,636 million. This represented a 14% decrease compared to 2015.

The Group faced many challenges during the year, including volatile exchange rates (particularly British pounds), and rising interest rates. Despite these influences, the Group’s operations round the world performed well, with total profit contribution in Hong Kong dollars at a similar level as last year. The 14% reduction in attributable profit was mainly due to a smaller UK deferred tax credit in 2016 compared to 2015, and the 2015 reversal of provisions and expenses made earlier for non-operational matters.

With the exception of Power Assets and Infrastructure Materials, profit contribution from all infrastructure business portfolios of the Group recorded growth in local currency in 2016.

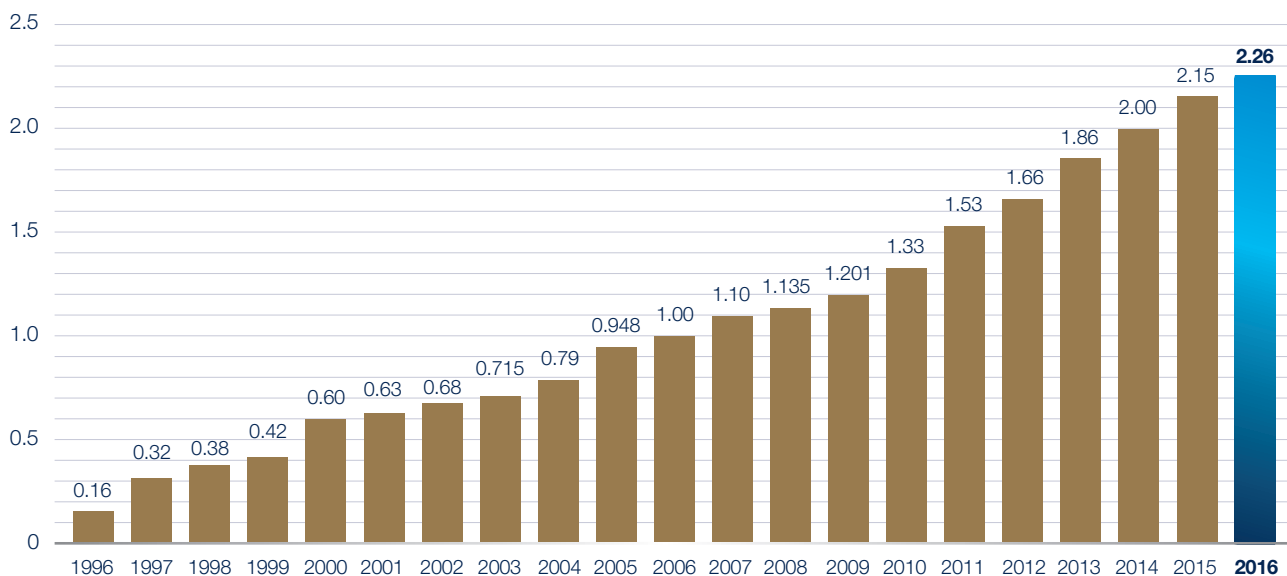
## 20 YEARS OF CONTINUOUS DIVIDEND GROWTH

The Board of Directors of CKI (the “Board”) has recommended a final dividend of HK\$1.63 per share. Together with the interim dividend of HK\$0.63 per share, this will bring the total dividend for the year to HK\$2.26, a 5.1% increase over the previous year.

This is the 20th consecutive year of dividend growth since the Group’s listing in 1996. The proposed dividend will be paid on Friday, 26th May, 2017, following approval at the 2017 Annual General Meeting to those shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 16th May, 2017.

### Dividends per Share since Listing

(HK\$)



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## NEW INVESTMENT MADE IN HUSKY MIDSTREAM

During the year under review, CKI, together with Power Assets, acquired 65% of Husky Midstream Limited Partnership ("Husky Midstream"), with CKI holding a 16.25% interest. This company comprises 1,900 km of oil pipelines, two storage facilities and ancillary assets in Canada. The transaction was completed in July 2016. This is CKI's first investment in oil pipelines and storage. The project is expected to generate secure and predictable returns for the Group.

## POWER ASSETS

Profit contribution from Power Assets was HK\$2,494 million for the year, a decrease of 17% as compared to 2015. This was mainly due to (a) lower UK deferred tax credits; (b) reversal of provisions and expenses in 2015; (c) British pounds weakness which affected the results of its UK investments when converted into Hong Kong dollars; and (d) lower contribution from HK Electric Investments.

## UK PORTFOLIO

Profit contribution from the UK portfolio amounted to £603 million, an increase of 6% compared to last year.

