Chairman's Statement

Operating conditions for the Group's businesses were mixed in the year. General economic trends improved in the second half, with inflation in the US and Europe ebbing although still significantly elevated against central bank targets when food and energy prices are excluded. The US dollar rose significantly in the third quarter and declined in the fourth quarter. Monetary policy remained tight, with the Federal Funds Rate peaking in July at 5.25-5.5% and remaining unchanged throughout the remainder of the year. Significant energy price volatility persisted, particularly in the third quarter, due to an uncertain demand outlook and escalating geo-political risks. Growth was mixed: while the US showed continued resilience, conditions remained challenged in Europe, Hong Kong, and the Mainland.

Overall, headwinds continued to affect the Ports division as well as profit contribution from Cenovus Energy, the latter being significantly impacted by FIFO losses resulting from sharp declines in commodity prices in the fourth quarter, offsetting improving operating performance. The Telecommunications division, although growing revenues, continued to be adversely impacted by cost price inflation. The infrastructure division continued to perform steadily, and the Retail division overall continued to achieve excellent year-on-year growth in the second half despite continued weakness in consumer spending in Hong Kong and the Mainland.

The Group's year-on-year earnings performance was most affected by the absence of one-time gains in 2023. On a post IFRS-16 basis, excluding one-time gains in 2022 from the comparison, the decline in underlying earnings was 9%, whereas on a reported basis, the Group's earnings declined by 36%. Cash generation remained steady, with cash flow from operations excluding proceeds from one-time gains in 2022 declining by less than 5% and Free Cash Flow increasing 12% year-on-year.

The Group continued to pursue value accretive transaction activities. In particular, the UK telecom merger announced in the first half has entered Phase 1 review by the competition authorities in the UK, representing satisfactory progress to date. However, important conditions precedent to the agreements relating to a proposed network joint venture in Italy were not met and accordingly these agreements were terminated in February 2024.

Profit attributable to ordinary shareholders on a pre-IFRS 16 basis of HK$23,243 million, excluding the one-time net gain in 2022, declined by 8% in reported currency and 7% in local currencies against last year. On a reported basis, the decrease was 33% in reported and local currencies when compared to 2022.

Reported earnings per share were HK$6.14 for the year ended 31 December 2023 (31 December 2022 – HK$9.57).

Dividend

The Board of Directors recommends a final dividend of HK$1.775 per share (2022 final dividend – HK$2.086 per share), payable on Thursday, 13 June 2024, to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 29 May 2024, being the record date for determining shareholders' entitlement to the proposed final dividend. Combined with the interim dividend of HK$0.756 per share, the full year dividend amounts to HK$2.531 per share (2022 full year dividend – HK$2.926 per share).

Ports and Related Services

The Ports and Related Services division handled 82.1 million twenty-foot equivalent units ("TEU") through 293 operating berths in 2023, a 3% drop compared to 2022 as recovery of global demand remained sluggish across major economies. However, the fourth quarter showed improving trends, mainly in HPH Trust from volume rebound in Yantian Ports, and Asia, Australia, and Others region driven by improving consumption in South East Asia, Middle East and Central America, resulting in growth of 9% and 1% in the second half as compared to the first half in 2023 and second half in 2022 respectively.

Due to a 24% drop in storage income and the adverse performance of a shipping line associated company which was heavily affected by the sharp decline of freight rates in 2023, this division's total revenue of HK$40,851 million, EBITDA[1] of HK$13,628 million and EBIT[1] of HK$9,328 million, decreased by 7%, 14% and 18% respectively compared to 2022. However, with the improved volumes in the fourth quarter and higher storage income from Mexico due to increased import laden containers, revenue, EBITDA and EBIT in the second half improved 6%, 9% and 15% respectively, compared to the first half of 2023.

Note 1: Under Post-IFRS 16 basis, EBITDA was HK$16,415 million (2022: HK$19,007 million); EBIT was HK$10,583 million (2022: HK$13,024 million).

