Chairman's Statement

"2021 was another challenging year for DFI Retail Group, with the pandemic impacting the Group's operations and, as a result, its financial results. Continued progress in implementing the Group's multi-year transformation plan, however, helped the business deliver improvements in underlying performance. High levels of uncertainty remain in respect of this year, given the continuing impact of the pandemic. We remain confident, however, in the medium- to long-term growth prospects of the Group."

Overview

2021 was another challenging year for DFI Retail Group, as the pandemic continued to constrain normal store operations, reduce store traffic and impact the customer experience and consumer behaviours. These external factors, combined with a significant loss incurred by key associate Yonghui and a reduced level of government support compared with the prior year, have materially affected the reported financial results of the Group.

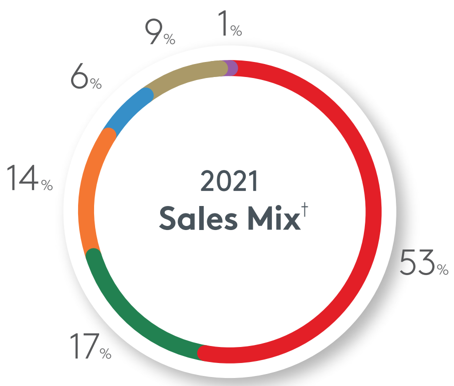
The underlying financial performance of the Group's subsidiaries, excluding government support, however, improved year-on-year and the Group maintained focus on its multi-year transformation plan throughout 2021, driving underlying improvements in business fundamentals. These included enhancements to operating efficiency, improvements to customer service standards and the delivery of greater value for customers.

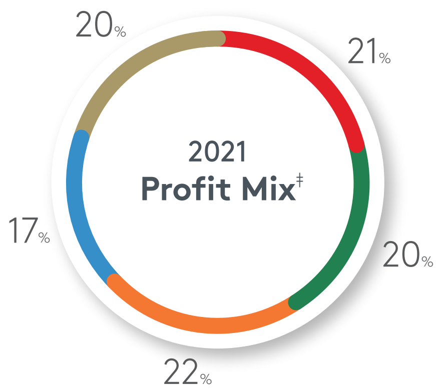
Operating performance

The Group's subsidiaries reported sales of US$9.0 billion for the year, 12% behind those of 2020. Excluding the impact on reported sales of the steps taken to rationalise the Group's business portfolio, subsidiaries' revenue reduced by 5%. This reduction was primarily driven by ongoing challenges posed by the continuing pandemic, including restrictions on customer movement, store trading restrictions and the absence in 2021 of the panic buying that occurred at the start of the pandemic in 2020. Total sales, including 100% of associates and joint ventures, were US$27.7 billion, 2% behind the prior year, with sales growth at Maxim's and Yonghui able to mostly offset the reported sales reduction of subsidiaries.

Net profit for the Group's subsidiaries in 2021 was US$145 million, a reduction of 27% relative to the prior year. Excluding the impact of net subsidies* in both years, the net profit of subsidiaries increased by 35% compared with the prior year, despite the ongoing disruptions posed by the pandemic and the absence of panic buying.

* Net subsidies are government subsidies less additional costs incurred by the business in continuing to operate through the pandemic.





- 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.

Net profit attributable to shareholders was US$105 million in 2021, compared to US$276 million in the prior year. Around 70% of this reduction was due to a US$119 million adverse swing in the Group's share of Yonghui's profits compared to 2020. Excluding the impact of the reduction in the contribution from Yonghui, profit attributable to shareholders would have been US$195 million, compared to US$247 million last year. There was an encouraging recovery by Maxim's in the period, with its contribution to the Group's profit increasing to US$52 million from US$36 million last year, despite a substantial reduction in the levels of government support received compared with the prior year.

Underlying earnings per share of US¢7.73 were 62% lower than the prior year.

The Group's cash flows from operating activities benefitted from government assistance in 2020. This benefit did not accrue in 2021 which saw operating cash flow after lease payments reduce to US$270 million compared to US$361 million in the prior year. Net debt at the end of 2021 was US$844 million, up from US$817 million at the end of last year.

The Board is recommending a final dividend of US¢6.50 per share, giving a total dividend of US¢9.50 per share for the year, a 42% reduction compared to 2020. The level of the dividend reflects the challenging conditions faced by the Group, but the Board remains confident in the medium- and long-term prospects of the business.

Food - Grocery Retail

Grocery Retail sales were US$4.2 billion in 2021, a reduction of 22% relative to the prior year. Over half of the decline in revenue resulted from the Group's proactive management of its business portfolio, including the divestment of Wellcome Taiwan at the end of 2020 and the withdrawal from the Giant brand in Indonesia. Revenues were also impacted by the absence of the panic buying behaviour seen last year and ongoing disruptions caused by the pandemic, particularly with respect to movement and trading in parts of Southeast Asia.

Given the significant volatility in 2020 performance, a comparison of performance in 2021 to 2019 provides a better understanding of the progress made with respect to the Group's transformation. Operating profit for the Grocery Retail division in 2021 was US$143 million, significantly surpassing the US$63 million reported in 2019. This increase reflects the strong improvement in underlying profitability achieved through the combination of business improvement programmes, stronger store-level execution, enhanced Own Brand penetration, and a groupwide approach to customer loyalty in Hong Kong. Relative to 2020 levels, reported operating profit reduced primarily due to normalisation of customer buying behaviours as well as reduced levels of government support.

