MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL INVESTMENT

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL INVESTMENT

In the first half of the financial year, global stock markets experienced volatility due to the tightening of monetary conditions. However, in the second half, an improved performance was observed as inflationary pressures subsided and the US economy displayed resilience. Notably, the equity markets of Hong Kong and China diverged from the developed markets. Despite their initial rebound after the easing of COVID-19 restrictions in China, their market performance was not sustained as the Chinese economy continued to face substantial challenges subsequent to its reopening.

Our investment strategy, which prioritises the fundamental business aspects of companies, helped alleviate the impact from short-term fluctuations influenced by macro factors in the financial year, in particular during the first half of year. The Principal Investment segment recorded a pre-tax profit of HK$1,553.5 million for the year ended 30 June 2023, primarily due to unrealised mark-to-market valuations and dividend income received in the financial year.

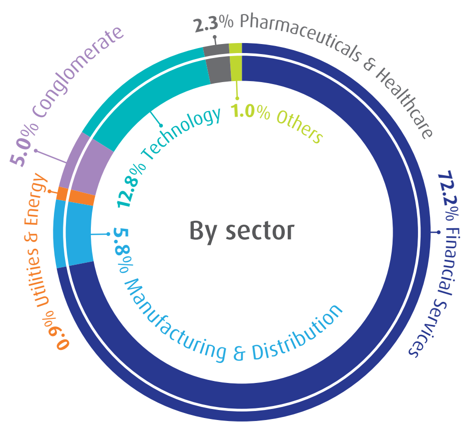
The segment's focus remains to invest in high-quality companies expected to create shareholder value over the long term, with the potential to produce tangible returns for the Group. Having said that, shareholders are reminded that this segment's results are subject to fair valuation adjustments and will therefore remain volatile.

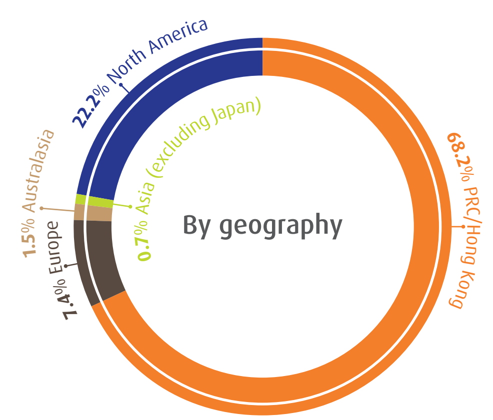
During the year, GuoLine Advisory Pte. Ltd. ("GAPL"), a 50:50 joint venture between the Group and our parent group, was appointed to manage a discretionary portfolio and assigned to provide investment advisory and management services to our Principal Investment portfolio. This strategic move enables the Group to leverage and tap into the industry experience, investment expertise and resources network of GAPL to further broaden our investment capability.

Group Treasury maintained a cautious stance. Net interest expense and foreign exchange exposures were managed albeit still subject to market volatility.

Investment Portfolio

As of 30 June 2023, the Group's total investments under the Principal Investment amounted to US$1,967 million. The investment portfolio consists of around 35 securities and no single investment accounted for a value of 5% or more of the Group's total asset value as at 30 June 2023. The breakdown of our investment portfolio as at 30 June 2023 by sector and geography are as follows:





PROPERTY DEVELOPMENT AND INVESTMENT

Guoco Midtown Office Tower, Singapore

MANAGEMENT DISCUSSION AND ANALYSIS

PROPERTY DEVELOPMENT AND INVESTMENT

GuocoLand Limited ("GuocoLand")

GuocoLand recorded a 60% year-on-year increase in revenue to S$1,544.4 million (approximately HK$8,870.6 million) for the year ended 30 June 2023. This was mainly due to higher progressive recognition of sales for Meyer Mansion, Midtown Modern and Lentor Modern, all of which have been substantially sold. In addition, Guoco 18T in Chongqing, China also contributed to GuocoLand's revenue, as the handover of sold units for one of its residential towers has started during the year.

