Financial Review

"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."

* Including share of associates and joint ventures.
† On a 100% basis.

Accounting policies

The accounting policies are consistent with those of the previous year. The Directors continue to review the appropriateness of the accounting policies adopted by the Group, regarding developments in International Financial Reporting Standards ('IFRS'). In 2020, the Group has early adopted the COVID-19 Related Rent Concessions: Amendment to IFRS 16 Leases. The Amendment allows rent concessions, which are granted as a direct consequence of the COVID-19 pandemic, to be recognised in the profit and loss over the period to which they relate, subject to satisfying specific conditions, rather than as a modification of the lease following IFRS 16 'Leases'. Adoption of the Amendment results in the recognition of US$69 million of rent concessions in other operating income.

Results

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 improvement programmes, supported the Group's overall financial performance.

Sales, excluding those of associates and joint ventures, totalled US$10.3 billion, down 8% on last year. Total sales, including 100% of associates and joint ventures, were 2% higher at US$28.2 billion, due primarily to a higher sales contribution from Yonghui.

Underlying operating profit amounted to US$412 million, a reduction of 6% compared with last 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 and Convenience businesses.

Significant sales and profit growth was seen in the Grocery Retail business, driven by changing customer behaviours in response to the pandemic. There was strong profit growth across North Asia and Southeast Asia, driven by benefits accrued from implementing improvement programmes, strong sales and government subsidies. Performance in Indonesia, however, was impacted negatively by government restrictions on movement, which affected traffic into hypermarkets.

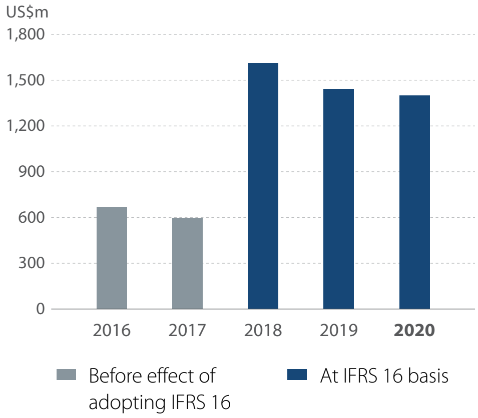
Home Furnishings traded strongly, benefitting from strong e-commerce growth and an increase in the store network, which offset the pandemic-related disruption.

Performance for the Health and Beauty business was impacted adversely by COVID-19 due to a lack of tourist travel, reduced footfall in shopping malls and temporary store closures because of government measures to counter the pandemic. In North Asia, enforced border closures have led to impacted tourism, which has impacted our Mannings business significantly. Government imposed restrictions on movement and reduction in foot traffic impacted performance for the Convenience business.

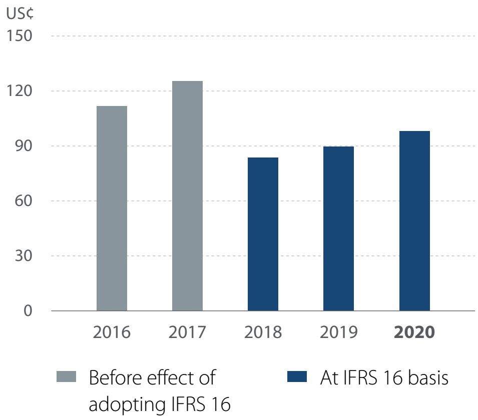
Net financing charges decreased by US$16 million compared with 2019, in part reflecting a reduced borrowing level and lower interest rates.

The Group's share of the results of associates and joint ventures decreased by 33% to US$85 million compared with 2019, principally due to a significantly lower contribution from Maxim's, as the pandemic, government-imposed restrictions on movement and social distancing measures caused a substantial reduction to customer visits to restaurants, as well as leading to some temporary closures. Following Yonghui's cancellation of treasury shares in July 2020,

Underlying EBITDA



Net Asset Value per Share



the Group's interest in Yonghui, which saw strong sales growth in 2020, increased from 19.99% to 20.10%. The financial performance of Robinsons Retail was impacted adversely by government restrictions on movement due to the pandemic, particularly with respect to its discretionary formats.

The tax charge for 2020 was US$74 million, 7% higher than 2019, mainly due to an additional tax provision for intra-group royalties.

A one-off pre-tax charge of US$59 million was reported, which included predominantly non-cash charges to write down the value of assets to the recoverable amounts, and business restructuring costs relating to certain stores that have been identified for store closure following a review of Grocery Retail in Indonesia. The net cost after tax and non-controlling interests was

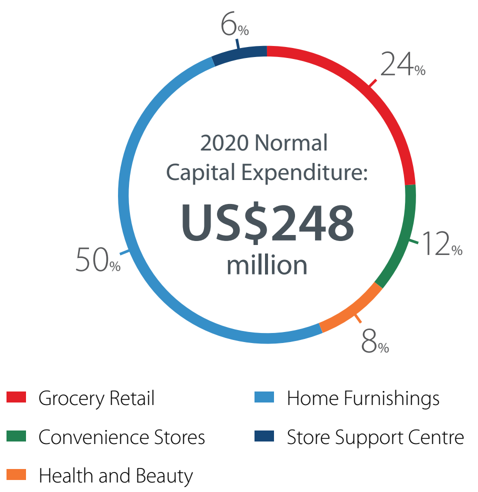
US$51 million. These charges have been classified as non-trading items due to the scale of the plan and the impact that it will have on the business. The net cash impact is expected to be less than US$10 million. The goodwill associated with PT Hero was also impaired in full.

