# Chairman's Statement

**"2020 was a challenging year for Dairy Farm, with the COVID-19 pandemic impacting the Group's operations and, as a result, its financial results. Continued progress in implementing the Group's transformation programme, however, helped the business adapt to the rapidly changing environment, while the diversity of the Group's businesses, coupled with the impact of ongoing efficiency improvement programmes, supported the Group's overall financial performance."**

## Overview

2020 was a challenging year for Dairy Farm, with the COVID-19 pandemic impacting the Group's operations and, as a result, its financial results. Continued progress in implementing the Group's transformation programme, however, helped the business adapt to the rapidly changing environment, while the diversity of the Group's businesses, coupled with the impact of ongoing efficiency improvement programmes, supported the Group's overall financial performance. A number of key initiatives gathered momentum in the year and the Group is now more effectively leveraging scale and developing an improved customer proposition across all banners and markets.

## Operating performance

Sales of US$10.3 billion for the year by the Group's subsidiaries were 8% behind those of 2019. Total sales, including 100% of associates and joint ventures, were 2% higher at US$28.2 billion, primarily due to a higher sales contribution from Yonghui.

The Group's subsidiaries saw underlying operating profit of US$412 million, 6% behind the previous year. Strong growth in operating profit for Grocery Retail and IKEA was offset by a reduction in profit for the Health and Beauty and Convenience businesses. Among the Group's subsidiaries, disruption caused by the COVID-19 pandemic has had the greatest impact on our Health and Beauty business in Hong Kong.

Underlying profit attributable to shareholders was US$276 million, down 14% from US$321 million last year. Underlying earnings per share of US¢20.38 were also down 14%.

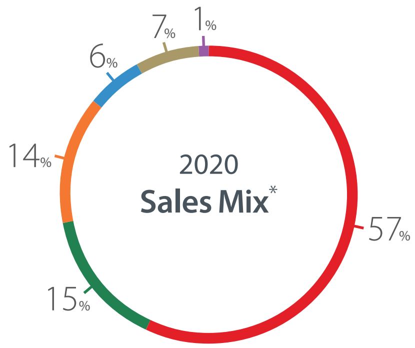
The Group maintained solid cash flows from operating activities, after lease payments, of US$361 million *(2019: US$498 million)*. Net debt at the end of 2020 was US$817 million, down from US$821 million at the end of last year.

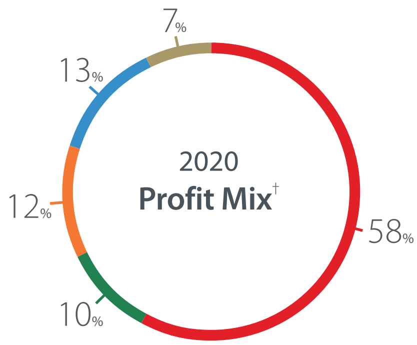
The Board is recommending a final dividend of US¢11.50 per share, giving a total dividend of US¢16.50 per share for the year, a 21% reduction compared to 2019.

### Food – Grocery Retail

Total Grocery Retail sales increased by 3% to US$5.3 billion. Strong like-for-like sales growth across both North Asia and Southeast Asia was partially offset by the annualisation impact of the Group's space optimisation programme, which was executed in 2019.

Operating profit for the Group's Grocery Retail business increased significantly from US$63 million in 2019 to US$267 million in 2020, demonstrating the benefit of a diversified retail portfolio. There was strong profit growth across both North Asia and Southeast Asia, driven by benefits accrued from implementing improvement programmes, strong like-for-like sales and government subsidies. Performance in Indonesia, however, was negatively impacted by significant government restrictions on movement, which affected traffic into hypermarkets.




- Grocery Retail
- Convenience Stores
- Health and Beauty
- Home Furnishings
- Restaurants
- Other Retailing

* Including share of associates and joint ventures.

† Based on operating profit before effect of adopting IFRS 16 and share of results of associates and joint ventures, excluding selling, general and administrative expenses and non-trading items.

### Food – Convenience

Disruption caused by the pandemic impacted customer traffic into our Convenience stores, resulting in a 4% reduction in sales to US$2.1 billion. Operating profit decreased by 31% to US$57 million, driven primarily by a combination of the shortfall in sales and a sales mix shift towards lower product margin categories.