Looking ahead to 2024, there are signs of cautious optimism for growth in demand, as observed through the US retailers who have sufficiently de-stocked to start planning for a stable ramp-up in purchase orders in 2024, as well as positive outlook on general market demands in other regions such as India, Middle East, Africa and South America. With the new major container facility at Abu Qir in Egypt commencing operation in the first quarter of 2024, the division expects moderate growth in volume and earnings going into 2024.

The Ports division has submitted its near-term and net-zero targets to the Science Based Targets initiative for validation and has successfully received their approval in the fourth quarter of 2023. The target is to reduce 54.6% of its scope 1 and 2 emissions and 32.5% of its scope 3 emission versus a 2021 baseline by 2033, and to achieve a net-zero emission operation by 2050. To achieve these targets, among other initiatives, all of the division's new investments in mobile and stationary machinery will be fully electrified or supplemented with other forms of clean energy going forward. Approximately 93,000tCO_2 of the emissions reduction on scope 1 and 2 emission has been achieved in 2023, representing a reduction of around 19% versus the 2021 baseline emissions.

Retail

The Retail division had 16,491 stores across 28 markets at the end of December 2023, a 2% increase compared to last year. The division's total revenue, EBITDA[2] and EBIT[2] of HK$183,344 million, HK$16,226 million and HK$12,888 million increased by 8%, 13% and 17% respectively in reported currency against last year. In local currencies, total revenue, EBITDA and EBIT increased by 8%, 11% and 14% respectively. The year-on-year improvements were primarily due to favourable performances in Europe and Asia, partly offset by weak performance in Hong Kong and the Mainland mainly due to stagnant store traffic and soft consumer sentiment.

The Health and Beauty segment, which represented 87% of the Retail division's revenue last year, reported total sales growth in local currencies of 12% from a strong 10% growth in comparable stores sales, contributing to the EBITDA and EBIT growth, in local currencies, of 15% and 18% respectively compared to last year. The majority of Health and Beauty operations in both Europe and Asia have exceeded pre-pandemic levels. Health and Beauty Europe reported 14% increase in EBITDA and EBIT in local currencies against last year with a 10% growth in comparable stores sales, primarily from the UK, Germany and Poland. Health and Beauty Asia reported 23% and 27% increase in EBITDA and EBIT in local currencies driven primarily by higher sales from the increase in store footfall and store network expansion, with a robust 16% growth in comparable stores sales. Despite softer trading momentum, Health and Beauty China reported increase in EBITDA and EBIT of HK$22 million and HK$123 million in local currency respectively compared to last year mainly due to margin and productivity improvements, as well as optimisation of store opening strategies.

Looking ahead, the European and Asian businesses, which have already exceeded pre-pandemic levels, should continue to deliver solid performances, while improvement is expected for the Mainland and Hong Kong operations through store network optimisation and various initiatives. With its 159 million loyalty customer base, this division will continue to enhance customer engagement and lifetime value, prioritising store quality over quantity and maintaining a short payback on store opening, as well as delivering top line growth through its online plus offline platform strategy.

The Retail division continues its commitment to achieving its emission reduction targets which have been validated by the Science Based Targets initiative. It has committed by 2030 (versus a 2018 baseline) to reduce scope 1 and 2 emissions by 50.4%; reduce scope 3 emissions from purchased goods and services, upstream transportation and distribution, and use of sold products by 58% per Hong Kong dollar value added and 33% of supplier emissions from purchased goods and services, upstream transportation and distribution to be subject to science-based targets by 2027. In 2023, an approximate 167,000tCO_2 emission reduction against its scope 1 and 2 targets has been achieved, which represents around 26% reduction as compared to its set targets. In addition and with over 90% of its footprint being attributable to scope 3 emissions, this division continues to implement a major supplier engagement programme including trainings and tools to report more accurate data through a dedicated scope 3 emissions platform.

Note 2: Under Post-IFRS 16 basis, EBITDA was HK$25,507 million (2022: HK$23,359 million); EBIT was HK$13,849 million (2022: HK$11,831 million).

