# CHAIRMAN'S STATEMENT

"We will remain vigilant and disciplined in managing our core businesses and investments. We will be mindful of exuberance and continue to expand our businesses and pursue investment opportunities with a time tested value approach."

On behalf of the Board of Directors I hereby present our Annual Report of the Company and its subsidiaries (the "Group") for the financial year ended 30 June 2018.

## OVERVIEW

The Group recorded a higher turnover of US$4.5 billion compared to US$3.0 billion achieved in the preceding year, with particular contribution from our Property Development and Investment business following completion of its projects in the financial year just ended. Profit attributable to shareholders of the Company for the year was, however, down 20% to US$624 million from the previous year's profit of US$785 million as reduced profits were recorded in our Principal Investment business despite improved profit contribution from Property Development and Investment business.

For Principal Investment, the past financial year 2017/18 can best be described as a "tale of two halves". In the first half, equity assets continued their relentless advance which began after the 2016 US presidential election. The second half saw equity markets adopt cautionary stances as global trade disputes, rising inflation, and volatile bond yields led to sharp corrections which hit the emerging markets hard. The overall soft tone of equity markets at the close of the financial year, adversely impacted the Group's Principal Investment portfolio with reduced fair market valuations.

Prices of property markets in Singapore and China saw substantial increases in the financial year 2017/18, which led the respective governments to put in place more austere property cooling measures in the second half of 2018. Coupled with softer economic outlook, the operating environment of our property development and investment business has become more challenging.

Uncertainties arising from the UK's terms of exit from the Eurozone and weaker economic outlook in key inbound markets have also impacted overall trading and sentiment for the hospitality and leisure businesses of the Group.

While the operating environments in which our core businesses were highly volatile during the subject year, they remain committed to the execution of their business plans and delivered fair results.

## DIVIDEND

The Company has declared an interim dividend of HK$1.00 per share which was paid in March 2018. In light of the Privatisation Proposal jointly announced by the Company and GuoLine Overseas Limited (as the Offeror) on 2 July 2018, the Company does not intend to recommend any final dividend, other than the proposed special dividend by way of distribution in-specie of ordinary shares in Hong Leong Financial Group Berhad, being part of the Proposal (see below), until the Proposal has become binding and effective or is aborted, lapses or is withdrawn in accordance with its terms.

## CORE BUSINESSES

### Principal Investment

Amidst the euphoria in the first half of our financial year, volatility reappeared in the second half of the year. The days of easy money from the central banks of developed markets such as the U.S. and Europe appeared to be coming to an end. Japan remained the only exception with an accommodative monetary policy. Stock markets in China fell into bear market territory amidst a protracted period of trade tensions with her largest customer, the U.S. Countering these market unfriendly trends was strong corporate profit growth arising from economic recoveries witnessed in the G7 countries. Equity asset values in the developed markets especially the U.S. remained at lofty valuations.

We adhered to our investment policy of focusing on value investment opportunities and refrained from investment in popular but expensive high technology stocks which recently underwent market correction. We are mindful to guard against generating capital gains at the expense of prudent risk-reward assessment and management. Protecting our shareholder funds is at the top of our priority list. Having said that, shareholders are reminded that our Principal Investment results are subject to fair valuation and therefore investment performance would remain volatile.

### Property Development and Investment

#### GuocoLand Limited ("GuocoLand")

Supported by recognition of revenue from its property development business and higher contributions from its property investment business, GuocoLand has delivered better performance for the year ended 30 June 2018. Changfeng Residence, the residential project in Shanghai completed during the year and Tanjong Pagar Centre's Guoco Tower which made its maiden full year contribution since its completion in late 2016 were the drivers of the better results achieved for the year.

While GuocoLand has been active in both public and private land tenders over the year, it has been selective and disciplined in the search for suitable investment opportunities. The three acquisitions were well-located, prime land sites in Singapore, including the Beach Road Downtown Core commercial site through the government land sales, and the Pacific Mansion and Casa Meyfort freehold residential sites through en bloc acquisitions. The additions to the land bank have expanded its pipeline of mixed-use, commercial and residential developments.

Real estate development and investment are capital intensive businesses and GuocoLand continues to manage its capital structure prudently with gearing level remaining stable despite increase in total debt to S$4.92 billion as at 30 June 2018 mainly due to the partial financing of the new land acquisitions. Maintaining a sound financial position remains a priority for GuocoLand to ensure its capability and flexibility to capture growth opportunities when they arise.

Given the generally softer economic outlook and property cooling measures undertaken, GuocoLand expects business conditions in the countries in which it operates to continue to be challenging. Given a good track record as a developer of quality properties, GuocoLand will continue its focus on delivering well-designed, good quality properties in prime locations that appeal to buyers and tenants. It will remain selective in its search for suitable investment opportunities which offer sustainable sale revenue, recurring returns and portfolio diversification.

