PRINCIPAL INVESTMENT

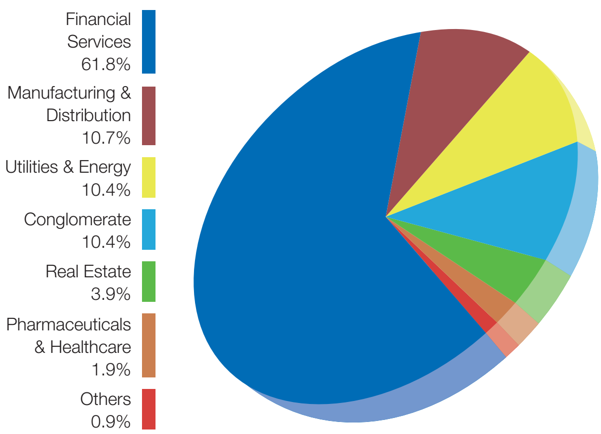
PRINCIPAL INVESTMENT

Our investment strategy has always been to unearth hidden gems that are trading at below market valuations or to latch onto a sector or cycle before it turns. We had sensed that the stretched valuation of the U.S. stock market would not provide the leadership for gains and had largely stayed away. Instead, we had invested a fair amount of assets in the under-performing stock markets of Japan and China where stocks were trading at more attractive valuations. The post-U.S. election rally propelled Japan to become the best performing major stock market and contributed to our bottom line. We were ready to reap the gains when the Chinese stock market began playing catch up in the second half. Japan and China constituted the majority of our gains in this year. During the year, the Group recognized an operating profit generated from the Principal Investment (including dividend income) of US522.7 million.

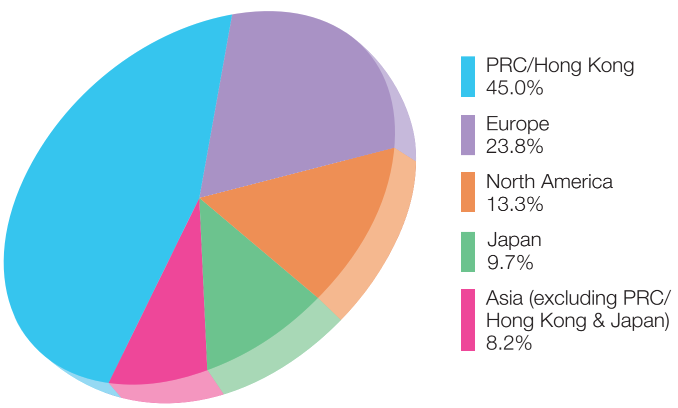
As of 30 June 2017, the Group's total investments under the Principal Investment amounted to US$3,335.1 million. The investment portfolio consists of a total of over 40 securities. The major investment which accounted for more than 5% of the total asset value of the Group as at 30 June 2017 was The Bank of East Asia, Limited ("BEA"). Pursuant to substantial shareholding notification, the Group held approximately 14.15% in the total issued share capital in BEA.

The breakdown of our investment portfolio (excluding BEA) as at 30 June 2017 by sector and geography are as follows:

BY SECTOR:



BY GEOGRAPHY:



History tells us that a nine year expansion may position the global economy closer to the end of a period of expansion than to the beginning. Therefore, we will remain cautious and focus on value investments and fallen angels.

Our treasury team performed well in managing the foreign currency exposures and optimizing returns for the Group. The overall net interest expense also saw a greater reduction with the successful deployment of yield enhancement strategies and as loans were pared down and excess cash levels rose.

PROPERTY DEVELOPMENT AND INVESTMENT

Tanjong Pagar Centre, Singapore (Artist's impression)

Tanjong Pagar Centre – currently the tallest building in Singapore

PROPERTY DEVELOPMENT AND INVESTMENT

GuocoLand Limited ("GuocoLand")

GuocoLand ended the financial year 2016/17 with a profit attributable to equity holders of S$357.2 million on the back of revenue of S$1,113.2 million.

