Infrastructure

UK Power Networks wins the industry acclaimed 2019 Edison Electric Institute International Edison Award for its innovative approach to facilitate Britain's low carbon transition.

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1. UK Rails completes the delivery of a number of new trains equipped with new features like Wi-Fi, air-conditioning, at-seat power sockets, customer information screens with real-time information, and larger luggage space.

2. Energy Developments of CK William Group completes the acquisition of Broadrock Renewables, a company which owns and operates two landfill-gas-to-energy plants in California and Rhode Island in the US.

3. Australian Gas Networks completes the construction of a new 1.84 kilometre cross-river Brisbane Gas Pipeline, providing long-term natural gas supply to more than 80,000 North Brisbane customers.

4. HK Electric's L10 gas-fired generating unit is synchronised in October 2019 and commissioned in February 2020.

The infrastructure division comprises the Group's 75.67% [1] interest in CK Infrastructure Holdings Limited ("CKI") and 10% of the economic benefits deriving from the Group's direct holdings in six co-owned infrastructure investments with CKI.

	2019 HK$ million	2018 HK$ million	Change	Local currencies change
Total Revenue [2]	**51,191**	64,724	-21%	-17%
- CKI	**49,818**	53,274	-6%	-2%
- Co-owned infrastructure investments	**1,373**	11,450	-88%	-87%
EBITDA [2][3]	**28,488**	35,422	-20%	-15%
- CKI	**27,855**	29,406	-5%	-
- Co-owned infrastructure investments	**633**	6,016	-89%	-89%
EBIT [2][3]	**19,220**	24,038	-20%	-16%
- CKI	**18,829**	20,076	-6%	-1%
- Co-owned infrastructure investments	**391**	3,962	-90%	-90%
CKI Reported Net Profit (under Post-IFRS 16 basis)	**10,506**	10,443	+1%	

Note 1: In January 2015, CKI completed a share placement and share subscription transaction that resulted in the Group's interest in CKI reducing from 78.16% to 75.67%. On 1 March 2016, CKI issued new shares in connection with an issue of perpetual capital securities. Subsequent to this transaction, the Group holds a 71.93% interest. As these new shares are disregarded for the purpose of determining the number of shares held by the public, the Group's profit sharing in CKI continues to be 75.67%.

Note 2: Total revenue, EBITDA and EBIT reflect the Group's share of results on the remaining 10% direct interest in the co-owned infrastructure investments with CKI after the divestment of 90% of the direct economic benefits in October 2018.

Note 3: Under Post-IFRS 16 basis, EBITDA for CKI was HK$28,118 million and co-owned infrastructure investments was HK$633 million; EBIT for CKI was HK$18,868 million and co-owned infrastructure investments was HK$391 million.

CKI

CKI is the largest publicly listed infrastructure company on the SEHK, with diversified investments in energy, transportation and water infrastructure, waste management, waste-to-energy, household infrastructure and infrastructure-related businesses. CKI operates in Hong Kong, the Mainland, the UK, Continental Europe, Australia, New Zealand and Canada.

CKI announced net profit attributable to shareholders under Post-IFRS 16 basis of HK$10,506 million, an increase of 1% from last year. If exchange currency movements on translation are removed, net profit attributable to shareholders increased 6%. The Group's share of CKI's EBITDA and EBIT of HK$27,855 million and HK$18,829 million respectively were 5% and 6% lower than last year in reported currency, reflecting adverse foreign currency translation impact, the loss on partial disposal of 2.05% interest in Power Assets ("PAH") in January 2019 of HK$302 million and lower contribution from UK Power Networks due to a change in revenue recognition which had no impact on cash earnings or distributions.

As the Group rebased PAH's assets to their fair values in the 2015 Reorganisation, after consolidation adjustment, the disposal gain recognised by CKI resulted in a loss on disposal in the Group's reported results.

Profit contribution from PAH, a company listed on the SEHK and in which CKI holds a 35.96% interest as of 31 December 2019, was HK$2,566 million as compared to HK$2,903 million in 2018, mainly from adverse foreign currency translation impact, the lower share of PAH from the partial disposal, lower contribution from UK Power Networks and the reduced allowed returns to HK Electric under the new Scheme of Control effective from January 2019. Although the new Scheme of Control allows a lower rate of return than in prior years, this framework provides predictable and steady returns on investment as well as asset-based growth opportunities during the regulatory period.

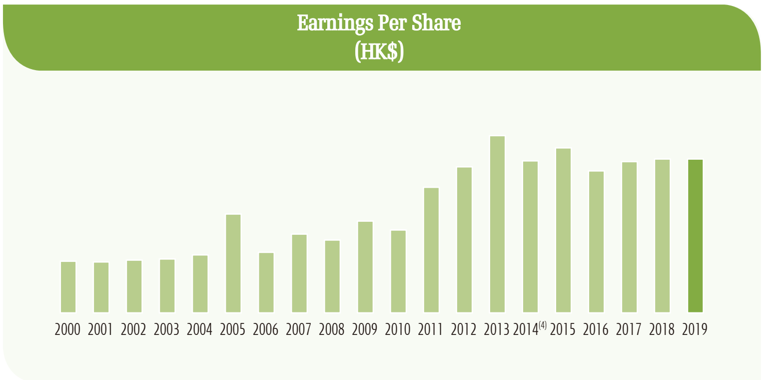
A number of CKI's regulated businesses will go through tariff resets during the period between 2020 and 2023, including Northumbrian Water in the UK and SA Power Networks in Australia, which are scheduled to enter new regulatory regime from April and July 2020 respectively. Lower allowable returns given the current low interest rate environment and the stringent stance taken by regulators are expected to pose challenges to CKI's businesses and will inevitably result in lower revenues. The priority of CKI is to continue to preserve an optimal balance between continued earnings growth and a comfortable gearing position with strict investments discipline.

CKI has always been committed to prudent financial management and the risk management approach is conservative with the underlying financial position closely monitored. CKI's financial strength continues to be robust, with over HK$12 billion cash on hand and a net debt to net total capital ratio of 13.5% as at 31 December 2019, a 3%-point improvement against 31 December 2018. Following the credit rating upgrade by Standard & Poor's from "A-/Positive" to "A/ Stable" in September 2018, CKI's "A/ Stable" rating was reaffirmed during 2019.

Co-owned infrastructure investments

The Group's direct interests in six co-owned infrastructure investments include Northumbrian Water, Park'N Fly, Australian Gas Networks, Dutch Enviro Energy, Wales & West Utilities and UK Rails and have contributed revenue, EBITDA and EBIT of HK$1,373 million, HK$633 million and HK$391 million respectively in the year. The lower contribution from the co-owned infrastructure investments reflected the full year impact of the divesture of 90% of the Group's economic benefits from its interest in the six co-owned infrastructure investments under the Economic Benefits Agreements entered with CK Asset Holdings Limited ("CKAH"), CKI and PAH in October 2018.

The Group completed supplemental arrangements with CKAH, CKI and PAH during the year to effectively transfer to the respective parties their proportionate voting rights in relation to the co-owned infrastructure investments in Europe and Canada. Accordingly, the co-owned subsidiaries ceased to be consolidated by the Group by the end of 2019 with no gain or loss recognised on deconsolidation.



Note 4: Excludes share of one-off gains arising from the spin-off of HK Electric by PAH and privatisation of Envestra.