Infrastructure

The Infrastructure division comprises a 75.67% interest in CK Infrastructure Holdings Limited ("CKI"), a subsidiary listed in Hong Kong as well as interests in six co-owned infrastructure investments with CKI.

CKI

CKI announced a net profit attributable to shareholders under Post-IFRS 16 basis of HK$8,027 million. CKI's 2022 results included the one-off gain from the partial disposal of Northumbrian Water in 2022, excluding which, net profit increased by 12% year-on-year. On a reported basis, net profit was 4% higher than last year. CKI also generated a record high funds from operations of HK$8.6 billion in 2023 with steady and robust revenue streams from the strong asset base.

Looking into 2024, this division's regulated businesses will continue to provide steady and recurring income and the non-regulated businesses will also generate good growth contributions. Together with its strong financial position, this division is well placed to capitalise on investment opportunities as they arise.

The division remains focused to decarbonise its own operations and is well positioned to meet the challenges presented by climate change through innovative alternatives and cleaner sources of energy. The division's electricity distribution networks are leading the way in adopting low carbon technologies through smart grid schemes, expanding use of electric vehicles and integrating renewable energy into its charging facilities. EDL continued to be a leading global sustainable energy provider. As for the gas distribution network, Northern Gas Networks, Wales & West Gas Networks, and Australian Gas Infrastructure Group are at the forefront of the hydrogen transition, while Dutch Enviro Energy and Enviro NZ continue to be major operators of waste management and recycling in their own countries. Other operations including UK Rails' battery trains, ista's new heating, energy and water consumption tracking devices, as well as Canadian Power's Okanagan wind farms and HK Electric's Offshore Terminal are all major sustainability projects facilitating decarbonisation of this division. In 2023, an approximate 740,000tCO_2 of scope 1 and 2 emission reduction has been achieved reaching around 18% of the set reduction targets.

CK Hutchison Group Telecom

Revenue of CK Hutchison Group Telecom ("CKHGT") was HK$86,814 million (€10,199 million), 4% higher against last year in reported currency. EBITDA[3] and EBIT[3] of HK$22,341 million (€2,668 million) and HK$2,265 million (€307 million), excluding the impact of one-time net gain[4] of HK$7,918 million recognised in 2022, were 8% and 54% lower than last year in reported currency, primarily due to lower contribution from **3** Group Europe. On a reported basis, EBITDA and EBIT were 31% and 82% lower than last year respectively in reported currency.

3 Group Europe

As at 31 December 2023, the active customer base of **3** Group Europe stands at 40.2 million, 1% higher than last year mainly due to increase in the contract customer segments. Customer growth overall was partly offset by lower customer base of Wind Tre which strategically targets a higher average customer lifetime value for its base as a whole. All other operations reported higher or stable customer base against last year.

Although Italy's wholesale revenue continued to decline year-on-year by approximately HK$1.4 billion, **3** Group Europe's total revenue of HK$80,231 million was 1% higher against last year in local currencies, primarily driven by the healthy growth in net customer services revenue from the higher customer base and favourable revenue initiatives phased throughout the year, coupled with higher roaming income from increased travelling by European customers. As a result of improved revenue mix, **3** Group Europe reported an overall 3% higher total margin in local currencies.

The operations continued to suffer from inflation of energy and staff costs with an overall increase year-on-year of over 40% and 5% respectively. As a result, EBITDA[5] was 12% or HK$2,974 million lower against last year in local currencies, reflecting the full year impact from the tower disposal in the UK of HK$1.0 billion, the higher energy costs and other inflationary impacts of around HK$2.1 billion, as well as higher other network costs from the expanded networks, particularly in the UK. Depreciation and amortisation was flat before an accelerated depreciation recognised by the UK after transitioning to an enhanced digital platform during the year. After taking into account this accelerated depreciation, EBIT[5] declined by 59% or HK$3,295 million in local currencies.

Note 3: Under Post-IFRS 16 basis, EBITDA was HK$29,081 million (2022: HK$39,002 million); EBIT was HK$3,191 million (2022: HK$14,216 million).

