# Group Chief Executive's Review

**" 2020 has been an unprecedented and challenging year for Dairy Farm. The Group has had to constantly adapt the management of its operations against a backdrop of varying levels of community infection rates and rapidly evolving customer behaviours... Despite these challenges, the Group's transformation plan executed over the past three years has supported our ability to adapt to the ever-changing environment. In addition, the diversity of the Group's business mix from the perspective of both direct and indirectly managed businesses, formats and geographies has provided effective insulation from unprecedented trading conditions."**

## Introduction

2020 has been an unprecedented and challenging year for Dairy Farm. The Group has had to constantly adapt the management of its operations against a backdrop of varying levels of community infection rates and rapidly evolving customer behaviours. This was done in the context of different and changing approaches to managing the pandemic by governments in the regions where we operate, as well as the need to invest in and ensure our team members' safety and well-being.

Despite these challenges, the Group's transformation plan executed over the past three years has supported our ability to adapt to the ever-changing environment. In addition, the diversity of the Group's business mix from the perspective of both direct and indirectly managed businesses, formats and geographies has provided effective insulation from unprecedented trading conditions.

Underlying operating profit for the Group's subsidiaries reduced by 6% in the year, with strong profit growth in Grocery Retail and Home Furnishings offset by reduced profitability in Convenience Stores and Health and Beauty. The contribution from key associates decreased materially, primarily due to lower profitability from Maxim's (where we own 50%), which was significantly impacted by disruption caused by COVID-19. Total underlying net profit for the Group reduced by 14% to US$276 million.

## Five strategic imperatives

### 1) Growth in China

7-Eleven South China opened over 200 additional new stores during the year despite the challenges of movement restrictions. China's extremely tight lockdown regime significantly impacted foot traffic in the early part of the year, with up to 500 stores having to close for prolonged periods. Subsequently, when movement restrictions became less severe, regulations prohibiting the sale of Ready-to-Eat products impacted sales recovery. Despite the challenges posed by trading conditions, strong execution of product innovation and promotions led to a significant improvement in sales in the second half of the year. During the year, 7-Eleven South China began a project to transform its legacy IT systems with a new end-to-end agile IT solution, to support both an improved customer shopping experience and its future growth ambitions.

Mannings China's sales performance was impacted significantly in the first quarter as restrictions on movement led to reduced traffic. However, the business reported improving like-for-like sales trends throughout 2020. Mannings China continues to execute its space optimisation plan with greater focus around the Greater Bay Area, where Mannings has stronger brand awareness and can leverage the existing scale of 7-Eleven. E-commerce growth continues to be strong, with penetration now over double digits.

Yonghui delivered strong sales growth in the first half of 2020, driven by good like-for-like sales growth and robust e-commerce growth. Profitability also increased significantly over this period. Tighter family disposable income as well as more intense competition, however, did contribute to a slowdown in sales performance in the third quarter of the year.

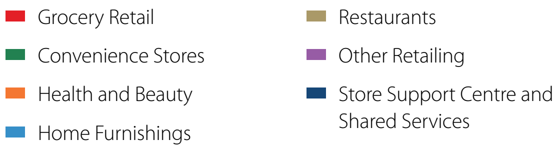
### 2) Maintaining strength in Hong Kong

Wellcome Hong Kong reported double-digit like-for-like sales growth in 2020, driven by a trend towards eating-at-home, greater focus on fresh quality, strong in-store execution and enhanced pricing. Profitability increased significantly due to a combination of strong sales growth and the benefits accrued from the improvement programmes which have been implemented as part of the Group's multi-year transformation.

However, disruption caused by the pandemic has adversely impacted performance for other banners in Hong Kong, particularly Mannings and 7-Eleven. The virtual elimination of tourist traffic through border closures has had a significant impact on Mannings' sales and profitability, and the business has focused strongly on investment in value to maximise appeal to the Hong Kong customers. Performance has been encouraging so far, with the price initiative underpinning relative improvement in both volume and profitability. 7-Eleven's performance was also adversely impacted by reduced local foot traffic, particularly in MTR locations following business and government advice to encourage employees to work from home.

IKEA's Hong Kong sales performance was also impacted by COVID-19 in the first quarter. However, IKEA reported improving sales performance over the course of the year, driven by both strong e-commerce growth and improving offline sales growth.






* Including 100% of associates and joint ventures

A key area of focus has been and will continue to be driving value for customers across Hong Kong. In addition to Mannings' price reinvestment campaign launched in June, Wellcome launched its own *Lower Price Locked* campaign in the second half, with encouraging sales to date. The successful launch of Meadows Own Brand products, supported by a combination of international sourcing credentials, competitive shelf price, strong product quality and packaging, will continue to strengthen the Group's customer value proposition in Hong Kong.

In July, the Group launched the Yuu Rewards programme, Hong Kong's biggest rewards club. The programme links more than ten household brand names, including affiliate partners such as Hang Seng Bank and other businesses in the wider Jardine Matheson Group such as Pizza Hut and KFC, across over 2,000 locations in Hong Kong. For the first time, a CRM programme is allowing Dairy Farm to leverage the scale of all its banners in Hong Kong. The programme is both an important pillar supporting digital transformation within Dairy Farm and a means of maintaining Dairy Farm's strength in Hong Kong.

