

Financial Review

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Group Finance Director

Accounting Policies

The Directors continue to review the appropriateness of the accounting policies adopted by the Group, having regard to developments in International Financial Reporting Standards ('IFRS').

There have been no changes to the accounting policies in 2020 apart from the early adoption of the Amendment to IFRS 16 'Leases' (effective 1st June 2020) in relation to the COVID-19 related rent concessions for the annual reporting period commencing 1st January 2020.

Where the Group is a lessee, the Group elects to recognise the COVID-19 related rent concessions, which meet the conditions required under the Amendment, in the profit and loss in the period which they relate, instead of accounting for them as lease modifications. The Group's share of the rent concessions received by its subsidiaries, associates and joint ventures in 2020, after tax and non-controlling interests, amounted to US\$62 million.

Results

Underlying Business Performance

| | 2020 US\$m | 2019 US\$m |
|---|---------------|---------------|
| Revenue | 32,647 | 40,922 |
| Operating profit | 2,337 | 3,991 |
| Net financing charges | (395) | (534) |
| Share of results of associates and joint ventures | 844 | 1,221 |
| Profit before tax | 2,786 | 4,678 |
| Tax | (483) | (941) |
| Profit after tax | 2,303 | 3,737 |
| Non-controlling interests | (1,218) | (2,148) |
| Underlying profit attributable to shareholders | 1,085 | 1,589 |
| Non-trading items | (1,479) | 1,249 |
| Net (loss)/profit | (394) | 2,838 |
| | US\$ | US\$ |
| Underlying earnings per share | 2.95 | 4.23 |

The Group's underlying net profit and underlying earnings per share in 2020 were down by 32% and 30%, respectively, from 2019. The performance and profitability of the Group's businesses in 2020 was materially impacted by the outbreak of COVID-19. Weak consumer sentiment, governments' pandemic related containment measures and travel restrictions affected, in particular, the Group's Southeast Asian businesses in Astra and Jardine Cycle & Carriage, and, more severely, the Group's hotel businesses in Mandarin Oriental.

During the year, the Group's businesses received grants and subsidies from governments in the markets in which they operated, the majority of which were in support of staff employment. The Group's share of these grants and subsidies received, included in the 2020 underlying profit attributable to shareholders, was US\$282 million.

Revenue

The Group's revenue of US\$32.6 billion in 2020 was 20% below the prior year.

Astra recorded an overall decrease in sales of 29% from 2019 with lower sales in the majority of its businesses, particularly Automotive due to lower volumes in its car sales operations, and Heavy Equipment, Mining and Construction due to lower heavy equipment sales and lower mining contracting volumes caused by weaker coal prices during most of 2020. Jardine Cycle & Carriage's motor vehicle operations in Singapore and Malaysia also recorded a 29% decrease in sales from 2019 as a result of weaker consumer sentiment.

Mandarin Oriental's subsidiary hotels recorded a significant drop in revenue of 68% from 2019. All hotels operated at low occupancy levels for most of the year, with reductions in both international and domestic travel due to border closures and governments' restrictions on movement.

The drop in Jardine Pacific's sales of 28% was mainly due to the sale of the JOS and Innovix businesses. Jardine Motors reported an overall 11% decrease in sales reflecting temporary closure of dealerships and lower demand during the year in the United Kingdom, mitigated by higher car sales in the Chinese mainland with a recovery in demand from the second quarter of 2020.

Hongkong Land's revenue fell by 10% from 2019 due to retail rent relief in its Investment Properties and a lower contribution from its Development Properties as a result of lower residential properties completions in the Chinese mainland.

8% lower year-on-year sales in Dairy Farm was mainly attributable to a significant drop in sales in its Health and Beauty business in Hong Kong, which was impacted by closure of the Chinese border and the consequent absence of tourists, mitigated by strong sales in its Grocery Retail business in Hong Kong and Singapore, which benefitted from increased consumer demand as a result of social restrictions.

Gross revenue, including 100% of revenue from associates and joint ventures, which is a measure of the full extent of the Group's operations, decreased by 12% to US\$90.9 billion. The decrease was largely from Astra's associates in the Automotive business, mitigated by higher sales in Yonghui in Dairy Farm, and Zhongsheng.