Revenue from GuocoLand's investment properties increased by 35% to S$169.6 million (approximately HK$974.1 million) supported by higher recurring rental income from Guoco Tower, Guoco Changfeng City South Tower in Shanghai and the initial contribution from Guoco Midtown Office, which commenced operations in the second half of the financial year. In addition, revenue from GuocoLand's hotels, especially Sofitel Singapore City Centre, doubled to S$68.7 million (approximately HK$394.6 million) as compared to the prior year.

Guoco Midtown, Singapore

Lentor Modern, Singapore (Artistic Impression)

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit increased by 5% to S$384.9 million (approximately HK$2,210.8 million). The lower growth was mainly due to the fact that a one-off S$79.3 million (approximately HK$455.5 million) fair value gain recognised under cost of sales in the prior year did not re-occur. Excluding such gain, the gross profit for the year would have increased by 34%.

Other income decreased by 41% to S$208.5 million (approximately HK$1,197.6 million), mainly due to lower fair value gains on investment properties combined with the absence of fair value gains on interest rate hedges in the current year.

Finance costs increased by 59% to S$149.7 million (approximately HK$859.8 million), mainly the result of a series of interest rates hikes in Singapore during the year. Overall, in the absence of the profit from discontinued operation that was recognised in the prior year, the profit attributable to equity holders decreased by 47% to S$207.1 million (approximately HK$1,189.5 million) for the year ended 30 June 2023.

In Singapore, 17,484 units remained unsold in the non-landed private residential housing market at the end of the second quarter of 2023, up from 16,252 units at the end of the first quarter. With new project launches planned for the second half of 2023 and the Government Land Sales programme, supply will be further increased. Furthermore, the latest property cooling measures and the high interest rate environment are expected to moderate demand from investors and foreign buyers and therefore overall price appreciation. Official estimates indicate rental growth for office in the Central Region moderated in the second quarter of 2023. Strong leasing activities have mainly focused on prime Grade A offices. However, office rental growth is likely to be impacted by the uncertain economic outlook and higher interest rates.

Guoco Central Park, Chongqing, China (Artistic Impression)

MANAGEMENT DISCUSSION AND ANALYSIS

Midtown Modern, Singapore (Artistic Impression)

In Malaysia, economic growth moderated to 2.9% in the second quarter of 2023 and is expected continue to grow at a slower pace for the whole year, amid the challenging global environment. The domestic property sector remains challenging mainly due to an overhang of excess property inventory in the residential and commercial market as well as other traditional property classes.

Lentor Hills Residences, Singapore (Artistic Impression)

In China, the economy grew at 0.8% in the second quarter of 2023, slowing from the 2.2% expansion in the first quarter. The official growth target of around 5% for the full year remained unchanged but private sector economists have lowered their forecasts. Meanwhile, the property market contracted in the second quarter of 2023 after expanding in the first quarter. In order to improve market sentiment, policymakers have introduced various measures to support developers and home buyers.

Emerald 9, Malaysia (Artistic Impression)

HOSPITALITY AND LEISURE

MANAGEMENT DISCUSSION AND ANALYSIS

HOSPITALITY AND LEISURE

The Clermont Hotel Group (previously GLH Hotels Group Limited, "GLH")

The Clermont Hotel Group, our key hotel operating business unit in the United Kingdom ("UK"), recorded a profit after tax of GBP36.5 million (approximately HK$345.5 million) for the financial year, overturning a loss of GBP37.9 million (approximately HK$393.8 million) in the prior year. In November 2022, the rebranding of GLH to "The Clermont Hotel Group" signaled to the market a shift to an aspirational brand repositioned as an upmarket operator with a simplified portfolio. In May 2023, the end of the licensing agreement with Hard Rock Hotel London allowed this hotel in Marble Arch to be relaunched as The Cumberland – a lifestyle brand that will sit alongside Clermont and Thistle in the Clermont Hotel Group brand portfolio. The repositioning will ensure the brands are better understood by our guests to drive greater awareness and loyalty. The performance results from the rebranded Clermont Victoria and Clermont Charing Cross hotels have been encouraging, demonstrating the value uplift.

Operationally, the strong domestic and international demand drove growth in rooms sold. The results outperformed expectations with total revenue ahead of pre-pandemic levels, which have benefited from strong market rate growth and the higher pricing strategies.