### 3) Revitalising Southeast Asia

Profitability in the Group's Southeast Asian Grocery Retail business improved significantly in the year, due to a combination of the initiatives implemented as part of the Group's multi-year transformation programme and strong like-for-like sales growth.

Despite delays caused by COVID-19 lockdown restrictions, the team successfully relaunched all Giant Singapore stores in 2020. This programme involved detailed research, combined with in-depth sales and merchandise analysis, a detailed plan to reapportion space, and investment in new equipment where required. All stores have now either been refreshed or refitted with a major brand facelift and space reallocation. There has also been a significant shift in emphasis onto Own Brand within Giant stores, and results have been encouraging. The repositioning of the Giant brand has been underpinned by a programme to re-establish price trust and to invest in lower prices on hundreds of frequently purchased items across fresh, grocery and chilled categories. Strong marketing execution was also implemented to support the brand repositioning. Whilst still early, these steps have led to an improved sales performance, with underlying like-for-like sales growing at their strongest rate since 2013.

Performance of our upscale Grocery Retail stores continues to show good progress. Improvements in range, availability and freshness are supporting improved sales performance. In addition, our new concept pilot stores, with much stronger emphasis on fresh food, international products, organic, health and wellness ranges, have performed very strongly. New concept stores have now been introduced in Malaysia and Singapore, in addition to those introduced in Hong Kong.

Our Guardian Health and Beauty business remains a significant growth opportunity for the Group. However, like-for-like sales performance and profitability have been impacted by government restrictions on movement in each of the markets in which we operate. Despite the challenging environment, the team continues to focus on improving key areas of the business, including product range, value, store and sales channel development. Guardian Singapore relaunched its e-commerce platform in February, which supported around 40% growth in the year. In addition, new shop-in-shop concepts were executed in over 50 Giant stores in 2020. Guardian Malaysia reported triple-digit e-commerce growth in the year. Across our key geographies in Southeast Asia, localised versions of price reinvestment campaigns were also launched to enhance Guardian's customer offering. New health and beauty concept stores have also been developed and will be rolled out in a disciplined manner in 2021. Within Guardian Health and Beauty, growth in Own Brand is an area of focus, with the team working on a number of initiatives to create scale and differentiation. In 2020, one highlight in this area was the Group's new partnership with CP All to roll out Guardian products into around 12,000 7-Eleven stores across Thailand.

Robinsons Retail continued to successfully integrate Rustan Supercenters in 2020. However, its financial performance was impacted by restrictions on movement caused by COVID-19, particularly with respect to its discretionary retail businesses. In October, Dairy Farm deepened its partnership with Robinsons Retail by combining its interests in Rose Pharmacy with Robinsons Retail's subsidiary Southstar Drug. The combination creates a leading pharmacy chain in the Philippines. The combined business will support greater competitiveness, create synergies and allow both Dairy Farm and Robinsons Retail to leverage scale.

### 4) Building capability

The Group has balanced internal promotions with the introduction of external capability, and the change in leadership within the organisation has brought depth of experience and thinking to Dairy Farm. It has also led to a cultural shift within the Group in terms of our ways of working. In turn, this has supported the resilience of the business and our ability to adapt to rapidly evolving challenges posed by the pandemic, including different and changing approaches by governments in each of the regions in which we operate. Decisive action was taken to ensure joint co-ordination of: resourcing to support fluctuations in trading hours; inventory procurement to ensure stability of supply; supply of health and hygiene products for all team members; and clear, regular, consistent communications updates to all team members. One outcome of strong execution in this area has been that Dairy Farm has been at the forefront of ensuring our people's safety.

As we move to the next phase of our transformation, we are seeking to nurture talent from within through the development of our own graduate recruitment programmes and through close co-operation with the wider Jardine Matheson Group.

Our focus on building capability has not been limited to management positions above store level. We have also invested in our systems and processes to enhance our team members' skills on the shop floor in an agile manner. In 2020, we rolled out a new software system to train team members through mobile devices, which enables easy access to training on the shop floor and on the job. Now accessible to over 50,000 team members across the Group, the system also enabled the training of 22,000 team members within three weeks to support the successful and smooth rollout of the Yuu Rewards programme.

### 5) Driving digital innovation

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

The Yuu Rewards programme launched in July has been highly successful and total membership has now reached over three million. In 2020, the Yuu Rewards app was the most downloaded app on the Apple appstore in Hong Kong. Over 50 billion points have been earned, highlighting a high level of member engagement. We believe this is just the beginning, and we are excited to begin a deeper and more meaningful dialogue with our customers.