Operating profit

Operating profit from the Group's subsidiaries, excluding non-trading items, was US\$2,337 million, a decrease of US\$1,654 million or 41%.

Astra's underlying operating profit dropped by 56% from 2019 to US\$923 million, with lower contributions from the Automotive and Heavy Equipment, Mining and Construction businesses reflecting lower revenues; and higher non-performing loan provisions in Astra's consumer and heavy equipment finance businesses; mitigated by higher profit in the Agribusiness due to higher crude palm oil prices.

Mandarin Oriental reported an underlying operating loss of US\$186 million in 2020, compared to an underlying operating profit of US\$71 million in 2019. All hotels recorded losses despite extensive cost reduction measures and government supports received in a number of countries. The underlying operating loss included a US\$31 million impairment provision on the carrying value of the Geneva hotel property, which reflects a significant decrease in the market value of the leasehold interest.

Hongkong Land's underlying operating profit decreased by US\$211 million or 18% from 2019 to US\$959 million, primarily due to lower contributions from sales of residential development properties in the Chinese mainland, together with lower earnings from its commercial portfolio mainly due to rent relief provided to retail tenants.

Dairy Farm's underlying operating profit was US\$23 million or 5% below 2019 at US\$412 million, principally due to lower contributions from its Health and Beauty business in Hong Kong from lower sales and an impairment provision on loss-making stores, and Convenience store business in Hong Kong and the Chinese mainland resulting from COVID-19 restrictions and change in consumer behaviour; mitigated by higher profit from the Grocery Retail business in Hong Kong and Singapore, and the Home Furnishings business in Hong Kong and Taiwan which benefitted from new store openings and strong e-commerce growth, as well as, benefits from Dairy Farm's ongoing transformation and efficiency programmes.

Jardine Cycle & Carriage's underlying operating profit decreased by US\$34 million or 39% from 2019 to US\$53 million with lower earnings in the Singapore motor operations. Cycle & Carriage Bintang recorded a lower loss in 2020 with improved sales in the second half of 2020 due to a sales tax reduction in Malaysia and cost savings initiatives.

For Jardine Motors' subsidiaries, overall underlying operating profit increased by US\$12 million or 9% to US\$149 million, principally driven by higher contributions from the Group's dealerships in the Chinese mainland and government employment support in a number of markets. This was partly offset by a loss in 2020, versus a profit in 2019, from the Group's United Kingdom dealerships as a result of the pandemic. In Hong Kong, Zung Fu's underlying performance was below the prior year, but Mercedes Benz remained the No.1 motors brand.

Jardine Pacific recorded higher operating profit in 2020, which was US\$14 million or 20% above 2019 at US\$87 million. Several of the businesses benefitted from government employment support measures across a number of markets. The Restaurant businesses reported higher profit with higher delivery sales in

Hong Kong and a better performance in Taiwan, partly offset by impairment provisions on loss-making stores. JEC also delivered good profit growth with Hong Kong operations recording stable performance, partly offset by lower contributions from some of its regional businesses.

Net financing charges

Net financing charges at US\$395 million were US\$139 million lower compared to 2019 principally due to the lower average levels of net borrowings in Astra following the sale of its interest in Permata Bank in May 2020. Interest cover, excluding financial services companies, reduced slightly from 12 times to 11 times in 2020. Cover was calculated as the sum of underlying operating profit – before the deduction of the amortisation of right-of-use assets, net of actual lease payments – and the share of results of associates and joint ventures, divided by net financing charges excluding interest on lease liabilities.

Share of results of associates and joint ventures

The Group's US\$844 million share of underlying results of associates and joint ventures was US\$377 million, or 31%, lower than the prior year.

The overall contribution from Astra's associates and joint ventures decreased by US\$291 million in 2020 to US\$202 million, due to a weak performance from its Automotive business with a significant drop in car sales volume and the absence of a contribution from Permata Bank following its sale in May 2020.

In Dairy Farm, the overall contribution from associates decreased by US\$39 million to US\$76 million. There was a significant decrease in contribution from 50%-owned Maxim's, which was impacted by pandemic-related restrictions leading to reduced visits to stores and store closures. Dairy Farm's 20.1%-owned associate, Yonghui, performed solidly in 2020.

In Mandarin Oriental, higher losses of US\$25 million were reported by its associates and joint ventures, mainly due to lower occupancy levels during the pandemic.

