Financial Review

Graham Baker, Group Finance Director

Results

Underlying business performance

	2023 US$m	2022 US$m
Revenue	**36,049**	37,496
Operating profit	**4,289**	4,126
Net financing charges	**(516)**	(428)
Share of results of associates and joint ventures	**1,261**	1,232
Profit before tax	**5,034**	4,930
Tax	**(932)**	(964)
Profit after tax	**4,102**	3,966
Non-controlling interests	**(2,441)**	(2,382)
Underlying profit attributable to shareholders	**1,661**	1,584
Non-trading items	**(975)**	(1,230)
Net profit	**686**	354
	US$	US$
Underlying earnings per share	**5.74**	5.49
Earnings per share	**2.37**	1.22

The Group's underlying profit and underlying earnings per share both grew by 5% in 2023 (7% and 6% respectively at constant exchange rates).

Solid performance despite challenging market conditions in China and Vietnam, reflects the Group's diversified portfolio of leading businesses. Strong growth and a record contribution from Astra, and significantly improved contributions from DFI Retail and Mandarin Oriental, more than offset lower contributions from two of our largest associates, Zhongsheng and THACO.

Revenue

The Group's revenue of US$36.0 billion in 2023 was 4% less than the prior year, principally as a result of the disposals of the Giant grocery business in Malaysia by DFI Retail and Jardine Motors Group in the United Kingdom. Revenue in the Group's ongoing businesses grew by 2% in the year.

Jardine Motor Interests reported an overall 92% decrease in sales as the consolidation of the United Kingdom motors business ceased in February 2023 and the sale of the business completed in March 2023.

Astra recorded an increase in sales of 3% from 2022, with higher sales in the majority of its businesses. Automotive achieved higher sales in its car sales operations, while the Financial Services businesses delivered increases in new amounts financed, and the mining contracting and coal mining operations increased volumes.

DFI Retail's revenue was marginally lower than last year. Strong sales growth in its Health and Beauty and Convenience Store businesses benefitted from the re-opening of borders and an increase in tourists. However, the Food business saw a reduction in sales, mainly due to the disposal of the operations in Malaysia, the increase in outbound travelling, and fierce competition.

Mandarin Oriental's subsidiary hotels recorded a 23% increase in revenue, with strong demand and increased occupancy at higher rates following the removal of travel restrictions, particularly in Hong Kong. Higher revenue from management contracts was recorded, with increased management fees.

Jardine Cycle & Carriage's Direct Motor Interests recorded a 6% increase in sales from 2022, driven by its motor vehicle operations in Singapore.

Hongkong Land's revenue decreased by 18% from 2022, primarily due to Development Properties, with lower residential properties sales on the Chinese mainland as market sentiment remained weak, despite some improvement in top-tier cities seen in the later part of the year.

Jardine Pacific recorded a sales increase of 3%, mainly due to JEC's higher sales in the Hong Kong engineering operation and higher passenger car sales in Zung Fu Hong Kong.

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 4% to US$109.8 billion. The decrease was mainly from Zhongsheng, DFI Retail's associate Yonghui and Jardine Cycle & Carriage's associate in Vietnam, THACO; this was partly offset by an increase from Hongkong Land's property associates and joint ventures and Astra's associates in the Indonesia Automotive and Heavy Equipment businesses.

Operating profit

Operating profit from the Group's subsidiaries, excluding non-trading items, was US$4,289 million, an increase of US$163 million or 4%.

Astra's underlying operating profit increased by 3% to US$2,996 million, reflecting improved performances from most of the group's business divisions, especially the automotive and financial services divisions. Profits were lower in the Agribusiness due to lower crude palm oil prices.

DFI Retail's underlying operating profit was US$294 million, 41% higher than 2022. Higher operating profit in Health and Beauty was driven by strong healthcare sales in Hong Kong and Convenience Stores, attributable to the increase in store traffic following the border reopening. These increases were partially offset by lower contributions from Food business in Hong Kong, which was impacted by the absence of pantry stocking seen during the fifth wave of COVID in early 2022, and South East Asia which was impacted by the competitive environment. The Home Furnishings business reported lower profit from 2022 primarily due to the softer property market.

