Chairman's Statement

" While difficult market conditions in Hong Kong impacted the Group's financial performance during the year, the multi-year transformation of the Dairy Farm Group continued to gain momentum during 2019, with signs of progress across our businesses. The Group's space optimisation plan, new store formats and improvement programmes together generated greater efficiencies and started to deliver tangible results. We expect this progress to continue in 2020, although the Group's results are being materially impacted by the ongoing COVID-19 outbreak. Performance for the remainder of the year will depend on the duration, geographic extent and impact of the outbreak and the measures taken to control it. "

Overview

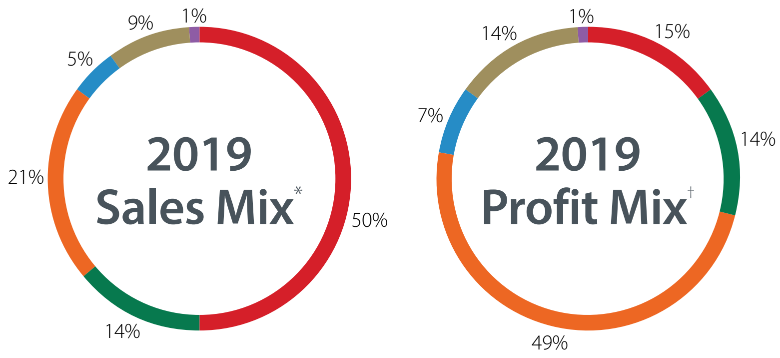
The Dairy Farm Group's multi-year transformation programme to reshape and reorganise the business adapting to the changing needs of customers, continued to gain momentum during 2019. Opportunities are being unlocked across the Group as the business seeks to leverage its scale effectively and develop a more coherent approach to improving its customer proposition, both by banner and at a country level.

While the Group began to see some early benefits from its transformation programme, profitability was impacted by market conditions in Hong Kong in the second half of the year caused by social unrest. The ongoing COVID-19 outbreak has added extra complexity to Group's businesses and the Group's results are being significantly impacted by it. Performance for the remainder of the year will depend on the duration, geographic extent and impact of the outbreak and the measures taken to control it. The Group's diverse retail portfolio does, however, provide some insulation against market uncertainties and Dairy Farm remains firmly focused on the successful delivery of its transformation.

Operating performance

Sales of US$11.2 billion for the year by the Group's subsidiaries were 5% behind those of 2018. Total sales of US$27.7 billion, including 100% of associates and joint ventures, were 26% higher, reflecting the investment in Robinsons Retail in the prior year.

The underlying operating profit of the Group's subsidiaries was US$437 million, 14% lower than 2018, primarily due to social unrest in Hong Kong which disrupted trading at some of the Group's banners in the second half of the year. Among the Group's subsidiaries, the impact was greatest for Mannings, because of the significant reduction in the number of visitors from the Chinese mainland to Hong Kong. Ongoing investments in the IKEA store network in the year also reduced Group



* 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.

profitability. Offsetting these impacts was a significant improvement in profitability in our Southeast Asia Grocery Retail business, as the space optimisation plan took effect. The businesses also benefitted from transformation and improvement programmes.

Underlying profit attributable to shareholders was US$321 million, down 10% from US$358 million last year. Underlying earnings per share of US¢23.72 were also down 10%.

The Group maintained solid net cash flows from operating activities of US$1,288 million. Net debt at the end of 2019 was US$821 million, an increase from US$744 million last year.

The Board is recommending an unchanged final dividend of US¢14.50 per share, giving a total dividend of US¢21.00 per share for the year, which is in line with 2018.

Food – Grocery Retail

The divestment of the Rustan Supercenters business, as well as the execution of the Group's space optimisation plan in Southeast Asia, led to overall sales for the Grocery Retail business reducing by 12% to US$5.2 billion. Sales in Hong Kong and Macau Grocery Retail rose in 2019.

There was a significant improvement in operating profit in the Group's Grocery Retail business, from US$22 million in 2018 to US$63 million in 2019. The improvement was driven by Southeast Asia, as the space optimisation plan took effect. The foundation for future growth by the business were also strengthened by the ongoing transformation and improvement programmes.

Profits in Hong Kong and Macau Grocery Retail were impacted by cost pressures and ongoing investments in people and capabilities, but the Group has started to see improving trends in underlying profit performance.