Note 4: Comprising gain from the disposal of the Group's interest in the UK tower assets to Cellnex of HK$18,957 million, partly offset by a non-cash impairment of goodwill on the Group's telecommunication business in Italy of HK$11,039 million. Under Post-IFRS 16 basis, the net gain was HK$8,021 million.

Note 5: Under Post-IFRS 16 basis, EBITDA was HK$27,675 million (2022: HK$30,144 million); EBIT was HK$3,312 million (2022: HK$6,859 million).

Looking ahead to 2024, with inflation ebbing, the operations are expected to deliver improvement in underlying performances from continuing revenue initiatives, cost discipline and stabilising depreciation from decrease in capital spending.

CKHGT remains committed to its climate action plan and achievement of its Science-Based Targets, including reducing scope 1 and 2 emissions by 50% by 2030 and reducing scope 3 emissions by 42% by 2030 versus a 2020 baseline. In 2023, approximately 194,000tCO_2 of emission reduction in scope 1 and 2 has been achieved as well, which is around 80% of its targeted reductions. It has also formally committed to setting a long-term net-zero target to be validated by the Science Based Targets initiative. As impactful reduction measures, the division continues to invest in the transition to 5G including network equipment upgrades, implementation of energy efficient network features, and virtualisation of networks, all of which are leading to more efficient processing of data traffic. Business units are also continuing to evaluate options for maintaining and increasing the proportion of renewable energy use.

Hutchison Asia Telecommunications

Hutchison Asia Telecommunications ("HAT") includes the Group's telecommunication businesses in Indonesia, Vietnam and Sri Lanka. HAT's active customer accounts decreased by 5% compared to last year to approximately 117.1 million as of 31 December 2023, as a result of strategic initiatives to improve average customer lifetime value across HAT's customer base.

Total revenue of HK$11,779 million increased by 1%, whilst EBITDA[6] and EBIT[6] of HK$3,952 million and HK$1,612 million decreased by 58% and 76% respectively in 2023 when compared to last year, mainly due to the net gain of HK$5.1 billion[7] from the completion of the merger transaction in 2022, partly offset by a non-cash impairment in the Group's telecommunication business in Sri Lanka.

The Group's 41.154% owned joint venture, Indosat Ooredoo Hutchison ("IOH") reported a 9.6% increase in total revenue, driven by a 14.8% year-on-year growth in data traffic from the expanded network and improvement in customer experience, mitigating a 3% lower customer base from the subscribers rationalisation. Excluding the net gains arising from disposal of non-core assets in both years, IOH's underlying EBITDA and net profit, on a Post-IFRS 16 basis, increased by 21% and 144% respectively, reflecting both strong revenue growth and continued cost optimisation.

Finance & Investments and Others

The Group's 16.9% share of Cenovus Energy's Post-IFRS 16 EBITDA, EBIT and net earnings were HK$10,094 million, HK$5,564 million and HK$3,963 million, a decrease of HK$3,657 million, HK$3,860 million and HK$2,370 million compared to last year respectively, mainly reflecting the decline in commodity prices, as well as reduced production volume due to unplanned outages and delays in completing certain downstream facility turnarounds during the first half of 2023. These operational issues were largely rectified during the second half. With a more constructive outlook in commodity prices, maintaining full and reliable production and refinery throughput is the key focus for the business in 2024 to improve its profitability.

Despite the above adverse variance, this segment reported favourable EBITDA and EBIT results against last year, as certain treasury gains on non-core asset disposals, higher treasury investment returns and the Group's share of HutchMed's higher partnering revenue have more than offset the lower contribution from Cenovus Energy.

The Group's liquidity and financial profile remain strong. Underlying free cash flow in 2023, excluding the UK tower disposal proceeds in 2022, increased by 12% against last year, due to relatively modest operating cash flow declines more than offset by measured reduction in capital expenditures. Consolidated cash and liquid investments totalled HK$143,109 million and consolidated total bank and other debts[8] amounted to HK$274,919 million, resulting in consolidated net debt[8] of HK$131,810 million (31 December 2022 – HK$133,109 million) and net debt to net total capital ratio[8] of 16.1% (31 December 2022 – 16.7%).

