

Dairy Farm

2017 Full Year Results Presentation

8th March 2018



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- 1. 2017 Highlights**
2. Financial Results
3. Review by Division
4. Initial Perspectives
5. Future Priorities

Group results held back by Southeast Asia Food



- Consolidated sales up 1% to \$11.3bn*; total sales up 8%*
- Reported underlying net profit down 13%* to US\$403m
- Adjusted underlying net profit up 1%* to US\$467m
- One-off charges of US\$64m, primarily in Southeast Asia Food
- Strategic review underway
- Strong performance in other divisions and key associates
- Unchanged final and total dividend of US¢ 14.50 and US¢ 21.00 per share respectively

*In constant currency

8th March 2018



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Adjusted underlying profit ahead of last year



| (US\$' m) | 2017 | %Δ | CCY%Δ |
|---|--------|-----|-------|
| Sales | 11,289 | +1 | +1 |
| EBITDA | 589 | -12 | -12 |
| Underlying Operating Profit | 367 | -19 | -19 |
| <i>Adjusted Underlying Operating Profit</i> | 440 | -3 | -3 |
| Share of Results of Associates and JVs | 144 | +22 | +23 |
| Underlying Net Profit | 403 | -13 | -13 |
| <i>Adjusted Underlying Net Profit</i> | 467 | +1 | +1 |
| Underlying EPS | 29.77 | -13 | -13 |
| Final Dividend Per Share | 14.50 | | |

Strong performance in most formats



| Sales (US\$' m) | 2017 | %Δ | CCY%Δ |
|-----------------------------|-------|-----|-------|
| Food | 8,038 | -2 | -1 |
| Supermarkets & Hypermarkets | 6,018 | -3 | -3 |
| Convenience stores | 2,020 | +4 | +4 |
| Health and Beauty | 2,597 | +7 | +7 |
| Home Furnishings | 653 | +9 | +7 |
| <u>Key Associates*</u> | | | |
| Maxim's | 2,238 | +11 | +11 |
| Yonghui | 8,658 | +17 | +19 |

* Includes 100% of Maxim's Sales and Yonghui's Total Revenue.

Decline in Food partially offset by other divisions



| (US\$' m) | Adj. Op. Profit | | | Margin* | |
|------------------------------|-----------------|-----|-----|---------|------|
| | 2017 | \$Δ | %Δ | %Δ | Δpp |
| Food | 220 | -47 | -18 | 2.7 | -0.5 |
| Supermarkets & Hypermarkets^ | 135 | -59 | -30 | 2.2 | -0.9 |
| Convenience stores | 85 | +11 | +16 | 4.2 | +0.4 |
| Health and Beauty | 210 | +34 | +20 | 8.1 | +0.9 |
| Home Furnishings# | 77 | +4 | +3 | 11.8 | -0.4 |
| | 507 | -9 | -2 | 4.5 | -0.1 |
| Support Office | (58) | -3 | -5 | | |
| Store pre-opening expenses | (9) | | | | |
| Adj. Operating Profit | 440 | -12 | -3 | 3.9 | -0.1 |

* Margin represents adjusted operating profit to subsidiaries' sales

^ Actual reported figure of US\$368m is adjusted for business change cost (pre-tax and minorities) of US\$72m

Actual reported figure of US\$68m is adjusted for one-off pre-opening expenses of US\$8.9m (2016: US\$2.2m)