Revenue for the current financial year increased by 5% primarily due to higher revenue recognised from Singapore. The higher sales and progressive revenue recognition from Singapore's residential projects in the current year has offset the absence of contribution from the sale of an office block in Shanghai Guoson Centre in the previous year. Gross profit declined by 15% due to lower gross margin arising from the different sales mix in the two periods of review.

Other income for the current financial year decreased by 49% to S$318.2 million, mainly due to the one-time gain from the disposal of subsidiaries relating to the Dongzhimen project in the previous year. This has partially offset by the effect of the fair value gain from Tanjong Pagar Centre's Guoco Tower recorded in the current financial year.

Martin Modern, Singapore (Artist's impression)

Singapour Je T'aime, art installation at arrival lobby of Sofitel Singapore City Centre

Bedroom of an in-situ show unit at Wallich Residence, Singapore (Artist's impression)

Singapore

Compared with the previous financial year, revenue from Singapore increased by 52% to S$988.2 million in the current financial year. Apart from the higher sales and progressive revenue recognition from Sims Urban Oasis, Singapore's segment profit before tax increased close to three-folds to S$451.4 million in the current financial year, boosted by the fair value gains of Tanjong Pagar Centre's Guoco Tower.

According to the second quarter of 2017 real estate statistics released by the Urban Redevelopment Authority in Singapore, private residential property prices continued to decline, albeit at a slower rate. The rate of decline in the second quarter of 2017 was 0.1% compared with 0.4% in the preceding quarter. GuocoLand has successfully launched its luxury residential development Martin Modern on 22 July 2017.

China

Contribution from China in the current financial year has dropped significantly due mainly to the absence of the one-time gain from disposal of the Dongzhimen project in the previous financial year. Further, profits from GuocoLand's joint venture residential project in Shanghai were not recognised in the current financial year as construction was not completed by 30 June 2017.

In China, the property market has showed signs of moderating in some of the larger cities. According to the National Bureau of Statistics of China, new home prices in Shanghai decreased by 0.2% month-on-month in June 2017, although year-on-year it had increased by 8.6%. In Chongqing, new home prices had increased 1.5% month-on-month and 12.0% year-on-year.

Malaysia

Whilst revenue from Malaysia fell by 28% to S$94.5 million in current year, profit for the year improved by 14% to S$44.3 million. This was because the drop in sales from subsidiaries was offset by higher profit contribution from its associate. Share of profit of associates and joint ventures increased by S$45.4 million in the current financial year due to the completion of the disposal of a land parcel located in Mukim and district of Sepang, Selangor.