The overall contribution from Jardine Cycle & Carriage's associates and joint ventures reduced by US\$23 million to US\$85 million. Weaker performances were recorded in the car sales and consumer finance operations of 46.2%-owned Tunas Ridean, and the motor vehicle and the new agriculture operations of 26.6% owned Truong Hai Auto Corporation ('Thaco') in Vietnam. Better performance was seen in 25.5%-owned Siam City Cement in 2020, which benefitted from improved operational efficiencies despite lower sales. There was a higher contribution from REE due to a stronger performance in the real estate business and an increase in Jardine Cycle & Carriage's interest to 29.8%.

The contribution from Zhongsheng, in respect of the second half of 2019 and the first half of 2020 was higher by US\$19 million at US\$135 million, while Hongkong Land's and Jardine Pacific's associates and joint ventures performed in line with 2019.

Tax

The underlying effective tax rate for the year was 25%, compared to 27% in 2019. The decrease in effective tax rate was mainly due to a reduction in corporate income tax rates in Indonesia and a change in the geographical mix of the Group's profit.

Non-trading Items

In 2020, the Group had net non-trading losses of US\$1,479 million, which included a net decrease of US\$1,424 million in the fair value of investment properties, primarily in Hongkong Land, and impairment of goodwill and investment in associates and joint ventures of US\$223 million; mitigated by the gains of US\$120 million and US\$64 million on the sale of Permata Bank in Astra and Wellcome Taiwan in Dairy Farm respectively, and a net increase of US\$100 million in the fair value of other investments.

In 2019, the Group had net non-trading gains of US\$1,249 million, which included a gain of US\$1,507 million on the sale of the Group's interest in Jardine Lloyd Thompson and a net increase of US\$49 million in the fair value of other investments; partly offset by a net decrease of US\$337 million in the fair value of investment properties, primarily in Hongkong Land.

Dividends

The Board is recommending a final dividend of US\$1.28 per share for 2020, providing a total annual dividend for 2020 of US\$1.72 per share, unchanged from 2019. The final dividend will be payable on 12th May 2021, subject to approval at the Annual General Meeting to be held on 6th May 2021, to shareholders on the register of members at the close of business on 26th March 2021. The dividends will be available in cash with a scrip alternative.

Cash Flow

Summarised Cash Flow

| | 2020 US\$m | 2019 US\$m |
|---|---------------|---------------|
| Cash generated from operations | 5,930 | 5,269 |
| Net interest and other financing charges paid | (483) | (573) |
| Tax paid | (804) | (964) |
| Dividends from associates and joint ventures | 632 | 1,133 |
| Operating activities | 5,275 | 4,865 |
| Capital expenditure and investments | (7,034) | (4,283) |
| Disposals | 5,900 | 3,583 |
| Cash flow before financing | 4,141 | 4,165 |
| Principal elements of lease payments | (962) | (1,016) |
| Other financing activities | (1,357) | (1,024) |
| Net increase in cash and cash equivalents | 1,822 | 2,125 |

Despite the impact of COVID-19, cash inflow from operating activities for the year of US\$5,275 million was US\$410 million higher than 2019. This was principally due to reductions in net working capital mainly in Astra's Heavy Equipment, Mining and Construction, and Financial Services businesses as a result of lower activities and focused management; and lower financing charges and tax paid; which more than offset the lower operating profit and dividends received from Hongkong Land's property joint ventures and Astra's joint ventures in its Automotive business.

Capital expenditure and investments for the year before disposals amounted to US\$7,034 million (2019: US\$4,283 million). This included the following:

- US\$4,660 million for additions to investment properties, which included US\$4,485 million for Hongkong Land's acquisition of a mixed-use site in the Xuhui District in Shanghai (the 'West Bund project');
- US\$931 million for investments in various associates and joint ventures, primarily Hongkong Land's investments of US\$837 million in Development Property projects, most of which were joint venture projects in the Chinese mainland in Shanghai, Chongqing, Chengdu and Wuhan; Mandarin Oriental's shareholders' loans to its associate and joint venture hotels of US\$41 million; and Astra's investments in and capital injections into associates and joint ventures of US\$27 million, including US\$24 million related to investments in toll road concessions;
- US\$659 million for the purchase of tangible assets, which included US\$290 million in Astra (of which US\$173 million was for the acquisition of heavy equipment and machinery, predominantly by Pamapersada, US\$49 million was for outlet development and additional operational machinery and equipment in Astra's automotive business, and US\$31 million was to improve plantation infrastructure in Astra's agribusiness); US\$233 million in Dairy Farm for new store expansion and the refurbishment of existing stores; US\$33 million in Jardine Motors for dealership developments; and US\$39 million in Mandarin Oriental for the renovation of hotel properties;
- US\$494 million for the purchase of other investments, which included US\$478 million of securities by Astra's general insurance business; and
- US\$131 million for the purchase of intangible assets, which included US\$52 million for mining exploration costs and US\$30 million for the acquisition of contracts by Astra's general insurance business.

In 2019, the Group's principal capital expenditure and investments included:

- US\$2,113 million for investments in various associates and joint ventures, primarily Hongkong Land's investments of US\$1,562 million in Development Property projects, most of which were joint venture projects in the Chinese mainland; Astra's investments in and capital injections into associates and joint ventures of US\$285 million, which mainly related to

investments in toll road concessions; Jardine Cycle & Carriage's acquisition of an additional 1.3% interest in Thaco of US\$168 million, which increased its shareholding to 26.6%; and Jardine Strategic's US\$64 million investment in a virtual bank joint venture in Hong Kong;

- US\$1,234 million for the purchase of tangible assets by Group companies;
- US\$409 million for the purchase of other investments, which included US\$299 million of securities by Astra's general insurance business and US\$100 million for Astra's additional investments in Gojek;
- US\$224 million for the purchase of intangible assets, which included US\$86 million for mining exploration costs and US\$40 million for the acquisition of contracts by Astra's general insurance business; and
- US\$171 million for additions to investment properties in Hongkong Land and Astra.

The contribution to the Group's cash flow from disposals for the year amounted to US\$5,900 million (2019: US\$3,583 million), which principally included:

- US\$2,566 million being proceeds received relating to Hongkong Land's sale of a 57% interest in a subsidiary – becoming a 43%-owned joint venture – which owns the West Bund project in the Chinese mainland;
- US\$1,436 million relating to advances and repayments from associates and joint ventures in Hongkong Land;
- US\$1,136 million from Astra's sale of Permata Bank;
- US\$109 million and US\$84 million from Dairy Farm's sale of Wellcome Taiwan and Rose Pharmacy, respectively; and
- US\$445 million from the sale of other investments by Astra's general insurance business.

The Group's cash flow from disposals in 2019 included principally the net proceeds of US\$2,084 million from sale of the Group's interest in Jardine Lloyd Thompson.

During the year, shares in the Company were repurchased at a total cost of US\$549 million (2019: US\$328 million). Additional shares in Group companies, primarily shares in Mandarin Oriental, were also purchased at a total cost of US\$27 million (2019: US\$277 million). These purchases are recognised as part of financing activities in the Consolidated Cash Flow Statement.

The Group's management also monitors total capital investment across the Group. The Group's capital investment, including expenditure on properties for sale, was US\$7.6 billion in 2020 (2019: US\$5.8 billion), in addition to which capital investment at its associates and joint ventures exceeded US\$2.5 billion (2019: US\$4.8 billion). Continued investment during the COVID-19 pandemic reflected the Group's capital allocation framework, prioritising organic investments in the Group's businesses, and the Group's strong balance-sheet position.

Treasury Policy

The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objectives are to limit foreign exchange and interest rate risks to provide a degree of certainty about costs. The investment of the Group's cash resources is managed so as to minimise risk, while seeking to enhance yield. Appropriate credit guidelines are in place to manage counterparty risk.

When economically sensible to do so, borrowings are taken in local currency to hedge foreign exchange exposures on investments. A portion of borrowings is denominated in fixed rates. Adequate headroom in committed facilities is maintained to facilitate the Group's capacity to pursue new investment opportunities and to provide some protection against market uncertainties. Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt from banks and capital markets, both short and long term in tenor, to give flexibility to develop the business.