Free cash flow remains healthy

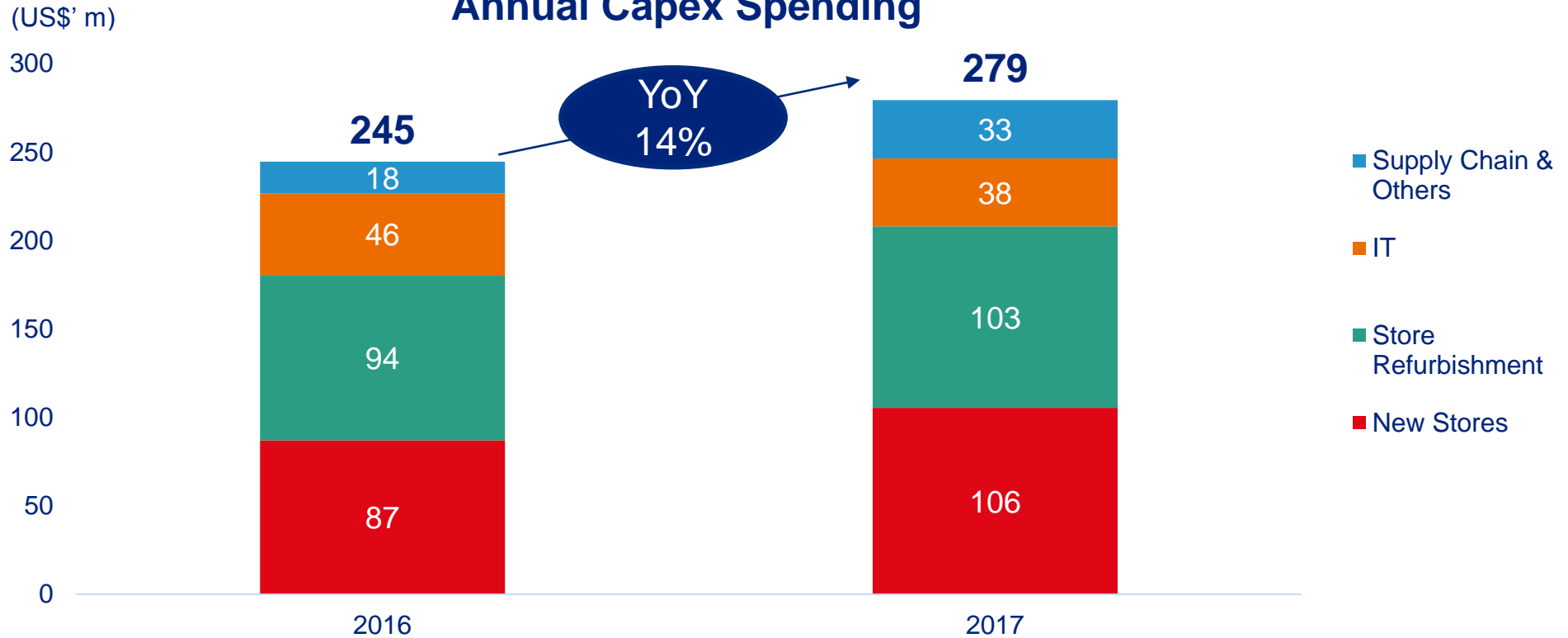


| (US\$m) | 2017 | 2016 | Commentary |
|--------------------|--------------|-------|--------------------------------------|
| EBITDA | 589 | 672 | One-off costs in Food |
| ΔWorking Capital | 92 | (97) | Timing of supplier payments |
| Normal Capex | (279) | (245) | Higher capex in IKEA |
| Free Cash Flow | 402 | 330 | |
| Investments | (66) | (199) | Buy out of the remaining 34% of RSCI |
| Dividends Paid | (285) | (274) | |
| Dividends Received | 85 | 66 | Higher dividends from Yonghui |
| Δ Borrowings | (41) | 238 | |
| Other Items | (92) | (88) | |
| Net Cash Flow | 3 | 72 | |
| Net Debt | 599 | 641 | |

Capital expenditure in 2017



Annual Capex Spending



- Increased investments in supply chain
- Continued progress for IT investments
- IKEA store expansion cost



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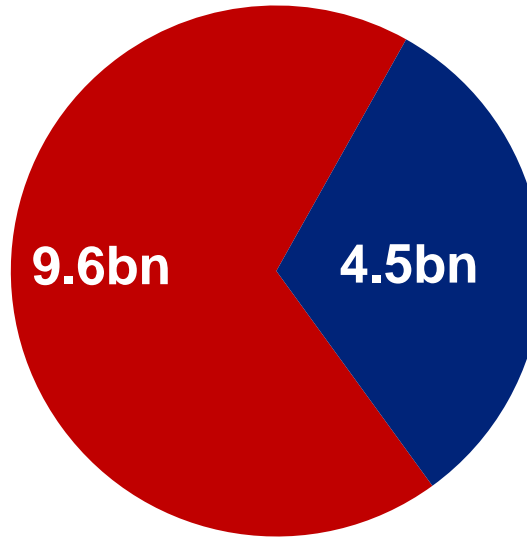
Strength of performance continues in North Asia