Food - Convenience

Total sales for the Group's Convenience stores increased by 7% to US$2.2 billion as a result of strong new store growth and reinvigorated customer traffic into stores, particularly in Hong Kong. Operating profit was US$54 million, a reduction of 5% relative to the prior year primarily as a result of low levels of profitability in Singapore and the Chinese mainland, where the rise in COVID cases and resultant government-imposed restrictions on movement, impeded sales momentum in the second half.

Health and Beauty

Total sales for the Health and Beauty division were US$1.8 billion. Excluding the impact of the Rose Pharmacy divestment, total sales reduced by only 2%, despite the absence of panic buying behaviour in the first half of 2021 which had taken place in the equivalent period in 2020, and ongoing disruptions caused by the pandemic. The sustained border closure with the Chinese mainland continues to significantly impact Mannings' performance in Hong Kong compared to pre-pandemic years. Reduced levels of customer traffic also impacted Guardian performance in Southeast Asia. Operating profit was US$56 million in 2021, a reduction of US$9 million relative to the prior year. However, profitability increased by over 50% in the second half relative to the prior comparable period, driven by improved sales and strong cost control.

Home Furnishings

Home Furnishings reported sales revenue of US$816 million, only marginally behind the prior year despite the negative impact caused by government-imposed restrictions on trading as well as global supply chain disruptions that have caused challenges to stock availability. Ongoing store network expansion and strong e-commerce growth largely offset the negative sales impact of government-imposed movement restrictions and trading restrictions on stores.

Operating profit was US$45 million, a reduction of 36% relative to the prior year. The reduced profit was driven by ongoing pandemic-induced restrictions and compromised range availability caused by global supply chain constraints which impacted like-for-like sales performance, as well as some additional pre-opening expenses.

Associates

The Group's reported financial results, however, were materially affected by the Group's share of losses incurred by Yonghui, which was US$90 million. The reduction in the contribution from Yonghui represented a US$119 million adverse swing compared to the prior year. Yonghui's reported financial performance was impacted by a combination of the normalisation of sales performance - particularly in the first quarter; reduced margins resulting from rising competition and investments in digital.

The contribution from 50%-owned Maxim's increased significantly to US$52 million from US$36 million last year, as restaurant patronage recovered, particularly in North Asia. While recent government-imposed dining restrictions will have some impact on the performance of Maxim's, we believe the business is well placed to benefit when conditions normalise.

The Group's share of underlying results in Robinsons Retail increased by 4% to US$14 million.

Transformation and business developments

Despite the ongoing challenges posed by the pandemic, the Group has continued to focus on its multi-year transformation and strengthening the underlying fundamentals of the business. During the year, the Group continued to make good progress on delivering its business transformation, improving store operating standards and enhancing the customer experience.

Digital innovation and e-commerce remains a key forward-looking focus for the Group. The *yuu* Rewards programme continues to exceed expectations, with almost 4 million members. The programme has supported an increase in cross-banner shopping of over 50% in the year. Furthermore, *yuu* continues to expand its ecosystem with the introduction of Maxim's, Chubb, Allianz and Shell as additional partners. Daily e-commerce volume has more than doubled across the Group in 2021 and the Group continues to trial new pilots focusing on enhancing the customer experience.

The Group's 89.3%-owned subsidiary in Indonesia, PT Hero, was restructured in the year. Following a detailed strategic review, PT Hero pivoted focus towards its strong brands of IKEA, Guardian and Hero Supermarkets, and away from the Giant banner. This change in strategy was necessary given changing market circumstances. The Giant banner in Indonesia ceased operations in July. Six stores were subsequently successfully converted to the upscale Hero banner. A number of other sites are scheduled to be transformed into IKEA stores, the first of which was relaunched in Bali in the fourth quarter. A number of stores were successfully divested to third parties.

Governance enhancements

The Group has an ongoing focus on enhancing its governance, and in the past year it has made changes to the composition of its Board, to reduce its size and to increase its diversity and bring greater sector expertise through the appointment of new independent non-executive directors. The Group has also established formal Audit, Remuneration and Nominations Committees.

People

Amid the ongoing difficulties associated with the pandemic across our diverse markets, we would like to express our deep gratitude for the continuing dedication and hard work of our team members in putting our customers first.

Delman Lee, George J. Ho, YK Pang, Clive Schlee and Percy Weatherall stepped down as Directors of the Company on 30th November 2021. We would like to thank each of them for their contribution to the Board during their time on the Board.

We were pleased to welcome Dave Cheesewright, Weiwei Chen and Christian Nothhaft as Independent Non-Executive Directors of the Company with effect from 30th November 2021. They bring many years of valuable experience in retail businesses globally.

Prospects

There remains significant uncertainty with respect to the duration and extent of the COVID-19 pandemic, particularly given the recent rise in Omicron cases in Hong Kong. Regardless of the external environment, DFI Retail Group remains committed to its multi-year transformation and its customer-focused strategy. We are confident in the Group's ability to adapt to remain relevant and competitive in each market and achieve long-term sustainable recovery and growth in a post-pandemic environment.

Ben Keswick
Chairman
3rd March 2022