Note 6: Under Post-IFRS 16 basis, EBITDA was HK$6,011 million (2022: HK$12,478 million); EBIT was HK$2,388 million (2022: HK$8,582 million).

Note 7: Under Post-IFRS 16 basis, the net gain was HK$6.2 billion. For further information, please see Note 5(b)(xviii) to the Financial Statements of this Annual Report.

Note 8: Total bank and other debts are defined, for the purpose of "Net debt" calculation, as the total principal amount of bank and other debts and unamortised fair value adjustments arising from acquisitions. Net debt is defined as total bank and other debts less total cash, liquid funds and other listed investments. Net total capital is defined as total bank and other debts plus total equity (adjusted to exclude IFRS 16 effects) and loans from non-controlling shareholders net of total cash, liquid funds and other listed investments. The consolidated net debt to net total capital ratio under IFRS 16 basis, after including IFRS 16 impact in total equity, was 16.2% (31 December 2022: 16.9%).

Sustainability

In April 2023, the Group released its fourth Sustainability Report, which details its first Group-wide emissions reduction targets. The Group has committed to halving scope 1 and 2 emissions by 2035 versus the 2020 baseline as well as the pursuit of net-zero carbon emissions across its value chain by 2050. These targets are based on the robust strategies being put in place at each of the Group's core businesses. Overall, the Group has been on track in achieving targets, reducing approximately 10% in scope 1 and scope 2 emission compared against our 2020 emission.

In response to the heightening government regulatory requirements and expectation in sustainability, the Group has formed specialised workgroups since 2020, including the sustainability committee of the Board and sustainability working group, aiming to keep management and stakeholders fully abreast on the sustainability performance, and to review and update relevant strategy as necessary. As an example, the Group's newly published biodiversity policy demonstrates our commitment to natural resource protection.

The Group is both conscious about the impacts generated from its existing operations and future investment. The Group's 10 net zero transition opportunities identify risk and opportunity that guide its business divisions to sustainable investment. For the Infrastructure division, it is progressively adopting low carbon technologies such as network digitalisation, hydrogen transition, electric vehicles, heat pumps and renewable energy generation. The Port division commits that new mobile and stationary machinery will be fully electric or supplemented with other forms of clean energy going forward. The Telecommunication division continues to invest in the transition to 5G in 2023, including network equipment upgrades, implementation of energy efficient network features, and virtualisation of networks, all of which are leading to more efficient processing of data traffic and energy saving. To better serve the Group's customers, the Retail division has also joined the EcoBeautyScore Consortium in 2023, an alliance that includes over 70 cosmetics industry stakeholders and offers details from a harmonised and scoring system for products comparison based on environmental impact. Customers are able to make a more sustainable choice during purchase from a long list of products offered by the Group and achieve the goal of being a "sustainable consumer".

Developing workplaces where employees of the Group feel supported, recognised and included continues to be one of the core objectives of the Group. During the first half of this year, **3** UK and Wind Tre were recognised by national awards schemes as being among the best national employers, and **3** Sweden also received the award of Career Company 2023.

Outlook

Although operating conditions for the Group's businesses have shown signs of improvement, particularly slowing inflation, modestly improving trade, an increasing probability of moderate monetary easing, and sustained consumer demand in the Retail businesses, 2024 remains fraught with uncertainties. Global growth prospects are uneven and unbalanced and geo-political risks remain heightened, particularly with the upcoming national elections in the US and in several major countries in which the Group operates.

Accordingly, the Group will maintain a prudent approach to managing our businesses this year with a strong focus on cash flow and tight management of capital expenditures and new investments.

The Group will continue to explore selective value accretive transactions for shareholders. However, as a matter of policy, the Group will maintain its strong liquidity and financial profile and ensure that all investing activities are consistent with maintaining the current investment grade ratings.

I would like to thank the Board of Directors and all our dedicated employees around the world for their continued loyalty, diligence, professionalism and contributions to the Group.

Victor T K Li
Chairman

Hong Kong, 21 March 2024