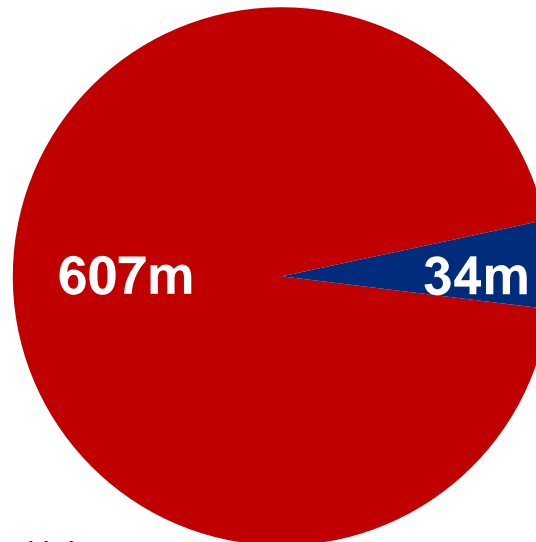
North Asia

Southeast Asia

Proportionate
Sales* (US\$)



Profit Mix^ (US\$)



*Including share of associates and joint ventures

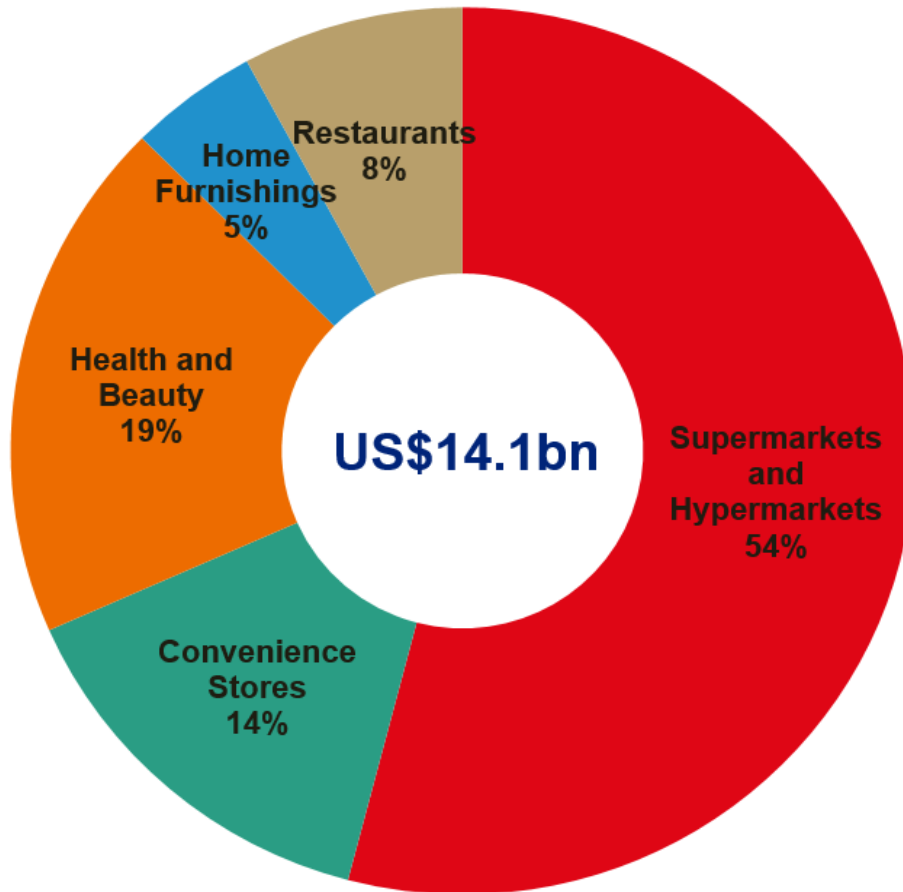
^Operating profit and share of results of associates and joint ventures, and excluding store support centre costs, business change costs and non-trading items.

