



**LI TZAR KUOI, VICTOR**  
Chairman

# CHAIRMAN'S LETTER

## BUSINESS MOMENTUM CONTINUES

For the year ended 31st December, 2015, Cheung Kong Infrastructure Holdings Limited ("CKI", the "Company" or the "Group") recorded profit attributable to shareholders of HK\$11,162 million. A number of one-off items were recorded in 2014, including the gain from the spin-off of the Hong Kong operations of Power Assets Holdings Limited ("Power Assets") and the gain from the disposal of Envestra shares, and as a result the reported profit for 2015 is a year-on-year reduction of 65%. If the impact of these two one-off items were excluded, the net profit would have increased by approximately 12%.

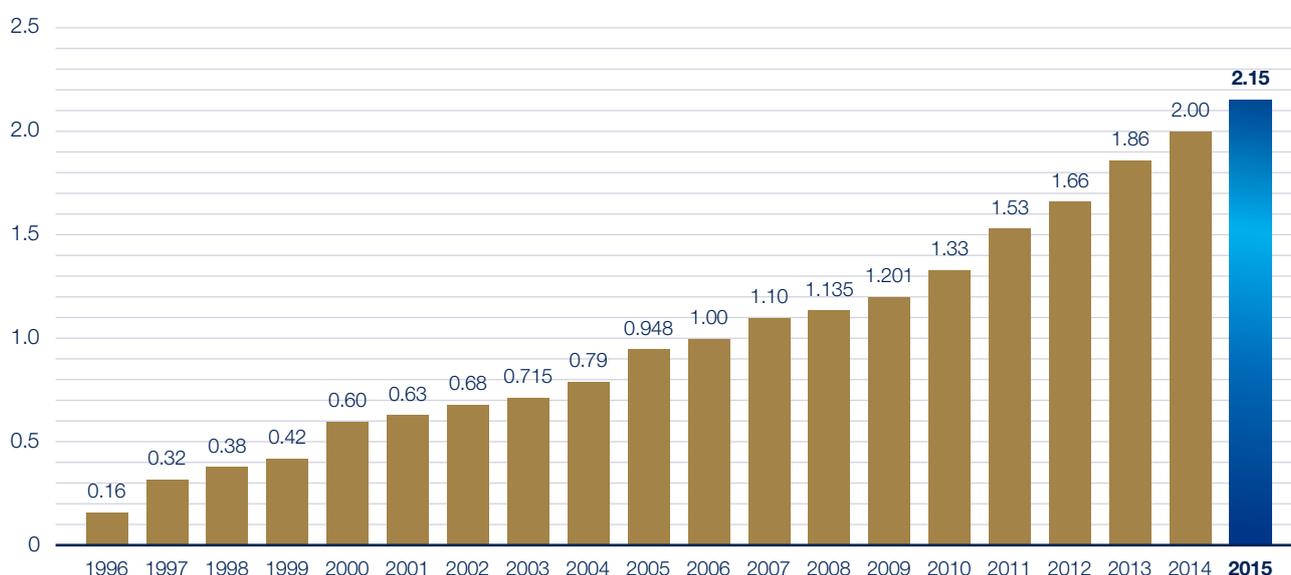
## DIVIDEND GROWTH FOR 19 CONSECUTIVE YEARS SINCE LISTING

The Board of Directors of CKI (the "Board") has recommended a final dividend of HK\$1.55 per share. Together with the interim dividend of HK\$0.6 per share, this will bring the total dividend for the year to HK\$2.15, a 7.5% increase over the previous year.

This marks another year of dividend growth – the 19th consecutive year of dividend growth since the Group's listing in 1996. The proposed dividend will be paid on Tuesday, 31st May, 2016, following approval at the 2016 Annual General Meeting to those shareholders whose names appear on the Register of Members of the Company at close of business on Wednesday, 18th May, 2016.

### Dividends per Share since Listing

(HK\$)



### **ACQUISITIONS PROPEL BUSINESS GROWTH**

During the year under review, two acquisitions were made.

The Group formed a 50/50 joint venture with CK Hutchison Holdings Limited – UK Rails – to acquire Eversholt Rail Group, one of the three major rolling stock companies in the United Kingdom. The transaction was completed in April 2015. The enterprise value of the transaction was GBP2.5 billion (approximately HK\$29.3 billion). This marks the Group's first foray into the United Kingdom's transportation infrastructure industry.

In the fourth quarter of 2015, CKI expanded its geographical reach to Portugal. The Group formed Portugal Renewable Energy with Power Assets on a 50/50 basis to acquire Iberwind – Desenvolvimento e Projectos, S.A., a wind power company in Portugal. The enterprise value of the transaction was Euro978 million (approximately HK\$8.2 billion). The Iberwind business consists of high quality windfarms, which benefit from a strong and supportive regulatory regime in Portugal.

### **STABLE FUNDAMENTALS UNDERPIN DIVERSE INFRASTRUCTURE PORTFOLIO**

In 2015, all business portfolios generated increased contributions to CKI in their local currencies. However, the reported results were impacted to varying degrees when translated into Hong Kong dollars due to the relative strength of the currency.