### Health and Beauty

Total sales for the Health and Beauty Division reduced by 35% to US$2.0 billion as the pandemic impacted customer traffic across our key markets. In North Asia, enforced border closures have led to a virtual elimination of tourism, most notably from the Chinese mainland, which has significantly impacted our Mannings business in Hong Kong and Macau. The resultant decline in sales performance was the primary cause of a significant decrease in operating profit from US$296 million in 2019 to US$66 million.

Faced with challenging trading conditions, the Group is focusing on ensuring that its customer value proposition – from the perspective of pricing, stores and channel to market - remains relevant and competitive. Price investment campaigns have been introduced across our key markets with encouraging results so far. The Group is also managing costs appropriately.

### Home Furnishings

In Home Furnishings, sales for IKEA increased by 9% in the year, as new store openings and strong e-commerce growth offset pandemic related disruption. Operating profit increased by US$28 million to US$71 million, due to a combination of new store profit contribution, lower cost of goods, strong cost controls, reduced pre-opening expenses for new stores and government support.

### Associates

The contribution from 50%-owned Maxim's declined to US$36 million, from US$82 million in the prior year, as the pandemic, government-imposed restrictions on movement and social distancing measures caused a significant reduction to customer visits to restaurants, as well as leading to some temporary closures.

The Group's share of underlying results in Yonghui grew from US$23 million in 2019 to US$29 million in 2020, primarily due to strong sales growth. Dairy Farm's share of underlying results in Robinsons Retail fell by 5% to US$14 million. The financial performance of Robinsons Retail in the year was impacted by government restrictions on movement due to the pandemic, particularly with respect to its discretionary formats.

## Transformation

During the year, the Group's transformation gathered momentum with the completion of a number of key initiatives.

Dairy Farm is accelerating the pace of its digital change to adapt to the rapidly changing environment.

The launch of Yuu Rewards in July 2020 represented a critical milestone in driving Dairy Farm's modernisation and digital transformation. Yuu will support a more customer-centric approach across all the Dairy Farm banners and drive an enhanced level of customer engagement.

There has also been continuing investment in e-commerce, especially in the Group's Home Furnishings and Health and Beauty businesses, and the Group is treating this area as a strategic priority. The Group is also investing significantly in existing legacy IT systems to improve the digitisation of in-store operations.

During the year, the Group also launched Meadows, its new Own Brand offering across Hong Kong, Singapore and Malaysia. Over 600 items have already been launched across banners and markets at lower prices. The future growth of Own Brand will allow the Group to leverage scale and gain competitive advantage.

A number of price investment campaigns were introduced across key banners in the year to enhance our customer value proposition across our regions. In Singapore, the Group's price reinvestment campaign coincided with the relaunch of the Giant banner with a major rebrand and space reallocation in refreshed or refitted stores. Initial performance has been encouraging.

## Business developments

The Group divested Wellcome Taiwan during the year. In October, Dairy Farm deepened its strategic partnership with Philippines-listed multi-format retail group, Robinsons Retail, by combining its interests in the wholly-owned subsidiary Rose Pharmacy through a sale to Robinsons Retail's subsidiary Southstar Drug.

As at 31st December 2020, Dairy Farm, including associates and joint ventures, operated 9,997 stores across all formats, compared with 10,012 stores at 31st December 2019 on a continuing basis.

## People

Our businesses are operating in extraordinary circumstances and our people are facing huge challenges. We would like to express our deep gratitude for the continuing dedication and resolve of our team members in putting our customers first during these difficult times.

The Group made significant investments in the year to address the challenges of COVID-19 and support employees, customers and the community. These costs were offset by support received from governments in several of our key markets, which has helped maintain employment in a number of our businesses.

We were pleased to welcome Clive Schlee as a Non-Executive Director of the Company with effect from 6th May 2020. He brings many years of valuable experience within FMCG businesses. John Witt succeeded me as Managing Director on 15th June 2020. I will continue as Chairman.

Jeremy Parr and Mark Greenberg stepped down as Directors of the Company on 3rd December and 31st December 2020 respectively. We would like to thank them both for their contribution to the Board during their tenure.

## Prospects

We remain confident in the Group's ability to continue to adapt and thrive and achieve long-term sustainable growth, with good progress being made in implementing the Group's customer-focused and market-driven strategy. We expect challenging conditions to continue in the coming year, however, it is too early to predict what the impact of the pandemic will be on the Group's performance in 2021.

**Ben Keswick**
Chairman
11th March 2021