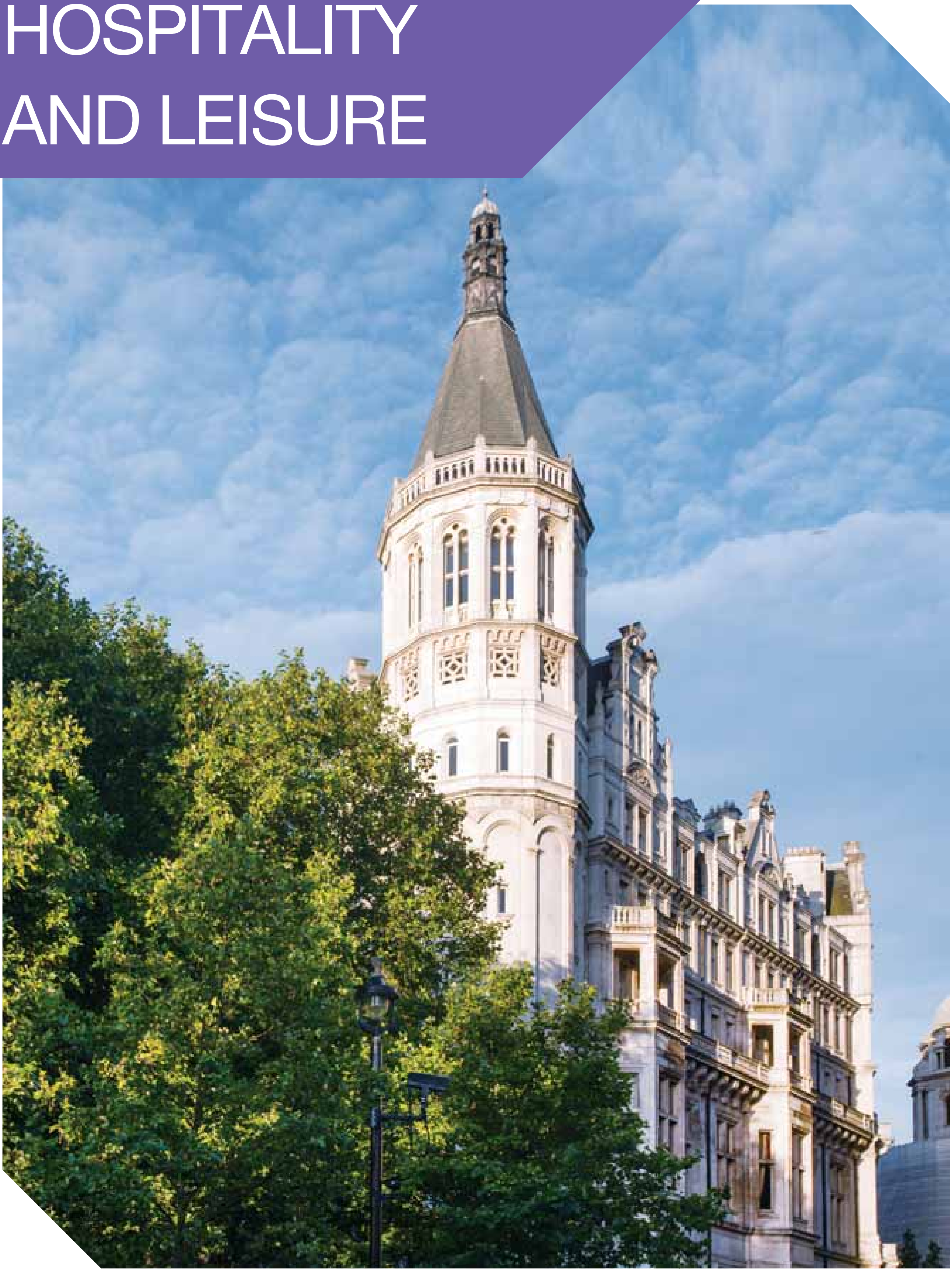
In Malaysia, GuocoLand will continue to focus on sales and leasing of its current projects amid challenging operating conditions.

Exterior view of Changfeng Residence, Shanghai

Living Room of an in-situ show unit at DC Residensi, Malaysia (Artist's impression)

Interior of zero-lot bungalow at The Rise, Malaysia (Artist's impression)

HOSPITALITY AND LEISURE



The Royal Horseguards Hotel, London

Thistle Trafalgar Square, London

HOSPITALITY AND LEISURE

GL Limited ("GL")

GL recorded a profit after tax for the year ended 30 June 2017 at US$48.9 million, a decrease of 27% as compared to US$67.4 million in the previous financial year.

Revenue decreased by 11% to US$350.2 million year-on-year, principally due to lower revenue generated from hotel, gaming and property development segments. Hotel RevPAR during the year in GBP terms improved 7% on a year-on-year basis on the back of a 7% improvement in average room rate. However, hotel revenue expressed in USD terms decreased by 10% compared to the previous financial year due to the weakening of GBP against USD. Apart from the above, lower revenues were generated from the gaming and property development segments as a result of lower gaming drop and win margin and land disposal respectively during the year. However, revenue drop was offset by higher revenue generated from Bass Strait oil and gas royalty income following higher oil and gas production as well as the appreciation of AUD against USD by 4% during the year.

Cost of sales decreased by 16% as a result of the weakening of GBP against USD and lower gaming duty associated with lower gaming revenue in the current year.

The Tower Hotel, London

A tea set at Amba Hotel Charing Cross, Hotel, London

Administrative expenses also decreased by 18% for the year which were largely attributable to the weakening of GBP against USD as well as reflecting overall cost disciplines at GL.