Convenience

Sales in the Convenience business increased by 4% to US$2.2 billion, driven by new store growth and strong like-for-like sales in Chinese mainland in particular. Enhancements to range and services are proving popular with customers and the business continues to focus on brand differentiation to support sales growth. Profits for the year declined by US$6 million, however, as a result of pre-opening costs in respect of the expansion of the 7-Eleven store network in Guangdong, as a net total of over 200 new stores were opened in 2019. Profits in 2018 were also positively impacted by a number of one-off items.

Chairman's Statement

Health and Beauty

Total sales for the Health and Beauty Division increased by 1% to US$3.1 billion, supported by the consolidation of Rose Pharmacy as well as strong growth in other Southeast Asian markets. Operating profit, however, declined by 11% to US$296 million, as the business was impacted by the social unrest in Hong Kong. The Group has been addressing these challenging conditions by appropriate management of costs.

Weakness in North Asia Health and Beauty was partially offset by strong revenue and like-for-like sales growth in Southeast Asia, particularly in Indonesia and Malaysia. Guardian in Southeast Asia delivered a strong performance during the year, with improvements in operating standards, service and product availability, and it benefitted from a growing middle-class customer base in Indonesia, Malaysia, and Vietnam.

Home Furnishings

In Home Furnishings, sales for IKEA were up by 6% in the year. Operating margins were, however, adversely affected through a combination of currency movements, cost of goods changes and pre-opening costs in support of strong store expansion.

Associates

The contribution from key associate Maxim's declined to US$82 million from US$105 million in the prior year, as the business was impacted by the ongoing social unrest in Hong Kong. Despite the challenging market conditions in the second half, however, Maxim's reported a 4% growth in sales overall for the year, as it saw the benefit of its acquisition of the Starbucks Thailand business.

Yonghui in the Chinese mainland reported strong sales growth and positive like-for-like sales. Our share of results in Yonghui grew from US$15 million in 2018 to US$23 million in 2019 and benefitted from the partial sell-down by Yonghui of their investment in the Yunchuang Technology business, which was announced in December 2018. The Group also benefitted from the contribution from its interest in Robinsons Retail, which it acquired in late 2018.

Transformation

The Group's multi-year transformation programme to reshape and reorganise the business, adapting to the changing needs of customers, continued to gain momentum during 2019. Opportunities are being unlocked across the group as the business seeks to leverage its scale effectively and develop a more coherent approach to improving its customer proposition, both by banner and at a country level. The Group's space optimisation plan, new store formats and improvement programmes generated greater efficiencies and started to deliver tangible results in the year.

Corporate developments

In May, Maxim's acquired the Starbucks franchise in Thailand, with some 370 stores in operation, through a 64%-owned joint venture.

As at 31st December 2019, Dairy Farm, including associates and joint ventures, operated over 10,000 outlets across all formats, compared with some 9,700 at 31st December 2018.

People

Undoubtedly 2019 was a challenging year for many of our businesses, however the hard work, resilience and determination of colleagues and their commitment to serve our customers every day has been outstanding. I would like to thank all the Group's employees for their efforts in moving the Group towards becoming a truly modern-day retailer that puts our customers first.

Neil Galloway stepped down as Group Finance Director at the end of March 2019. The Board would like to express its gratitude for the significant contribution Neil made to the Group over a number of years.

Clem Constantine showed strong leadership during his time as interim Chief Financial Officer following Neil's departure, and the Board confirmed his appointment to the role permanently in November 2019.

Michael Kok stepped down from the Board on 8th May 2019 and Simon Keswick retired as a Director with effect from 1st January 2020. It was announced on 20th January 2020 that Lord Sassoon will retire from the Board on 9th April 2020. The Board would like to express its gratitude for the significant contribution all three Directors have made to the Group over many years. Clive Schlee will join the Board with effect from 6th May 2020.

As announced on 5th March 2020, with effect from 15th June 2020 the roles of Chairman and Managing Director, which are currently held on a combined basis by Ben Keswick, will be separated. Ben Keswick will remain as Chairman and John Witt will take on the role of Managing Director of the Company.

Prospects

Dairy Farm is undergoing transformation across all areas of its business and this scale of change will take time to execute successfully. However, good progress is being made in implementing the Group's customer-focused and market-driven strategy and Dairy Farm is well-placed to achieve long-term sustainable growth. Performance for the remainder of the year will depend on the duration, geographic extent and impact of the COVID-19 outbreak and the measure taken to control it.

Ben Keswick
Chairman
5th March 2020