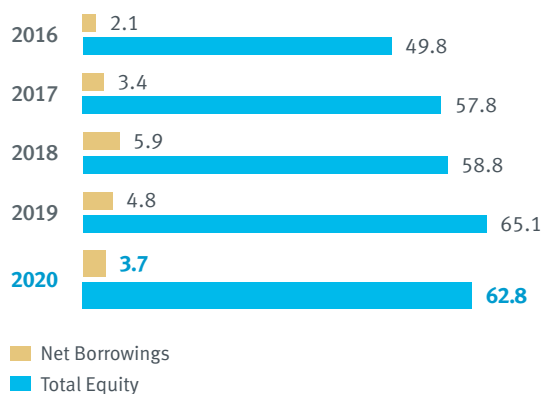
The Group's Treasury operations are managed as cost centres and are not permitted to undertake speculative transactions unrelated to underlying financial exposures.

Note 43 of the financial statements summarises the Group's financial risk factors.

Funding

The Group is well financed with strong liquidity. Net gearing, excluding net borrowings relating to Astra's financial services companies, was 6% at 31st December 2020, slightly down from 7% at the end of 2019. Net borrowings, on the same basis, were US\$3.7 billion at 31st December 2020, compared with US\$4.8 billion at the end of 2019. Astra's financial services companies had net borrowings of US\$2.8 billion at the end of the year, compared with US\$3.3 billion at the end of 2019.

Net Borrowings* and Total Equity (US\$ billion)



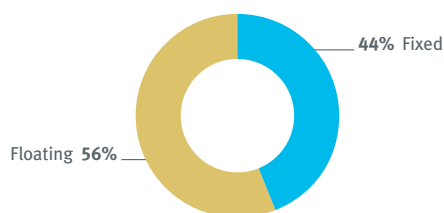
* Excluding net borrowings of Astra's financial services companies.

At the year end, undrawn committed facilities totalled US\$7.0 billion. In addition, the Group had liquid funds of US\$9.2 billion. During the year, the Group's total equity decreased by US\$2.3 billion to US\$62.8 billion.

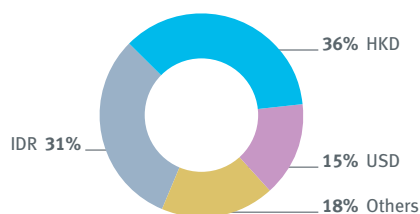
The average tenor of the Group's borrowings at 31st December 2020 was 4.5 years, up from 4.0 years at the end of 2019. 85% of borrowings were non-US dollar denominated and directly related to the Group's businesses in the countries of the currencies concerned. At 31st December 2020, approximately 56% of the Group's borrowings, exclusive of Astra's financial services companies, were at floating rates and the remaining 44% were at fixed rates including those hedged with derivative financial instruments with major creditworthy financial institutions. 96% of the borrowings for Astra's financial services companies were at fixed rates.

Borrowings profile at 31st December 2020

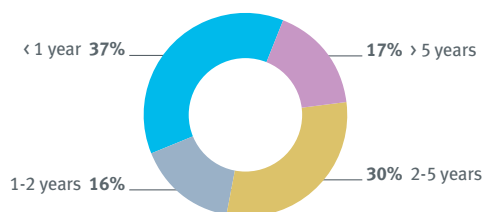
Interest rate*



Currency



Maturity

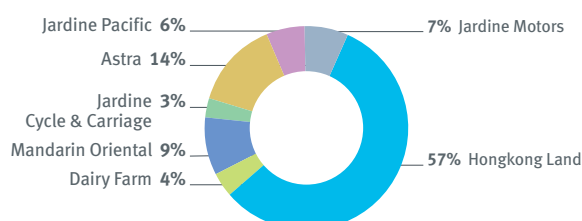


* Excluding Astra's financial services companies.

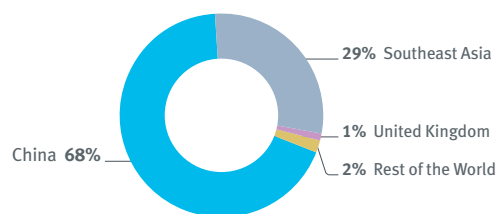
Shareholders' Funds

Shareholders' funds at 31st December 2020 are analysed below, by business and by geographical area. There were no significant changes from the prior year.

By Business



By Geographical Area



Principal Risks and Uncertainties

A review of the principal risks and uncertainties facing the Group is set out on page 162.