

A portrait of Victor T K Li, Chairman of CK Infrastructure Holdings Limited. He is a middle-aged man with short dark hair and glasses, wearing a dark blue pinstripe suit, a white shirt, and a patterned tie. He has his arms crossed and is smiling slightly. The background is a composite image of Earth from space, showing the curvature of the planet and city lights at night.

# VICTOR T K LI

Chairman

“ CKI’s portfolio of quality infrastructure assets showed continued resilience and generated good contributions to the Group recording a year-on-year growth of 7%. In local currencies, the year-on-year growth in contribution from the infrastructure portfolio was 16%. ”

# CHAIRMAN'S LETTER

Most of the world has started to put COVID-19 to rest, however uncertainties persist in global markets. Challenges remain as many economies are faced with historically high inflation, rising interest rates, burgeoning energy crises and increasing geopolitical tensions.

Against this backdrop, CK Infrastructure Holdings Limited ("CKI", the "Company" or the "Group") recorded profit attributable to shareholders of HK\$7,748 million for the 12 months ended 31st December, 2022, representing 3% growth over the previous year. This result was significantly impacted by higher finance costs due to rising interest rates (and particularly higher index linked finance costs) and weakened foreign currencies against the Hong Kong dollar.

## CONTRIBUTIONS FROM BUSINESSES INCREASED 7%

CKI's portfolio of quality infrastructure assets showed continued resilience and generated good contributions to the Group recording a year-on-year growth of 7%. In local currencies, the year-on-year growth in contribution from the infrastructure portfolio was 16%.

## 26 YEARS OF CONTINUED DIVIDEND GROWTH

The Board of Directors of CKI (the "Board") has recommended a final dividend of HK\$1.83 per share. Together with the interim dividend of HK\$0.70 per share, the total dividend for the year will amount to HK\$2.53 per share, a 1.2% increase over that of last year. This marks 26 consecutive years of dividend growth since listing. The proposed dividend will be paid on Wednesday, 7th June, 2023, subject to approval at the 2023 Annual General Meeting to those shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 23rd May, 2023.

## BUSINESS REVIEW

### Power Assets

Profit contribution from Power Assets was HK\$2,033 million, a year-on-year decrease of 8%. This drop is mainly attributed to higher finance costs due to rising interest rates and unfavourable exchange rates against the Hong Kong dollar for Power Assets' overseas investments.

In local currencies, the profit contribution from the infrastructure portfolio was a 5% increase year-on-year.

In Hong Kong, net profit achieved by HK Electric continued to be stable under the Scheme of Control. In recognition of HK Electric's efforts in Hong Kong for utilising green energy, promoting decarbonisation and assisting Hong Kong in achieving its carbon neutrality target, the Federation of Hong Kong Industries presented the "Sustainable Business Award" and the "Gold Award" in the manufacturing sector to HK Electric at the BOCHK Corporate Environmental Leadership Awards 2021.

# CHAIRMAN'S LETTER

## United Kingdom Infrastructure Portfolio

Profit contribution from the United Kingdom was HK\$3,069 million, up by 29% as compared with last year. This increase was mainly due to non-cash deferred tax related charges booked in the previous period, as well as a one-off gain arising from the sale of a 13% stake in Northumbrian Water in 2022. These gains were partly offset by higher finance charges and a weaker pound sterling as compared with the Hong Kong dollar.

UK Power Networks received the Final Determination for the upcoming regulatory period from April 2023 to March 2028. This facilitates predictability of revenues for the coming years. In both the Broad Measure of Customer Service and that of Performance conducted by The Office of Gas and Electricity Markets (Ofgem), UK Power Networks was rated as the number one electricity distribution network operator for 2022. During the year, UK Power Networks received close to 30 awards, including being named the best in the utilities category in the UK for customer service according to the UK Customer Satisfaction Index compiled by the Institution of Customer Service, as well as Employer of the Year Award and Capital Project of the Year Award in Utility Week Awards.