It has been well documented that the spread of the pandemic has led to a global surge in e-commerce growth. Strong online sales growth has supported our Home Furnishings business, with e-commerce penetration over 10% in 2020. We have also invested in infrastructure supporting e-commerce for Health and Beauty in Mannings businesses in both Hong Kong and the Chinese mainland, as well as cross-border e-commerce and Guardian in Southeast Asia. An all-new Marketplace app was also launched in 2020, with enhanced service capability to support fulfilment. E-commerce has been an area where Dairy Farm has historically lagged. However, the Group is now treating this area as a strategic priority.

In addition to growing e-commerce, the Group is investing significantly to enhance existing legacy IT systems to improve the digitisation of in-store operations. As an example, 7-Eleven South China began a project to upgrade its legacy IT systems with a new end-to-end agile IT solution to support both an improved customer shopping experience and its future growth ambitions in 2020. In Cambodia, Lucky stores have also begun introducing new IT systems to support their future store development plans, with a new point-of-sale system implemented in December across the entire store network.

## Leveraging scale

The key objective of our transformation is to leverage our expertise and scale more effectively across our countries and banners by operating more effectively as one Group. While we fully recognise that there needs to be a localisation of the offer and proposition at both banner and country levels, we also believe there are significant opportunities for us to drive efficiency and lower costs through a more cohesive approach towards leveraging synergy and scale.

Improvement programmes have remained a key area of focus in 2020. We are continuing to make progress in improving efficiency and utilising economies of scale to lower costs in areas such as Procurement, Category Management, People Development, Store Productivity, Supply Chain Optimisation and Business Process Re-engineering. Some examples of our progress this year include:

- Continued improvement in upstream fresh food procurement, with 60% of fresh produce volumes now jointly sourced across all Dairy Farm food businesses.

- Completion of a thorough and detailed work measurement study across banners and stores to understand precisely how long it takes team members to perform tasks, which will support future opportunities to enhance and improve roster planning.

- The consolidation of facilities management which has paved the way to the effective implementation of best practice energy controls, yielding energy cost savings of over US$8 million in 2020.

We continue to see further opportunities for enhanced efficiencies in 2021.

The Group has continued to make strong progress with respect to a more consistent Own Brand approach. Following its soft launch at the end of 2019, the Meadows brand was launched across our Grocery Retail banners in Hong Kong, Singapore and Malaysia. The number of SKUs in the range has now expanded to over 600, and where appropriate we have introduced Own Brand in other banners such as 7-Eleven and Mannings. A combination of international sourcing credentials, cost price, shelf price, quality, packaging, in-store presentation and marketing, together with a high degree of store team launch engagement, has enabled a high profile and successful full launch in 2020. Since launch, customer feedback has been very positive with strong customer recall and high quality and value perception. Sales performance has been very encouraging, and in the space of 12 months:

- Meadows potato chips are the number one brand in their category.

- Meadows nuts are the number one nut brand across the Hong Kong market.

- Meadows is now the overall number one brand in Dairy Farm supermarkets.

We remain very optimistic about the future prospects of Meadows and look forward to sharing exciting developments.

## Caring for team members and supporting our community

A key priority of the leadership team is to ensure the safety and well-being of our team members throughout this pandemic. While lockdowns, social distancing and stay at home orders have been in place, our businesses across the regions have generally been regarded as essential services and remained open. Our team members are therefore placing themselves at risk every day and the Group continues investing significantly in a number of initiatives to ensure the health, safety and well-being of each team member.

Recognising the hardship faced by all members of the community during these challenging times, we responded by providing increased support to the communities that we serve. Some examples include Wellcome's significant 'Give Back' programme which involves the distribution of over two million cash and meal vouchers to the most in need groups in Hong Kong; Mannings' partnership with the Hong Kong Hospital Authority to provide medication collection services to local residents to reduce the risk of infection from hospital visits; and company matching of Yuu Rewards points donated by customers. In addition, we have introduced price investment programmes across our banners and geographies to drive value for customers.

In total, the Group has made over US$50 million of direct investments in supporting the health, safety and well-being of our team members as well as in supporting our communities as a result of COVID-19 in 2020. The Group will continue to invest to support our team members and community given the gravity of the impact of the pandemic.

I would also like to express my deep gratitude for the continuing dedication and resolve of team members in putting customers first during these difficult times.

## Year ahead

Undoubtedly, 2020 was a challenging year. The extent and duration of the impact of the pandemic in 2021 remains unclear, and this year is likely to remain challenging. Despite the short-term impact from the pandemic, however, our team members remain motivated, determined and resolute in the continued execution of the Dairy Farm multi-year transformation plan. We are halfway through that plan and there is much still to do. Despite all adverse external influences, the transformation plan remains on track. While financial results do not yet reflect the efforts made to date, we are confident that the actions being taken remain the right ones and the Company is in a far better shape now to face the challenges of the market going forward.

I would like to thank my Leadership Team, their teams and every team member in our stores who have worked tirelessly for Dairy Farm over the last three years to get us this far. Our store teams do deserve a special mention. In every country where lockdowns were put in place and populations were encouraged and even mandated to stay home for their safety, our store and supply chain teams turned up to do their jobs in genuinely dangerous circumstances. I could not be more grateful for their support.

**Ian McLeod**
Group Chief Executive
11th March 2021