8th March 2018

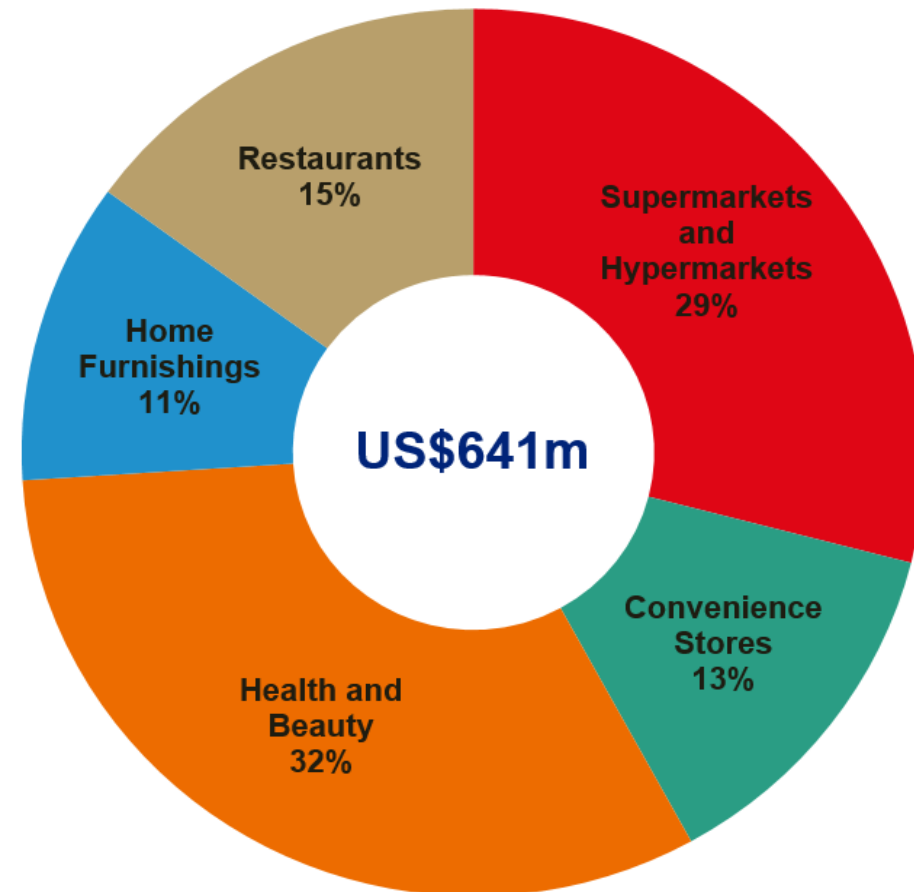
Well-balanced profit mix



Proportionate Sales*



Profit Mix^



*Including share of associates and joint ventures

^Operating profit and share of results of associates and joint ventures, and excluding store support centre costs, business change costs and non-trading items.

8th March 2018

Supermarkets and Hypermarkets



Challenging, with intensifying competition and changing consumer behaviour



- Resilient performance in Hong Kong
- Underperformance in Malaysia, Singapore and Indonesia
 - Malaysia: weak consumer spending
 - Singapore: increased competition
 - Indonesia: continued rise of mini-markets
- Store closures and stock write-offs in Southeast Asia
- Buyout of remaining 34% of RSCI; now own 100%

Convenience Stores



Service offerings contributing to strong performance



- Sales higher in Hong Kong, China and Macau
- Strong like-for-like growth in all countries
- Higher profits in all our markets
- Benefit from customer shift to convenience
- Encouraging growth achieved in Guangdong
- New initiatives include:
 - Meituan delivery services in Guangdong
 - Click and collect e-commerce services
 - Stronger collaboration with SEJ

Health and Beauty



Record year for sales and profits



- Market share growth in Hong Kong – outperformance in a growing market
- Capitalising on higher tourist numbers & increased local spending in Hong Kong
- Strong growth in Indonesia and Vietnam
- Weakness seen in Singapore and Malaysia
- Benefiting from increase in Beauty category

Home Furnishings



Improving accessibility and customer experience



- Sales and profit* increased
- Accelerating market expansion
 - 4th store opened in Hong Kong
 - New sites in Taiwan approved (South Taipei and Taoyuan City)
 - Exploring new sites in Indonesia
- Online sales growth in all markets with nationwide e-commerce capabilities
- Taichung store named one of IKEA's top 5 stores worldwide

* Excluding one-off pre-opening store expenses

Restaurants



Strong results in China and mooncake sales drove 2017 growth



- Regional expansion into Southeast Asia and China
 - Starbucks Singapore
 - Genki Sushi in Singapore and Malaysia
 - Entry to Guangxi Province and expansion in Beijing
- New franchises/concepts
 - Shake Shack franchise in HK, Macau, eastern China
 - New yakiniku concept, Kagura, was launched in HK
- New initiatives
 - Mobile orders & payment for prepaid orders in Starbucks
 - E-commerce platform for mooncake sales