Underlying profit attributable to shareholders was US$276 million, down 14% from US$321 million in 2019. Underlying earnings per share of US¢20.38 were also down by 14%, as compared with US¢23.72 in 2019.

Cash flow

Summarised Cash Flow	2020 US$m	2019 US$m
Underlying operating profit	**412**	437
Depreciation and amortisation	**983**	1,002
Other non-cash items	**(17)**	33
Increase in working capital	**(102)**	(77)
Net interest and other financing charges paid	**(143)**	(160)
Tax paid	**(110)**	(25)
Dividends received from associates	**68**	89
Other	**(24)**	(11)
Cash flows from operating activities	**1,067**	1,288
Principal elements of lease payments	**(706)**	(790)
Cash flows from operating activities after lease payments	**361**	498
Normal capital expenditure	**(248)**	(305)
Sales of subsidiaries, net of investments	**154**	(6)
Disposals	**8**	28
Cash flow from investing activities	**(86)**	(283)
Cash flow before financing but after lease payments	**275**	215

The Group maintained solid cash flows from operating activities after lease payments of US$361 million in the year, compared with US$498 million in 2019. The unfavourable movement in working capital in the year was due principally to investments to maintain availability during the early part of the pandemic, inventory stockpiling as a result of government policies in Singapore, settlement of supplier purchase obligations with respect to an earlier 2020 Chinese New Year as well as lower sales churn in the Health and Beauty business. Normal capital expenditure was lower at US$248 million versus US$305 million in 2019 due principally to tighter control on new store expansions and refurbishment of the existing store estate. The tax payment was higher at US$110 million versus US$25 million in 2019 due to a delay in the timing of the 2019 Hong Kong tax payment to 2020.



During the year, the Group deepened its strategic partnership with Robinsons Retail, by combining its interest in the wholly-owned subsidiary, Rose Pharmacy, through a sale to Robinsons Retail's subsidiary, South Star Drug, for cash proceeds of US$84 million. In addition, the Group divested its 100% interest in Wellcome Taiwan to Carrefour for US$109 million and invested US$15 million in a newly established digital joint venture to support its e-commerce development and drive digital innovation.

At 31st December 2020, the Group's businesses, including associates and joint ventures, operated a total of 9,997 stores across all formats in 12 markets, compared with 10,012 stores on a continuing basis at the end of 2019. Included in this total are 1,371 Yonghui stores, 1,741 Maxim's stores and 1,853 Robinsons Retail stores.

Balance sheet

Total assets, excluding cash and bank balances, of US$7.6 billion were broadly in line with 2019. Inventory was down by 13% to US$779 million, reflecting the continuous effort to manage inventory and clear poor-quality stocks. Net operating assets were US$1.3 billion at the end of 2020, an 8% increase versus the previous year.

The Group ended the year with net debt of US$817 million, broadly in line with last year's level.

Dividend

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 with 2019.

Financing

The Group, excluding associates and joint ventures, had gross debt of US$1,094 million at 31st December 2020, a drop of US$28 million from 2019. The gross debt is funded by total committed and uncommitted lines of US$3,091 million. At the end of 2020, US$1,319 million of committed and US$676 million of uncommitted facilities were unused and available. The Group had cash balances of US$278 million at 31st December 2020. The Group has implemented a global liquidity cash pooling scheme which enables the Group to manage and optimise its working capital funding requirements daily. The available undrawn committed facilities and the cash pooling scheme provide good support and flexibility to the Group for the cash in need for the operation. The Directors believe that the Group has strong liquidity to run the business during the pandemic and beyond.

Where required, and typically for working capital purposes, borrowings are normally taken out in local currencies by the Group's operating subsidiaries to fund daily operations. Borrowings to fund any strategic expansion of the Group are managed centrally and typically funded in United States dollars and Hong Kong dollars, with hedging of foreign exchange and interest rate risk as may be appropriate depending on the investment.

Financial risk management

A comprehensive discussion of the Group's financial risk management policies is included in note 38 to the financial statements. The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objectives are to limit exchange and interest rate risks and to provide a degree of certainty about costs. It is our policy not to engage in speculative derivative transactions. The investment of the Group's cash resources is managed to minimise risk while seeking to enhance yield. Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt (short and long-term), to maximise flexibility for the future development of the business.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 149 to 150.

Clem Constantine
Chief Financial Officer
11th March 2021