During the year, Northumbrian Water captured first place in the annual UK Water Company Performance Survey conducted by British Water, and was again the only water company being listed among the World's Most Ethical Companies compiled by the Ethisphere Institute – this is the 11th time Northumbrian Water received such recognition.

Both Northern Gas Networks and Wales & West Gas Networks made good progress in studying hydrogen related opportunities. Northern Gas Networks has carried out a trial funded by Ofgem to demonstrate that the existing gas network can be repurposed to carry 100% hydrogen. In addition, the company's Hydrogen Home project was named Project of the Year 2022 by the Institution of Gas Engineers and Managers (IGEM) Awards.

Wales & West Gas Networks, together with other partners, carried out a demonstration of the world's first smart hydrogen hybrid heating system which was funded by UK Research and Innovation. This hybrid heating system is capable of switching flexibly between renewable electricity and green gases, such as hydrogen.

UK Rails signed new leases with ScotRail, Great Western Railway and East Midlands Railway, while Seabank Power entered into a fixed 100% toll arrangement which covers an initial six-year period until 2028.

## Australian Infrastructure Portfolio

In Australia, profit contribution increased 4% to HK\$1,976 million in 2022. This was on the back of higher contributions from United Energy, Victoria Power Networks and Energy Developments ("EDL"). The result was also partly offset by a weaker Australian dollar against the Hong Kong dollar. In local currency terms, profit increased 11%.

The country was hit by unprecedented storms in the fourth quarter of 2022, impacting operations in the states of Victoria and South Australia. Responding quickly to the challenges, the Group's businesses restored services in a timely manner to meet the demands of customers and regulators.

In the Australian Energy Regulator's benchmarking report for 2022, SA Power Networks, CitiPower, Powercor and United Energy ranked first, second, third and fifth in productivity respectively.

All four electricity distribution networks have been carrying out work to increase solar power capacity to be exported to their electricity grids.

Beon, the unregulated business of Victoria Power Networks, has been expanding rapidly with new projects for renewable energy connections, driving growth for the overall business.

In the regulatory landscape, Draft Determinations were received for the July 2023 to June 2028 period for Multinet Gas as well as for the businesses of Australian Gas Networks in the states of Victoria and New South Wales. Satisfactory outcomes were received with the decisions accepting the majority of the companies' proposed initiatives for the five-year period. Final Determinations will be released in the first half of 2023.

Australian Gas Networks' first renewable gas project, Hydrogen Park South Australia (HyP SA), has won the 2022 South Australian Premier's Community Engagement Award. It is Australia's largest renewable hydrogen facility and one of very few projects in the world that delivers a renewable gas blend to customers on an existing gas network.

In the Dampier Bunbury Pipeline business, the Pluto-Karratha Gas Plant Interconnector project was completed ahead of schedule and began operation in April 2022.

EDL successfully completed the Jabiru Hybrid Renewable Power Station in February 2022. The project was recognised at the 2022 Asian Power Awards, winning Solar Power Project of the Year. EDL has also continued to expand its landfill renewable gas business. Profit growth for EDL was enhanced by high merchant power prices during the year.

### **Infrastructure Portfolio in Continental Europe**

In Continental Europe, profit contribution was HK\$664 million, a decline of 4% as a result of weaker foreign exchange against the Hong Kong dollar. In local currency terms, profit contribution increased 6%.

Dutch Enviro Energy received a subsidy from the Dutch Government to build and operate its second Carbon Capture and Usage plant, while ista's new EcoTrend product, which gives apartment residents monthly snapshots of their heating energy and hot water consumption, has been in high demand since early 2022.

### **Canadian Infrastructure Portfolio**

In Canada, profit contribution increased significantly year-on-year by 30% to HK\$617 million, bolstered by robust contributions from Canadian Midstream Assets and Canadian Power. In local currency terms, profit contribution rose 33%.

The construction of Canadian Midstream Assets' Onion Lake lateral was completed and went into service in March 2022. A 15-year take-or-pay contract has been signed for the project.

Canadian Power's performance was boosted by favourable energy market conditions, while Park'N Fly returned to profitability following the post-pandemic recovery in travel.