Mandarin Oriental recorded an underlying operating profit of US$102 million, US$81 million higher than 2022. Most of its owned hotels, notably Hong Kong and Tokyo, reported higher contributions, driven by increased occupancy and higher rates. There was also a higher contribution from the management business, driven by higher hotel management fees and residences branding fees.

Jardine Cycle & Carriage's motor operations reported an underlying operating profit of US$84 million in 2023, ahead of 2022 due to the favourable exchange translation of foreign currency loans, whilst its motor operations continued to produce stable contributions.

Hongkong Land's underlying operating profit decreased by US$52 million to US$793 million. Lower earnings from the sale of Development Properties in Singapore and the Chinese mainland were recorded, mitigated by higher contributions from Investment Properties on the Chinese mainland.

Jardine Pacific reported an operating profit of US$63 million, which was US$34 million down from 2022, due to challenging conditions and asset impairments in the Restaurant business. Performance of the businesses of the group's other subsidiaries was largely in line with 2022.

Jardine Motor Interests' overall underlying operating profit decreased by US$49 million or 98%, following the disposal of the Group's United Kingdom dealerships in the first quarter of the year.

Net financing charges

Net financing charges at US$516 million were US$88 million higher compared to 2022, principally due to higher average interest rates and the higher average level of net borrowings. Interest cover, excluding financial services companies, although decreased from 15 times to 12 times in 2023, remained ample, reflecting the Group's cautious approach to financial leverage. Cover is 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$1,261 million share of underlying results of associates and joint ventures was US$29 million, or 2%, higher than 2022.

The contribution from Astra's associates and joint ventures increased by US$80 million in 2023 to US$609 million, resulting from the strong performance of its Automotive business, with increased car sales volumes.

DFI Retail's associates and joint ventures reported an improved performance and recorded an overall profit of US$43 million in 2023, US$78 million higher than 2022. The contribution from Maxim's, DFI Retail's 50%-owned associate, was up US$41 million to US$79 million in 2023, mainly due to business recovery in Hong Kong and the Chinese mainland following the full reopening of the economies. DFI Retail's 21%-owned associate, Yonghui, reported a lower loss at US$36 million in 2023, compared to a US$80 million loss in 2022, attributable to the improvement in gross margin as well as cost optimisation. DFI Retail's 21%-owned associate Robinsons Retail continued to report strong sales, but made a lower contribution, caused by higher net financing charges and unfavourable foreign exchange impact.

Jardine Pacific's associates and joint ventures performed better in 2023. Jardine Schindler reported improved contribution, Gammon benefitted from higher financing income and Jardine Aviation Services reported a net profit compared to a loss in 2022, driven by higher flight volume as the recovery in air travel continued.

Contributions from Hongkong Land's associates and joint ventures increased slightly by US$6 million to US$235 million. Higher average rental in Investment Properties was partly offset by lower contributions from Development Properties, with significantly lower sales completions on the Chinese mainland, due to challenging market conditions.

In Mandarin Oriental, a marginal loss from associates was reported in 2023, compared to a profit of US$10 million in 2022, due to the closure of the Singapore hotel for renovation.

The overall contribution from Jardine Cycle & Carriage's associates and joint ventures decreased by US$37 million to US$122 million. Their 26.6%-owned associate in Vietnam, THACO, reported a lower contribution impacted by weaker consumer sentiment and intense competition. REE, a 34.9%-owned associate, reported a lower contribution due to unfavourable weather conditions leading to lower profit from its renewable energy investments. These lower contributions were offset by higher profits in the automotive, financial services and leasing businesses reported by Jardine Cycle & Carriage's 49.9%-owned associate Tunas Ridean in Indonesia. 25.5%-owned SCCC delivered an improved contribution from 2022, due to the absence of the one-off tax adjustment made in 2022.

The Group's underlying contribution from Zhongsheng in 2023 of US$139 million was US$124 million lower than last year, due to a challenging market environment on the Chinese mainland and the accounting change to better reflect current progress and development at Zhongsheng.