Continued cost control and mitigation actions partially offset the impact of high inflation and high labour costs. The business was also assisted by the UK Government energy price cap policy over the winter and with its energy hedging actions, the business partially mitigated a portion of the risk of high energy prices for much of the financial year. The cash flow from profit has allowed the business to invest in critical hotel infrastructure upgrades, driving performance through optimization of under-utilised space, plans for future selective hotel repositioning and continued debt repayments.

The outlook for the next financial year is positive despite macroeconomic challenges the business faces. Stubbornly high inflation and a high interest rate environment look set to dominate the next 12 months, while energy price volatility and recruitment challenges remain. Nevertheless, demand continues to be strong, supporting both rooms sold and average room rate growth. Employee engagement has improved as efforts to recruit and retain have been successful. The strong balance sheet and sustained cash generation have given the business a solid foundation for the next financial year. In addition, the business continues to focus on driving its ESG program. The nature of the business requires that it invests for the long term. Investment in infrastructure upgrades will reduce repair and refurbishment downtime. Together with investment in selective hotel repositioning as well as revenue optimisation strategies, the business expects to deliver incremental returns. Overall, the business is well positioned to drive future growth.

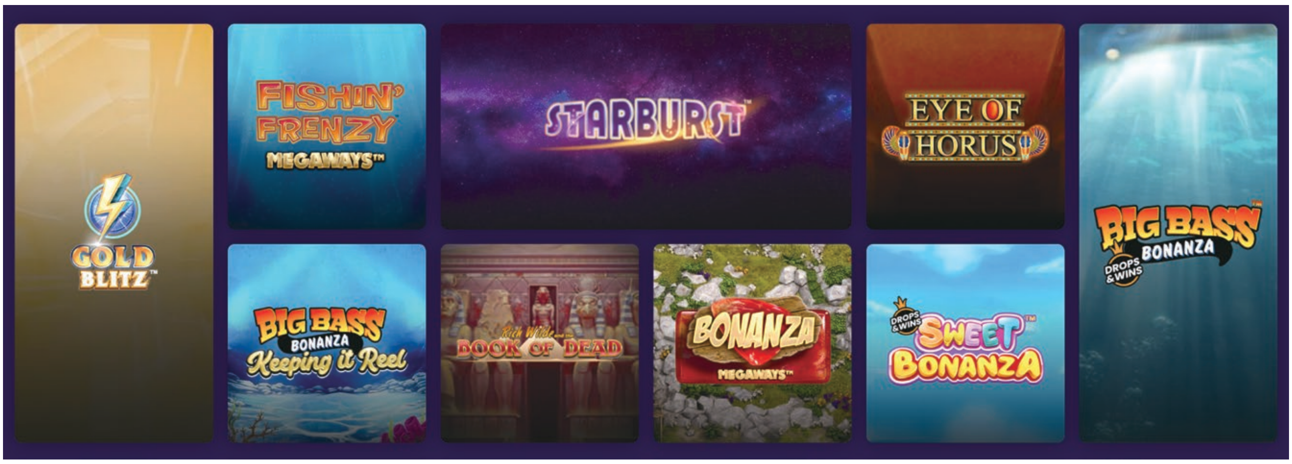
The Clermont London, Charing Cross

MANAGEMENT DISCUSSION AND ANALYSIS

The Rank Group Plc ("Rank")

Rank's net gaming revenue increased by 6% to GBP681.9 million (approximately HK$6,454.9 million) for the year ended 30 June 2023, driven by the growth in digital business and venue business by 10% and 6% respectively. Operating margins were reduced by material increases in energy costs and wage inflation which had an incremental impact of GBP21.3 million (approximately HK$201.6 million). Coupled with impairment charges of GBP118.9 million (approximately HK$1,125.5 million) relating to the downturn in performance of Grosvenor, Enracha and Mecca venues in the current year, whilst an exceptional receipt of GBP83.1 million (approximately HK$863.4 million) after the successful conclusion of a longstanding Value Added Tax refund claim with the HM Revenue & Customs in the prior year, Rank recorded a loss after tax of GBP95.3 million (approximately HK$902.1 million) for the financial year ended 30 June 2023, as compared to a profit after tax of GBP64.9 million (approximately HK$674.3 million) in the prior year.