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Strong Brands



External

- Growing competitor footprints
- Increasing price competition
- Local competition more aggressive
- Differing market demographics, differing challenges
- Significant shift in shopping habits
- Government regulation challenges
- Wet markets remain strong

Internal

- Leadership instability
- Sub-optimal strategic focus
- Sub-optimal space growth
- Fragmented brand strategies
 - Range and price optimisation
 - Supplier-driven vs customer-driven
- Underinvestment in technology
- Health and Beauty challenges less severe

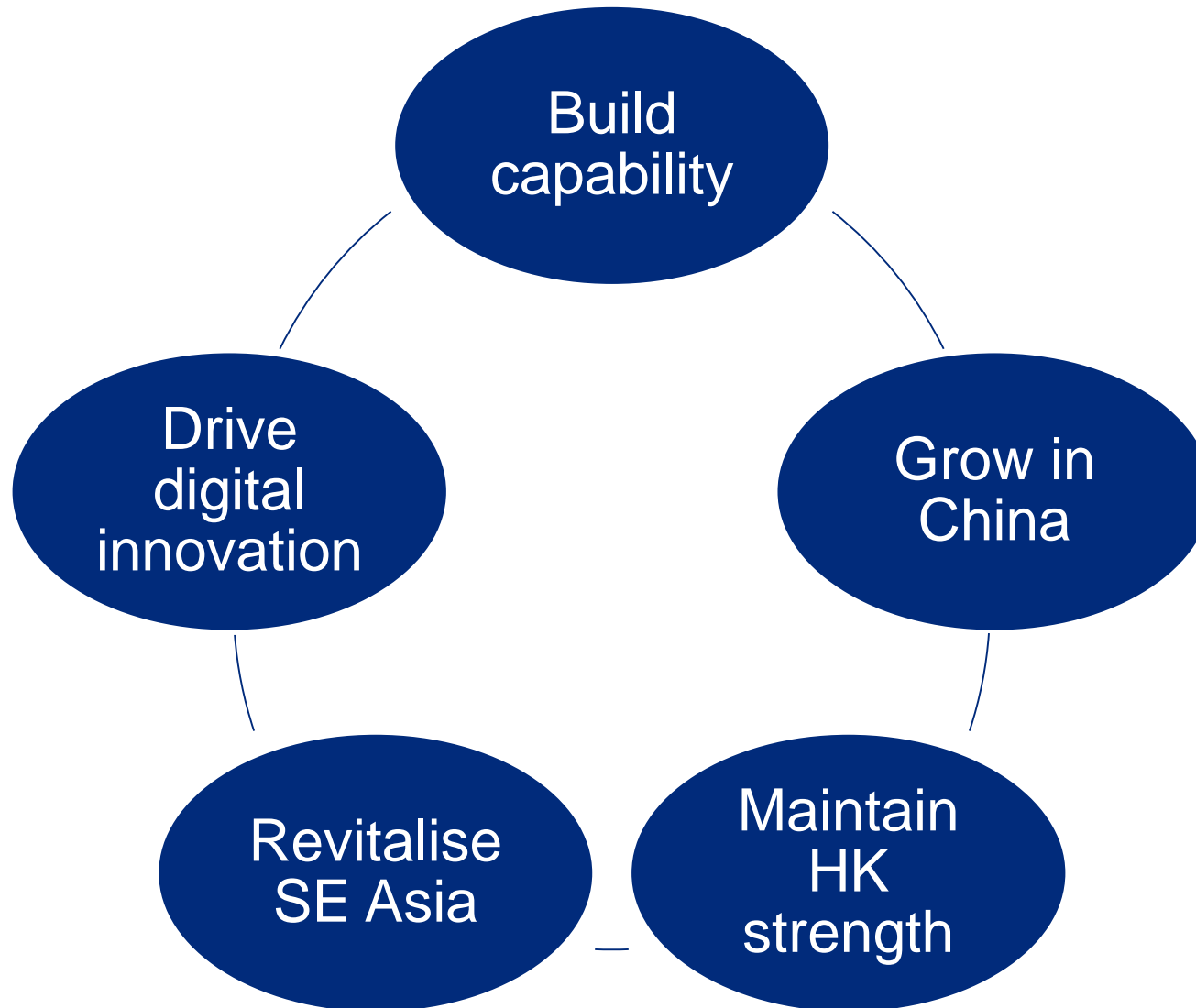


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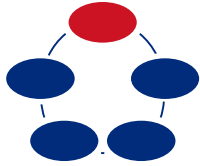
5 Strategic Priorities