As noted last year, the Group has changed the accounting for Zhongsheng's results in 2023, to reflect an estimate of their results for the second half of the year, based on recent external analysts' forecasts. This change has been adopted prospectively from 1st January 2023 and, as such, the Group's share of Zhongsheng's results for the year ended 31st December 2023 is presented as underlying profit. Whereas, for the 2022 prior year contribution from Zhongsheng, the Group reported its results with six months in arrears. Had the current policy also applied in 2022, the drop in underlying contribution from Zhongsheng recognised in 2023 would have been approximately 40% smaller. The Group's share of Zhongsheng's 2022 second half results is included as a non-trading item, so as not to distort the current year's underlying performance.

Tax

The underlying effective tax rate for the year was 25%, which was broadly in line with that of 2022.

Non-trading Items

In 2023, the Group had net non-trading losses attributable to shareholders of US$975 million, which included a net decrease of US$1,066 million in the fair value of investment properties and impairment of goodwill of US$172 million, offset by gains on the sale of properties of US$105 million, and the US$101 million share of Zhongsheng's 2022 second half profit (resulting from a change in accounting policy, see "Share of results of associates and joint ventures" above).

In 2022, the Group had net non-trading losses of US$1,230 million, which included a net decrease of US$604 million in the fair value of investment properties, a net decrease of US$327 million in the fair value of other investments, and impairment of investment in associates of US$320 million.

Dividends

The Board is recommending a final dividend of US$1.65 per share for 2023, providing a total annual dividend for 2023 of US$2.25 per share, a 5% increase from 2022. The final dividend will be payable on 15th May 2024, subject to approval at the Annual General Meeting to be held on 8th May 2024, to shareholders on the register of members at the close of business on 22nd March 2024. The dividend will be available in cash, with a scrip alternative.

Cash Flow

Summarised cash flow

	2023 US$m	2022 US$m
Cash generated from operations	**5,549**	5,287
Net interest and other financing charges paid	**(541)**	(387)
Tax paid	**(1,307)**	(1,006)
Dividends from associates and joint ventures	**883**	931
Operating activities	**4,584**	4,825
Capital expenditure and investments	**(4,668)**	(3,507)
Disposals and repayments from associates and joint ventures	**2,314**	914
Cash flow before financing	**2,230**	2,232
Acquisition of the remaining interest in Jardine Strategic	**(5)**	(21)
Principal elements of lease payments	**(856)**	(875)
Other financing activities	**(2,511)**	(2,379)
Net decrease in cash and cash equivalents	**(1,142)**	(1,043)

Cash inflow from operating activities for the year was US$4,584 million, compared with US$4,825 million in 2022. The decrease of US$241 million from 2022 was due to lower operating profit in Hongkong Land, and higher tax paid by Astra and Hongkong Land, offset by decreased working capital, principally in Hongkong Land and Jardine Cycle & Carriage.

Capital expenditure and investments for the year, before disposals, amounted to US$4,668 million *(2022: US$3,507 million)*. This included the following:

- US$1,667 million for the purchase of tangible assets, which included US$1,377 million in Astra (of which US$1,208 million was for the acquisition of heavy equipment and machinery to accommodate increased business activity, predominantly by Pamapersada), and US$173 million in DFI Retail for refurbishment of existing stores;
- US$1,621 million for investments in various associates and joint ventures, primarily Hongkong Land's investments of US$722 million in Development Properties projects, most of which were joint venture projects on the Chinese mainland in Chongqing and Beijing, and Singapore; and Astra's investment in Nickel Industries of US$616 million;
- US$671 million for the purchase of other investments, which included US$288 million in Astra (of which US$285 million represented the acquisition of securities in relation to its financial services businesses); and Jardine Cycle & Carriage's further investment in THACO through subscription for a US$357 million five-year convertible bond; and
- US$378 million for the acquisition of subsidiaries, which included US$285 million for Astra's acquisition of PT Anugerah Surya Pasific Resources, PT Stargate Pasific Resources and PT Stargate Mineral Asia.