#### **Power Assets**

The profit contribution from Power Assets was HK\$3,005 million for the year. As a result of the one-off gain booked from the spin-off of HK Electric Investments in 2014 and the accounting losses incurred from the sale of HK Electric Investments' shares in June 2015, this year's contribution represents a decline of 87% as compared to 2014. Excluding the impact of these items, the profit contribution from Power Assets would have shown a small improvement over 2014.

During the year, Power Assets formed Portugal Renewable Energy with CKI and acquired Iberwind in Portugal, expanding the company's business in renewable energy.

In September, CKI presented a merger proposal to Power Assets to create a large infrastructure company of approximately HK\$250 billion market capitalisation. Disappointingly, this proposal was not approved by the required number of independent shareholders of Power Assets though over 50% voted in favour of the scheme.

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## **UK Portfolio**

The infrastructure portfolio in the United Kingdom continued to generate good returns. Profit contributions amounted to HK\$6,765 million, an increase of 9% over last year. In local currency terms, the portfolio reported a 17% increase in profit contribution year-on-year.

In 2015, a tax credit of approximately HK\$968 million was included in the profit contribution as a result of further reductions in the United Kingdom corporate tax rate.

With both UK Power Networks and Northumbrian Water commencing new regulatory resets on 1st April, 2015, all four CKI's regulated businesses in the United Kingdom are now operating at the early years of their regulatory regimes. As such there is high predictability of income in the coming years.

All operations in the UK portfolio recorded good performance, as illustrated by the number of accolades they have all won in 2015 for their accomplishments. The most notable is UK Power Networks' being named "Utility of the Year" for the second time, having previously won this award in 2012.

The newly acquired UK Rails delivered 8½ months of profit contribution in 2015. In addition to generating the expected cash flow and recurring income, two expansion initiatives were launched since the acquisition – one involving a GBP360 million (approximately HK\$4.3 billion) procure and lease contract for 173 new vehicles, and another a GBP490 million (approximately HK\$5.5 billion) one for 281 new vehicles.

## **Australian Businesses**

Profit contribution from CKI's Australian businesses was HK\$1,144 million, a drop of 67% as compared to the previous year. This is mainly due to the one-off gain reported from the Australian Gas Networks transaction in 2014 as well as the weakened Australian dollar. Excluding the Australian Gas Networks' one-off gain, the businesses recorded a 12% year-on-year increase in local currency.

Operational performance for SA Power Networks, Victoria Power Networks and Australian Gas Networks were in line with expectations during the year.

SA Power Networks and Victoria Power Networks commenced new regulatory resets on 1st July, 2015 and 1st January, 2016 respectively. These new regulatory regimes are expected to provide a stable and predictable framework in the coming years.

In 2015, Australian Gas Networks provided the first full year of profit contribution to the Group; the results of which are pleasing.

### **Other Infrastructure Businesses**

CKI's other infrastructure businesses – including those in Mainland China, Canada, New Zealand, the Netherlands and Portugal, as well as the Group's materials businesses – performed satisfactorily during the year and generated steady returns.

A 21% increase in profit contribution was recorded in the Mainland China portfolio. This is mainly attributable to the gain generated from the divestment of the Jiangmen Jiangsha Highway.

In New Zealand and Canada, growth in profit contributions was affected by the weak currency exchange rates. The portfolios recorded a year-on-year decrease of 12% and 1.4% respectively. In local currency terms, the portfolio in New Zealand recorded an increase of 5%, and the Canadian portfolio a growth of 14% in profit contributions.

In Continental Europe, Dutch Enviro Energy, generated an 11% year-on-year increase in profit contribution in Hong Kong dollars, and 28% in local currency. In addition, Portugal Renewable Energy made its first contribution to the Group during the period under review.

The materials businesses achieved sound results recording profit growth of 11%. During the year, there was an increase in the demand for concrete in Hong Kong.

### **STRONG FINANCIAL PLATFORM**

As CKI continues to grow its global portfolio of infrastructure businesses and expand into new industries, the Group is committed to maintaining its strong financial position.

As at 31st December, 2015, the Group had cash on hand of HK\$8 billion and a net debt to net total capital ratio of 8%. CKI is in a strong position to make more acquisitions.

Standard & Poor's continues to rate the Group "A-/Stable".

### **SUBSEQUENT EVENTS**

On 1st March, 2016, CKI issued US\$1.2 billion 5.875% guaranteed perpetual capital securities. The proceeds are used for general corporate purposes, including the funding of the redemption of the US\$1 billion 6.625% guaranteed perpetual capital securities issued in 2010.

On 25th February, 2016, Hang Seng Indexes Company Limited announced that, effective from 14th March, 2016, CKI would become a constituent stock of the Hang Seng Index.

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## **OUTLOOK**

This year marks the 20th anniversary of CKI's listing on the Hong Kong Stock Exchange. We are very pleased with the growth momentum that has taken place this past two decades. We have established a good track record of solid organic growth, opportune well-priced acquisitions, and prudent financial management.

Going forward, we will continue to build on our strong financial platform and expand in existing markets and industries as well as new ones. We see ample opportunities for continuous growth both within our existing businesses and through acquisitions.

Notwithstanding our commitment to growth, we will continue to maintain our discipline of not approaching any new investments with a "must-win" mentality. We will remain steadfast in adhering to our investment criteria.

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

Hong Kong, 16th March, 2016