An integrated, high-performing business in all our markets

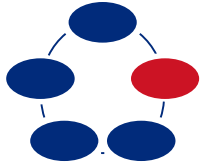


Build capability



- Build strong top team
- Balance central and local control
- Streamline decision making
- Improve consistency of approach
- Leverage scale
 - Including own brand
- Leverage partner expertise

Grow Presence in China



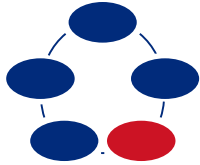
- Results improving
- New CEO appointed
- Footprint expansion planned



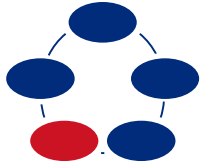
- Results improving
- New CEO appointed
- Further profit improvement anticipated



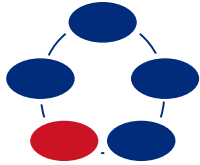
Maintain Hong Kong Strength



- Strong market shares
- Optimise range and price architecture
- Capitalise on China cross-border demand
- Invest in brand strength across demographics
- Stay alive to competitive threats

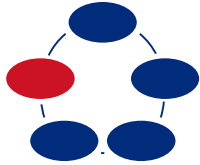


- Leadership recruitment underway
- Strategic review will continue
 - People, product, price, portfolio
- Immediate action already taken
 - Closing underperforming stores
 - Clearing aged and redundant stock
- Consistent operational approach needed



Key Strategic Programmes

- In-depth commercial review:
 - Range, space, price
- Consolidate sourcing
- Capital investment control
- Pilot new formats
- Improve cost control
- Improve labour productivity



- Enhanced, customer-focused leadership
 - Qualitative and quantitative capabilities
 - Big data, customer insights, marketing
- Invest in strong IT backbone
- Build CRM / data analytics capability
- Develop cohesive omni-channel strategy
- Build e-commerce within markets

- Sustainable change will take time
- Strong top team crucial
- Big opportunities in China and Southeast Asia
- Root and branch review in Southeast Asia
- North Asia performance a strength
- Strong foundation exists to build better future performance

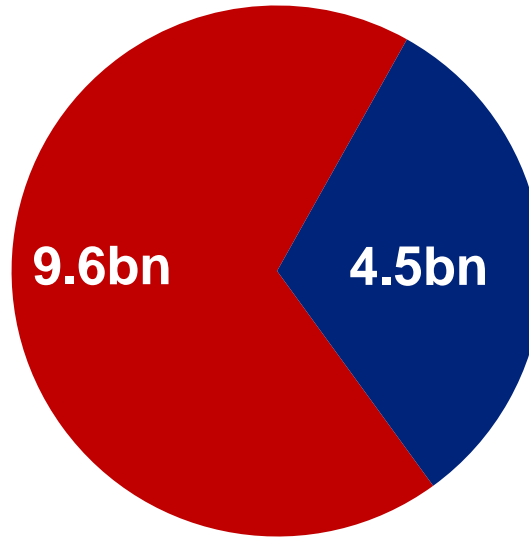
Strong foundation



North Asia

Southeast Asia

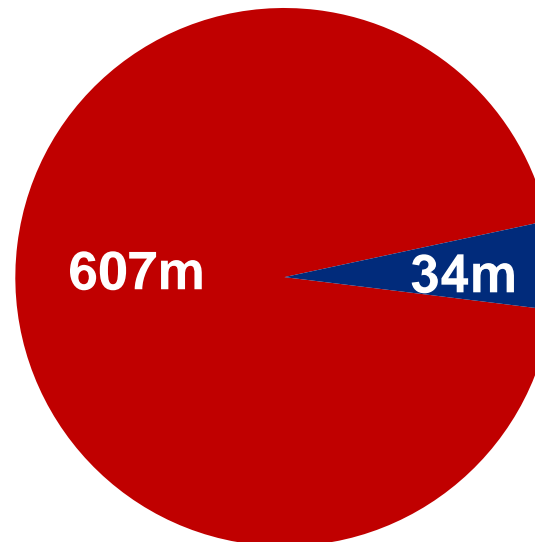
**Proportionate
Sales* (US\$)**



**The
Strength!**

**The
Opportunity!**

Profit Mix^ (US\$)





**Dairy
Farm**

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Thank you!