During the year under review, lower deferred tax credits were recorded as compared to last year, as the reduction in corporate tax rate in 2016 was less than that in 2015. This affected the Group's profit contribution from UK during the year. Barring this tax credit effect, profit contribution from the UK portfolio would have increased 14% year-on-year.

UK Power Networks is the largest asset in the UK portfolio, accounting for half of the UK's contribution. During the year, it won the "Utility of the Year" award again - this is the second time in a row that UK Power Networks won the Award and the third time in five years; such accomplishment is unprecedented amongst UK utilities.

Similar to UK Power Networks, CKI's other regulated businesses in UK, namely Northumbrian Water, Northern Gas Networks and Wales & West Gas Networks all reported satisfactory performance, exceeding budget targets. They are all operating in the early and middle parts of their regulatory regimes. This offers a high predictability of income in the coming years.

During the year under review, UK Rails made its first full year contribution to the Group. Since acquisition, the performance of this business has been pleasing and approximately £1 billion of new build opportunities has been secured at attractive leasing rates.

## **Brexit Impact Negligible on Business Fundamentals**

The result of the referendum on Brexit in June 2016 caused uncertainty for the global economy and has put significant pressure on the British pounds.

The fundamentals of CKI's UK businesses are not affected as our portfolio comprises regulated and contracted businesses characterised by stable and predictable returns. Nevertheless, the depreciation of the British pounds has had a translation impact on our reported profit contribution in 2016.

Other than the translation impact on reported earnings, Brexit has had little effect on CKI's UK businesses.

## **AUSTRALIAN PORTFOLIO**

In Australia, healthy growth in operations as well as a capital gain on the sale of a non-core investment led to a year-on-year 71% increase in profit contribution, amounting to A\$336 million.

SA Power Networks, Victoria Power Networks, as well as the South Australia and Queensland operations of Australian Gas Networks have entered into new five-year regulatory periods. These new regulatory regimes are expected to provide a stable and predictable framework in the coming years.

## **INFRASTRUCTURE BUSINESSES IN OTHER GEOGRAPHIC AREA**

Profit contribution from the Mainland China portfolio was HK\$347 million, a small increase as compared to 2015.

New Zealand's profit contribution was NZ\$34 million, a year-on-year increase of 10%. Good growth was reported by EnviroNZ and Wellington Electricity.

The Canadian portfolio recorded a 38% increase in profit contribution to C\$32 million. In addition to the sound performance of Canadian Power and Park'N Fly, Husky Midstream made its first profit contribution to the Group during the year.

In Continental Europe, Dutch Enviro Energy generated a profit contribution of €20 million, a 8% year-on-year increase. In Portugal, Portugal Renewable Energy reported its first full year contribution in 2016 at €12 million.



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## MATERIALS BUSINESSES

Profit contribution from CKI's materials businesses was HK\$353 million, a decrease of 9% over the previous year. This was mainly caused by the weakened concrete and Mainland China markets.

## STRONG FINANCIAL POSITION

As at 31st December, 2016, CKI had cash on hand of HK\$12 billion and a net debt to net total capital ratio of 4.5%. The Group is in a strong financial position for future organic expansion and new acquisitions.

Standard & Poor's continues to reaffirm the Group's credit rating of "A-/Stable".

As an international infrastructure investor, CKI adopts a prudent strategy of foreign currency management. Our operating companies borrow in their respective local currency, or otherwise hedge any foreign currency borrowings back into local currency. With regards to equity investments, CKI generally hedges them against currency movements at the time of acquisition. Such protection, though not reflected in the Consolidated Income Statement, has its value embedded in reserves and will crystallise when the equity investments are monetised.

## OUTLOOK

The uncertainty and volatility experienced in 2016 is expected to continue in 2017. For CKI, this may provide opportunities to expand. With our strong financial position and extensive experience, CKI is well-positioned to capture attractive opportunities in the markets and industries we currently operate in, as well as in new businesses or geographic areas which may arise.

The Group has a good track record of organic growth, well-priced acquisitions, and prudent financial management. Our unwavering commitment in adhering to our investment criteria has also underpinned our success. We will continue to maintain our discipline of not approaching any new investments with a “must-win” mentality.

With a portfolio of prime assets which we have built in the past 20 years, and an experienced management team which excels in maximising business growth in existing and newly acquired businesses, we look forward to providing continuous steady recurring returns and growth for our shareholders.

I would like to take this opportunity to thank the Board, management and staff for their continued efforts, as well as our shareholders for their support.

### **LI TZAR KUOI, VICTOR**

Chairman

21st March, 2017