The increase in other operating expenses arose mainly from the settlement of a legal claim against a subsidiary in the United Kingdom which provided a guarantee in relation to a hotel property previously leased and operated by another subsidiary. In addition, certain company assets and equipment were written off during the year as a result of management's on-going review of its business strategies.

Higher financing costs for the year were primarily due to the foreign exchange losses arising from unfavourable movement in foreign exchange as well as mark-to-market losses of an interest rate hedge contract.

The UK hotel industry has remained resilient in the light of geopolitical events. London room supply is expected to increase above its long term trend in the next 12 months. GL London hotels continue to operate in a challenging environment due to post-Brexit vote uncertainty, and increasing operating costs due to the implementation of the National Living wage and imported inflation. On the other hand, the weakness in the Sterling Pound could boost both domestic and inbound leisure tourism. The weakening Pound will adversely impact our hotel division's revenue growth and the carrying value of our hotel properties in USD terms. GL will continue with its hotel refurbishment programme and expects to launch the Hard Rock Hotel London in FY2018/19.

In the global oil market, oil prices have continued to be range-bound and are not expected to improve significantly in the coming year. This will continue to impact GL's oil and gas royalty revenues.

The Rank Group Plc ("Rank")

Rank recorded a profit after tax (before exceptional items) for the year ended 30 June 2017 of GBP63.1 million, an increase of 3% as compared to the previous year.

Statutory revenue fell marginally to GBP707.2 million, with 12% growth in digital revenue offset by a 3% fall in Mecca Bingo venue visit (following the closure of several under-performing venues) and a 3% fall in Grosvenor Casinos' revenues (lower gaming win from major customers). However, both retail businesses manage to win market shares despite challenging trading conditions.

Operating profit before exceptional items of GBP83.5 million was up by GBP1.1 million with the marginal decline in revenue being offset by lower costs, particularly gaming duties and marketing. Performance saw a significant improvement in the second half following cost savings and revenue improvement actions. Digital profit improved by 63% with strong revenue growth combining with strong cost control, particularly around marketing effectiveness. Mecca Bingo venues saw profits decline by 9% due to lower revenue and higher employment costs following the introduction of the National Living Wage increases, partially mitigated by lower costs. Grosvenor Casinos suffered a 14% fall in profit with revenue falling due to lower customer visitations combined with increased costs, particularly in employment.

The net charge for exceptional items of GBP0.2 million comprised a GBP14.7 million credit following successful exits from or improved trading at several onerous leases, a net GBP4.2 million in impairment charges (primarily related to an under-performing provincial casino), GBP8.8 million in restructuring costs and GBP0.7 million in abortive acquisition costs with GBP1.2 million in tax.

FINANCIAL SERVICES

FINANCIAL SERVICES

Hong Leong Financial Group Berhad ("HLFG")

HLFG Group achieved a profit before tax of RM3,089.9 million for the year ended 30 June 2017, an increase of RM524.9 million or 20.5% as compared to last year. Excluding the one-off Mutual Separation Scheme expenses in last year, the profit before tax year-on-year increase would be RM352.8 million or 12.9%. The improved HLFG's financial performance came from higher profit contributions across all operating divisions.

The commercial banking division recorded a profit before tax of RM2,748.3 million for the year, an increase of RM366.6 million or 15.4% over the previous year. Excluding the one-off Mutual Separation Scheme expense in last year, the division's profit before tax increased by RM194.5 million or 7.6%. The increase was primarily due to higher revenue of RM372.8 million, lower operating expenses of RM79.3 million and higher share of profit from associated company and joint venture of RM30.7 million. This was however offset by higher allowance for impairment losses on loans, advances and financing of RM108.6 million. Contributions from Bank of Chengdu Co., Ltd. and the Sichuan Jincheng Consumer Finance joint venture of RM364.1 million represent 13.2% of the commercial banking division's profit before tax results as compared to 14.0% last year.