In 2022, the Group's principal capital expenditure and investments included:

- US$1,460 million for investments in various associates and joint ventures, primarily Hongkong Land's investments of US$1,012 million in Development Property projects, most of which were joint venture projects on the Chinese mainland in Chongqing, Shanghai, Chengdu and Suzhou; and Astra's investment in Bank Jasa Jakarta of US$260 million, investments in its toll road concession businesses of US$44 million, and investments in PT Mobilitas Digital of US$41 million and PT Arkora Hydropower Plant of US$18 million;
- US$1,014 million for the purchase of tangible assets, which included US$709 million in Astra (of which US$565 million was for the acquisition of heavy equipment and machinery, predominantly by Pamapersada, US$57 million was for outlet development and additional operational machinery and equipment in Astra's automotive business, and US$53 million was to improve plantation infrastructure in Astra's agribusiness) and US$224 million in DFI Retail for investments in digital capability and refurbishment of existing stores;
- US$645 million for the purchase of other investments, which included US$481 million in Astra (of which US$327 million represented acquisition of securities, US$99 million of investment in a digital health ecosystem platform, US$31 million for an online consumer credit platform and U$14 million for a technology-based logistics startup); and US$151 million in Corporate, the majority of which was for capital calls by Hillhouse Fund V Feeder, L.P.; and
- US$154 million for the purchase of intangible assets, which included US$60 million for mining exploration costs and US$38 million for the acquisition of contracts by Astra's general insurance business.

The contribution to the Group's cash flow from disposals for the year amounted to US$2,314 million *(2022: US$914 million)*, which included US$1,252 million primarily related to repayments from associates and joint ventures in Hongkong Land. The Group also continued to progress the simplification of its portfolio by divesting non-core investments when opportunities arose:

- US$364 million from sale of tangible assets, primarily DFI Retail's sale and sale and leaseback of properties in Singapore, Malaysia and Indonesia and Jardine Cycle & Carriage's sale of its properties in Singapore under a sale and leaseback arrangement;
- US$359 million being proceeds received, net of transaction costs, relating to sale of the automotive dealership business in the United Kingdom;
- US$161 million, primarily from the sale of Astra's investment in relation to its financial services businesses; and
- US$134 million from the sale of associates and joint ventures, primarily Jardine Pacific's investment in Greatview Aseptic Packaging Company.

The Group's cash flow from disposals in 2022 included principally:

- US$416 million primarily related to repayments from associates and joint ventures in Hongkong Land;
- US$227 million from the sale of securities by Astra's general insurance business; and
- US$131 million from the sale of the hotel in Washington D.C. by Mandarin Oriental.

The Group continued to focus on making organic and strategic investments to sustain the business and drive future growth during 2023. The Group's organic capital expenditure, including expenditure on properties for sale, was US$3.4 billion *(2022: US$3.8 billion)*, and strategic investments added a further US$1.8 billion *(2022: US$1.5 billion)* to capital expenditure in 2023. Additional capital investment within the Group's associates and joint ventures was over US$5.2 billion *(2022: US$4.3 billion)*.

During the year, the Company also repurchased its own shares (for cancellation) at a total cost of US$209 million *(2022: US$173 million)*. Additional shares in Group companies were also purchased in 2023. Shares in Jardine Cycle & Carriage were acquired at a total cost of US$136 million *(2022: US$130 million)* and Mandarin Oriental shares at a total cost of US$18 million *(2022: US$1 million)*. There were share buybacks in Hongkong Land at a total cost of US$83 million *(2022: US$352 million)*. These purchases are recognised as part of financing activities in the Consolidated Cash Flow Statement.

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. 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.