The number of customer visits to Grosvenor venues increased by 7% for the year, but the recovery from the combined impact of lockdowns during COVID-19 and tightened affordability restrictions has been slower than expected. Mecca venues continued the slow recovery from the impact of COVID-19, the rate of growth was 7% with the number of customer visits increased by 4%. The venue businesses of both Grosvenor and Mecca venues saw accelerated revenue recovery in the second half of the year with profit conversion improving as energy costs began to fall. In Spain, Enracha venues have continued to recover strongly and revenue was back above pre-pandemic levels, delivering a strong growth of 19% with number of customer visits increasing by 16% for the year. A number of initiatives, including energy efficiency programmes, changes to opening hours and rationalization of the food and beverage offering to reduce wastage continued to improve operating margins.



MANAGEMENT DISCUSSION AND ANALYSIS

Grosvenor Casino Blackpool, UK

The digital business continued to perform strongly. The Mecca and Grosvenor brands are now fully operating on the RIDE platform and continued to improve their performance. The digital team is now focused on further improving the products, services and user experience for customers. Much greater personalisation has been added to the Mecca and Grosvenor sites and new live gaming tables have been added during the year. Safer gambling player journeys continue to be improved in order to help identify at risk play in real time. Similarly, in the Spanish facing digital business, YoSports was successfully launched in September 2022 in readiness for the FIFA World Cup, receiving a very positive reaction from customers.

Rank has continued to invest in the business to improve the quality of the customer proposition and to prepare for the impact of regulatory reform in the UK Government's gambling legislation review.

Grosvenor Casino Gloucester Road, London, UK

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SERVICES

Hong Leong Bank Berhad, Malaysia

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SERVICES

Hong Leong Financial Group Berhad ("HLFG")

The results performance of HLFG Group continued to grow for the financial year ended 30 June 2023. Profit before tax reached RM5,102.4 million (approximately HK$8,876.8 million), an increase of 5% from RM4,840.0 million (approximately HK$8,958.3 million) in the prior year. The increase was mainly contributed from the commercial banking and insurance divisions.

Hong Leong Bank Group recorded an increase of 6% in profit before tax, amounting to RM4,626.6 million (approximately HK$8,049.1 million) for the year as compared to RM4,366.8 million (approximately HK$8,028.4 million) in the prior year. The increase was mainly due to an increase in revenue of RM88.1 million (approximately HK$153.3 million), a decline in allowance for impairment losses on loans, advances and financing of RM48.2 million (approximately HK$83.9 million) and an increase in share of profit from associated companies of RM259.0 million (approximately HK$450.6 million). The profit growth, however, was offset by the increase in operating expenses of RM134.9 million (approximately HK$234.7 million).

HLA Holdings Group recorded a profit before tax of RM441.0 million (approximately HK$767.2 million) for the year, an increase of 12% as compared with RM393.7 million (approximately HK$728.7 million) in the prior year. The higher profit arose mainly from an increase in revenue of RM175.7 million (approximately HK$305.7 million), but was offset by a decrease in life fund surplus of RM68.9 million (approximately HK$119.9 million), an increase in operating expenses of RM49.5 million (approximately HK$86.1 million) and a decrease in share of profit from associated company of RM10.0 million (approximately HK$17.4 million).

Hong Leong Capital Group recorded a profit before tax of RM61.4 million (approximately HK$106.8 million) for the year, a decrease of 37% as compared to RM97.2 million (approximately HK$179.9 million) in the prior year. This was mainly due to lower contributions from the investment banking and stockbroking divisions, fund management and unit trust management divisions.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHERS

The Group's wholly owned Manuka honey product producer and distributor, Manuka Health New Zealand Limited ("MHNZ"), recorded improved sales revenue across all key markets as it continued to leverage off its strong market positioning. Both direct-to-consumer capabilities and the resumption of tourism have contributed a favourable performance. However, the financial results were negatively impacted by a decrease in fair value of agricultural products under exceptional adverse weather conditions experienced during the year.

The Bass Strait oil and gas business also saw improved performance for the year due to an increase in average crude oil and gas prices.