Reliance Home Comfort continued to proceed with acquisitions to expand its business. Two transactions were completed during the year. They include an HVAC (heating, ventilation and air conditioning) company in Florida, USA, and a rental asset portfolio in the Greater Toronto Area.



# CHAIRMAN'S LETTER

## New Zealand Portfolio

Profit contribution from New Zealand decreased 2% to HK\$167 million due to weaker foreign exchange against the Hong Kong dollar. In local currency terms, profit increased 9% as compared with the previous year.

EnviroNZ signed a new contract with Dunedin City Council and Central Otago District Council as well as extended the contract with Wellington City Council in 2022.

Wellington Electricity published a 10-year Asset Management Plan which features its long-term investment plans that would achieve an optimum balance with service level and consumer pricing, as well as ways to facilitate New Zealand's Emissions Reduction Plan.

## Hong Kong and Mainland China Business

In Hong Kong and Mainland China, CKI's portfolio recorded net profit of HK\$196 million, down by 38%. The cement business in Mainland China was negatively impacted by the slowdown of the construction industry during Covid lockdown, as well as surging fuel costs. Traffic volume for the toll road operations in Mainland China was also low as a result of Covid lockdown.

## SOLID FINANCIAL FOUNDATION PLATFORM

The Group's financial position continued to be strong in 2022, with cash on hand of HK\$18 billion and a net debt to net total capital of 7% as at 31st December, 2022.

Standard & Poor's has reaffirmed the Group's credit rating of "A/Stable" during the year.

## SUSTAINABILITY AND COMBATING CLIMATE CHANGE

Around the world, CKI's diverse portfolio of businesses has worked intensively on carrying out environment initiatives. The Group's electricity distribution networks are all supporting their respective Governments in achieving Net Zero plans. Initiatives such as Electric Vehicle (EV) charging facilities, smart grid schemes and technologies to facilitate solar power integration into the grid are being trialled and launched. Sustainable energy producer, EDL, has successfully generated energy via wind, solar, as well as waste gases from landfills and underground coal mines. HK Electric is in the process of building an offshore LNG terminal, and plans for smart meter rollout is on schedule.

Our gas distribution companies in UK and Australia are all pioneer proponents in the application of hydrogen fuel.

The Group's waste management experts not only convert waste into energy, but also operate material recovery facilities for household and commercial recycling. Carbon Capture and Usage is another innovative sustainability initiative of our Group's businesses.

CKI is also actively pursuing new investment opportunities in the arena of environmental sustainability as part of the overall business development strategy.

## OUTLOOK

The global economy has entered 2023 with continued uncertainties and challenges. Inflation, interest rate pressures and geopolitical tensions remain very much part of the economic landscape faced by most world economies in the post-pandemic world.

I am highly optimistic about CKI's prospects. Our strong cash position, the low net debt to net total capital level, as well as our longstanding legacy of delivering good service, improving efficiency and ushering in new investments have further cemented our solid track record of being a leading global infrastructure player.

Currency fluctuations and finance costs arising from inflation are cyclical issues and are not of major medium/long term concerns. While inflation generally has an adverse effect in the short term on interest costs and operating expenses, the protective real rate of return regulations that characterise these businesses allows these rising costs to be recovered over time as the Regulated Asset Value is adjusted upwards by actual inflation.

CKI, together with other strategic partners within the CK Group, including CK Asset and Power Assets, who are also very solid in their financials, are well placed to capitalise on investment opportunities, whether in our existing industries or new ones, as they arise around the globe.

In tandem with our growth strategies lies the Group's undiminished commitment to financial prudence. With a track record of maintaining continued earnings growth and a comfortable gearing position, CKI's philosophy is to uphold the optimum balance between stability and growth. Indeed, this philosophy flows directly through to our M&A strategy and criteria as we only pursue new projects that sit comfortably within our risk profile and within the right pricing parameters. There is no "must win" mantra when it comes to our expansion plans.

I would like to take this opportunity to thank the Board for their unwavering support, our loyal staff for their valuable contributions and our stakeholders for their continued commitment.

**VICTOR T K LI**

Chairman

15th March, 2023