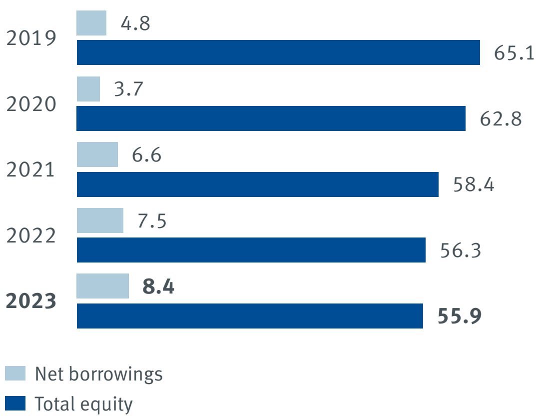
When economically sensible to do so, borrowings are taken in local currency to hedge foreign exchange exposures on investments. A portion of borrowings is denominated in fixed rates. Adequate headroom in committed facilities is maintained to facilitate the Group's capacity to pursue new investment opportunities 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 42 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 15% at 31st December 2023, up from 13% at the end of 2022. This principally reflected higher capital expenditure (both organic and for M&A) as well as enhanced dividend payments at Astra during the year. Net borrowings, on the same basis, were US$8.4 billion at 31st December 2023, compared with US$7.5 billion at the end of 2022. Astra's financial services companies had net borrowings of US$3.4 billion at the end of the year, compared with US$2.8 billion at the end of 2022.

Net borrowings* and total equity (US$ billion)



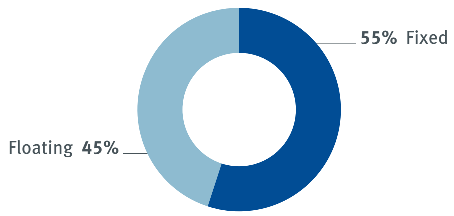
* Excluding net borrowings of Astra's financial services companies.

At the year end, undrawn committed facilities totalled US$9.0 billion. In addition, the Group had liquid funds of US$4.8 billion. During the year, the Group's total equity decreased by US$0.4 billion to US$55.9 billion.

The average tenor of the Group's borrowings at 31st December 2023 was 4.4 years, the same as 2022. 82% of borrowings were non-US dollar denominated, as shown below, and directly related to the Group's businesses in the countries of the currencies concerned. At 31st December 2023, approximately 45% of the Group's borrowings, exclusive of Astra's financial services companies, were at floating rates and the remaining 55% were at fixed rates, including those hedged with derivative financial instruments with major creditworthy financial institutions. 91% of the borrowings for Astra's financial services companies were at fixed rates.

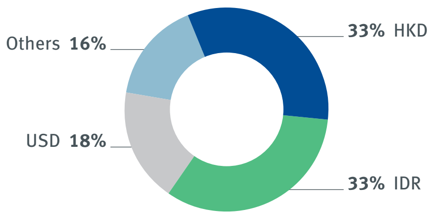
Borrowings profile at 31st December 2023

Interest rate*

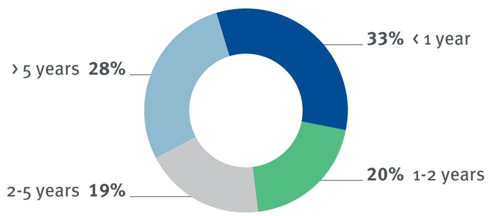


*Excluding Astra's financial services companies.

Currency



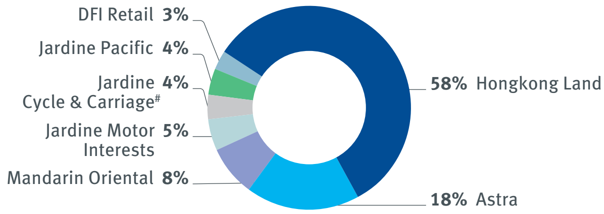
Maturity



Shareholders' Funds

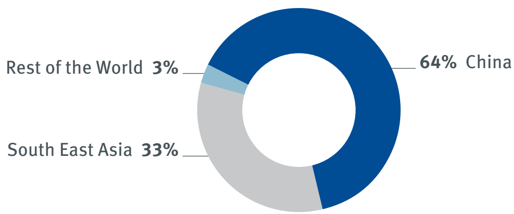
Shareholders' funds at 31st December 2023 are analysed below, by business and by geographical area. There were no significant changes from the prior year.

By business



Excluding Astra.

By geographical area



Principal Risks and Uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 88 to 96.

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').

The Group has applied IFRS 17 "Insurance Contracts" for the first time for the annual reporting period commencing 1st January 2023. As included in note 1 to the financial statements, the adoption of IFRS 17 does not have a material effect on the financial statements, but the comparative financial statements have been restated as the Group applied IFRS 17 using a retrospective approach.