GROUP FINANCIAL COMMENTARY

Financial Results

The Group recorded an audited consolidated profit attributable to shareholders of HK$3,400.3 million for the year ended 30 June 2023, representing an increase of 73% versus the prior year. This is mainly attributable to the favourable performances in most of the Group's segments partially offset by the loss in the Hospitality and Leisure segment. Basic earnings per share amounted to HK$10.46 as compared to HK$6.03 in the prior year.

For the year ended 30 June 2023, the Principal Investment segment, Property Development and Investment segment, Financial Services segment and Others segment reported profits before taxation of HK$1,553.5 million, HK$1,503.2 million, HK$1,232.0 million and HK$327.8 million respectively. However, these profits were partially offset by a loss before taxation of HK$786.2 million in the Hospitality and Leisure segment whose results were negatively affected by one-off impairment charges relating to the downturn in performance expectations for certain gaming venues. Overall, the audited consolidated profit before taxation of the Group increased by 6% to HK$3,830.3 million for the year ended 30 June 2023.

The Group's revenue for the year ended 30 June 2023 increased by 31% to HK$19.5 billion, primarily due to an increase of HK$3.1 billion in revenue from the Property Development and Investment segment attributable to the higher progressive recognition of sales from residential projects in Singapore. In addition, an increase of HK$1.0 billion in revenue from the Hospitality and Leisure segment has arisen from improved performance and recovery seen in sector in the current year.

Capital Management

The consolidated total equity attributable to shareholders of the Company as at 30 June 2023 amounted to HK$59.3 billion. Net debt, being total bank loans and other borrowings less cash and short-term funds as well as trading financial assets, amounted to HK$14.4 billion. The equity-debt ratio was 80:20 as at 30 June 2023.

Liquidity and Financial Resources

The Group's total cash and short-term funds as well as trading financial assets were mostly denominated in HKD (33%), USD (30%), SGD (14%), RMB (9%) and GBP (7%) as at 30 June 2023.

The Group's total bank loans and other borrowings amounted to HK$36.9 billion as at 30 June 2023, and were mostly denominated in SGD (71%), HKD (8%), RMB (6%), GBP (6%), and USD (6%). The Group has borrowings of HK$8.0 billion payable within one year or on demand.

Certain of the Group's bank loans and other borrowings are secured by pledges of various properties, fixed assets, trading financial assets and bank deposits with an aggregate book value of HK$52.9 billion at year end.

Committed borrowing facilities available to the Group and not yet drawn as at 30 June 2023 amounted to approximately HK$12.5 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest Rate Exposure

The Group's interest rate risk arises from treasury activities and borrowings. The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. The Group uses interest rate contracts to manage its interest rate exposure when considered appropriate.

As at 30 June 2023, approximately 89% of the Group's bank loans and other borrowings carried interest at floating rates and the remaining 11% carried interest at fixed rates. The Group had outstanding interest rate contracts with a notional amount of HK$6.2 billion.

Foreign Currency Exposure

The Group from time to time enters into foreign exchange contracts, which are primarily over-the-counter derivatives, principally for hedging foreign currency exposure and investments.

As at 30 June 2023, there were outstanding foreign exchange contracts with a total notional amount of HK$4.6 billion entered into by the Group to primarily hedge foreign currency equity investments.

Equity Price Exposure

The Group maintains an investment portfolio which mainly comprises public listed equities. Equity investments are subject to asset allocation limits.

HUMAN RESOURCES AND TRAINING

As at the year end, the Group had around 10,500 employees[Note]. The Group continued to seek an optimal workforce. It is committed to providing its employees with ongoing development programmes to enhance productivity and work quality.

The remuneration policy for the Group's employees is reviewed on a regular basis. Remuneration packages are structured to take into account the level and composition of pay and market conditions in the respective countries and businesses in which the Group operates. Bonus and other merit payments are linked to the financial results of the Group and individual achievement to promote performance. In addition, share based award schemes are in place for granting share options and/or free shares to eligible employees to align their long term interests with those of the shareholders and for the purposes of staff motivation and talent retention.

Note: The total number of employees includes permanent, contract, temporary and part-time employees.