The insurance division registered a profit before tax of RM337.8 million for the year ended 30 June 2017, an increase of RM140.3 million or 71.0% compared to last year. The increase in profits was mostly due to higher life fund surplus of RM61.3 million, higher revenue of RM45.2 million and lower impairment losses on securities of RM40.5 million. This was however offset by higher operating expenses of RM11.3 million.

The investment banking division recorded a profit before tax of RM84.0 million for the year ended 30 June 2017, an increase of RM19.5 million or 30.2% mainly from higher contribution from both the investment banking and stockbroking segments.

GROUP FINANCIAL COMMENTARY

Financial Results

The audited consolidated profit attributable to equity shareholders for the year ended 30 June 2017, after taxation and non-controlling interests, amounted to HK$6,124 million, up to 98% as compared to HK$3,088 million for the previous year. Basic earnings per share amounted to HK$18.84.

For the year ended 30 June 2017, profit before taxation was generated from the following sources:

- principal investment of HK$4,080 million;
- property development and investment of HK$2,787 million;
- hospitality and leisure of HK$1,262 million;
- financial services of HK$693 million;
- oil and gas royalty of HK$162 million;

and was offset by HK$851 million of finance costs.

Revenue decreased by 19% to HK$14.0 billion. The decrease was mainly resulted from the decline of property development and investment sector of HK$1.6 billion together with the hospitality and leisure sector of HK$1.4 billion.

Capital Management

The Group's consolidated total equity attributable to equity shareholders of the Company as at 30 June 2017 amounted to HK$61.9 billion, an increase of 10% or HK$5.8 billion as compared to the previous year.

The equity-debt ratio as at 30 June 2017 is arrived at as follows:

	HK$'M
Total borrowings	37,158
Less: Cash and short term funds	(25,200)
Trading financial assets	(11,570)
Net debt	388
Total equity attributable to equity shareholders of the Company	61,928
Equity-debt ratio	99:1

The Group's total cash balance and trading financial assets were mainly in HKD (25%), USD (24%), RMB (18%), SGD (11%), GBP (11%), and JPY (6%).

Total Borrowings

The increase in total borrowings from HK$34.5 billion as at 30 June 2016 to HK$37.2 billion as at 30 June 2017 was primarily due to the drawdown of additional bank loans and issuance of medium term notes by GuocoLand to support its operating activities. The Group's total borrowings are mostly denominated in SGD (59%), USD (22%), GBP (8%) and MYR (7%).

The Group's bank loans and other borrowings are repayable as follows:

	Bank loans HK$'M	Mortgage debenture stock HK$'M	Other borrowings HK$'M	Total HK$'M
Within 1 year or on demand	12,743	–	5,593	18,336
After 1 year but within 2 years	4,324	–	1,146	5,470
After 2 years but within 5 years	7,419	581	4,702	12,702
After 5 years	631	–	19	650
	12,374	581	5,867	18,822
	25,117	581	11,460	37,158

Bank loans, mortgage debenture stock and other borrowings are secured by certain properties, fixed assets and trading financial assets with an aggregate book value of HK$34.8 billion.

Committed borrowing facilities available to Group companies and not yet drawn as at 30 June 2017 amounted to approximately HK$12.2 billion.

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 swaps to manage its interest rate exposure as appropriate.

As at 30 June 2017, approximately 65% of the Group's borrowings were at floating rates and the remaining 35% were at fixed rates. The Group had outstanding interest rate swaps with a notional amount of HK$1.6 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 exposures and investments.

As at 30 June 2017, there were outstanding foreign exchange contracts with a total notional amount of HK$22.4 billion for hedging of foreign currency equity investments.

Equity Price Exposure

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

Contingent Liabilities

Details are encapsulated in note 38 “Contingent Liabilities” to the Financial Statements in this annual report.

HUMAN RESOURCES AND TRAINING

The Group employed approximately 13,400 employees as at 30 June 2017. The Group continued to follow a measured approach towards achieving an optimal and efficient size of its workforce and is committed to providing its staff 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 general 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 as incentives to optimise 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.