## Hospitality and Leisure

### GL Limited ("GL")

GL continued to build on its transformation efforts and focused on upgrading its hotel portfolio in London during the year. The ongoing refurbishment project at The Cumberland which will reopen in 2019 as the Hard Rock Hotel London is proceeding as scheduled while a new F&B format by way of a sports bar branded as Re-Play was introduced. This will be rolled out in selected hotels across the GLH hotel estate over the ensuing 12 months.

To combat the market softness, GL pursued an occupancy-led strategy to uplift the combined hotel RevPAR income and to protect its market share. Thanks to a one-off income from the compulsory purchase compensation of the Euston hotel for the High Speed 2 railway project in October 2017, GL reported a significant higher profit after tax for the year.

Against the backdrop of weaker UK economic growth over the Brexit uncertainty, pressures on corporate and consumer spending and high levels of new supply openings, the UK hotel market is expected to remain challenging. However, the surge in overseas tourism boosted by stronger global growth and a weak pound have made the hospitality market in London relatively resilient. With a financially strong balance sheet and a conservative debt-to-equity ratio, GL remains committed to its hotel strategy in the UK while taking a cautious outlook.

### The Rank Group Plc ("Rank")

Rank experienced a challenging year and its operating profit down by 7.7% as compared to the previous financial year. This was primarily due to lower win margin, softer revenues from its retail channels, stringent customer due diligence introduced by the Gaming Commission and extreme weather in the UK. However, its digital operations continued to register revenue growth and generated 17% of Rank's total revenue. Given that digital channels now represent around 35% of Great Britain's gambling market (excluding National Lottery), Rank's digital operations present a significant growth opportunity. The acquisition of YoBingo.es, a leading Spanish digital bingo operator, further solidified Rank's strong presence in Spain which is a high growth and regulated digital gaming market.

The new leadership team of Rank has initiated a transformation programme to deliver revenue growth, greater cost efficiency and operational improvements across the group. Rank is one of the few gaming companies in a position to provide customers a multi-channel gaming experience. It remains confident in its strategic direction to drive sustainable profit growth.

## Financial Services

### Hong Leong Financial Group Berhad ("HLFG")

Amidst a subdued business environment and cautious consumer sentiment during the year, HLFG achieved commendable results with a record pretax profit of RM3,579 million, contributed by a steady and better business momentum from its commercial banking and insurance businesses.

HLFG has made digitalisation a core part of its strategy and has been keeping abreast of new developments, investing in technology, as well as consciously positioning its businesses to stay competitive. Going forward, HLFG's focus will remain on growing its embedded business value on a sustainable basis while continuing to seek suitable acquisition opportunities to complement its various financial service segments.

## PRIVATISATION PROPOSAL

On 29 June 2018, GuoLine Overseas Limited (as the Offeror), being the majority shareholder of the Company, had requested the board of directors of the Company to put forward to its shareholders a proposal for the privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act of Bermuda (the "Scheme") and the payment of a special dividend by way of a distribution in-specie of up to 291,117,141 ordinary shares in HLFG to the shareholders of the Company (the "Distribution", together with the Scheme, the "Proposal"). A scheme document containing, among other things, further details about the Proposal, recommendations from the independent board committee (the "IBC"), a letter of advice from the independent financial adviser to the IBC and a notice of the Court Meeting and the special general meeting will be sent to the shareholders on or before 19 October 2018 in accordance with the Takeovers Code.

## GROUP OUTLOOK

The ongoing global trade tensions together with geo-political uncertainties in various quarters of the world along with the November 2018 congressional elections in the U.S. will provide a backdrop of uncertainty and a damper on economic growth.

We will remain vigilant and disciplined in managing our core businesses and investments. We will be mindful of exuberance and continue to expand our businesses and pursue investment opportunities with a time tested value approach.

## GROUP HUMAN RESOURCES

Developing the right human resources is critical to the success of our long-term efforts. We believe that our businesses are best served by having and developing the right talent for the right jobs, while at the same time balancing other key business metrics such as our cost income ratio. We take seriously our human resources policies in relation to hiring, training and developing our people. We seek to hire and retain the talents and provide them with a conducive, stimulating work environment and incentives to encourage them to grow with us to create long term capital value.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We recognise the importance of sustainability to our businesses and strive towards integrating sustainability into our businesses, towards becoming a stronger, more resilient group. Our subsidiary groups have taken initiatives relevant to their business to fulfil their commitment to growing their businesses responsibly, balancing environmental with economic considerations, as well as creating a positive impact for the stakeholders and contributing to the communities.

## APPRECIATION

I would like to extend my thanks to our shareholders, customers, bankers and business associates for their unwavering support to the Group. My deepest appreciation goes to my fellow Board members for their counsel and guidance in the past year. I also wish to thank the management and staff for their continued hard work, commitment and dedication.

Kwek Leng Hai
*Executive Chairman*
3 September 2018