Group Chief Executive's Review

"External trading conditions have remained challenging in 2021, having an impact on DFI Retail Group's financial results. The Group's collective efforts in successfully executing the multi-year transformation programme, however, have strengthened the underlying fundamentals by enhancing operational efficiency, store operating standards, range, value and the customer shopping experience. Our progression from the second phase (Delivering Consistently Well) into the third phase (Driving the DFI Difference) will further strengthen our businesses. We remain confident that completion of the plans we have in place will drive the Group's sustainable growth over the medium- to long-term."

Introduction

External trading conditions have remained challenging in 2021, with the pandemic continuing to impact customer visits and tourism traffic. We continue, however, to execute the multi-year transformation of DFI Retail Group ('DFI') and remain focused on strengthening the underlying fundamentals supporting the Group's businesses, by enhancing operational efficiency, store operating standards, range, value and the customer shopping experience. Having made strong progress through the second phase of the transformation (Delivering Consistently Well), we are now actively progressing into the third phase (Driving the DFI Difference).

Net profit for the Group's subsidiaries reduced by 27% in the year. This was driven by the absence of the panic buying behaviour seen in the prior year, the reduction in government support, the ongoing challenges of COVID-19 on customer traffic and supply chain constraints, which particularly impacted IKEA. The Group's reported results were materially impacted by losses incurred by key associate Yonghui (where there was a US$119 million year-on-year adverse movement for the Group). The profitability of Maxim's, however, improved significantly. Total net profit for the Group fell from US$276 million to US$105 million. We remain encouraged, however, by the momentum built over the course of the Group transformation and the resulting improvements in the underlying performance of the business. In this context, excluding the impact of government support received in 2020, net profit for the Group's subsidiaries increased by 35% relative to the prior year. We believe the Group is well positioned to grow sustainably when external market conditions normalise.

Progress on business improvement programmes

Our business improvement programmes remain key enablers for the Group and have already made a major contribution weathering the external challenges caused by the pandemic. The savings generated have partially offset pressure on the Group's profitability caused by the pandemic, while at the same time providing the Group with the flexibility to reinvest back into its businesses to drive sustainable change for the customer and, in turn, enhance DFI's competitive position. This 'flywheel' effect is the bedrock underpinning a successful

* Including 100% of associates and joint ventures

formula for leading retailers globally, and is now being effectively deployed within DFI.

Throughout 2021, we have continued to make strong progress on our key improvement programmes.

- Fresh supply chain efficiency – Significant progress has been made to enhance our fresh quality and standards, through optimisation of our end-to-end supply chain, including sourcing, enhancement of quality standards, range optimisation, improved reporting and monitoring standards. This has culminated in an over 50% reduction in losses associated with food wastage since the programme's start and a significant reduction in fresh shrinkage. As a result of greater focus and improved fresh standards, fresh like-for-like sales continue to outperform the overall Group sales performance.

- Labour productivity – Our programme to drive store labour productivity and efficiency has continued to be rolled out in 2021, with a greater focus on improved team member roster schedules. As a result, cost savings in 2021 were more than double those achieved in 2020.

- Procurement centralisation – We continue to generate efficiency savings in non-trade procurement executing around 1,000 separate projects across the Group in 2021. Significant savings have been generated in supply chain, property management and marketing in the year. Projects have included renegotiation of transportation rates with third-party logistics providers, enhanced processes to improve labour efficiency in warehouses, energy savings initiatives, consolidation of point of sales marketing print contracts.

- Assortment optimisation – Our programmes to improve cost of goods have been very successful. In 2021, around 1,700 rounds of supplier discussions were conducted, generating significant savings in cost of goods. Over the past three years, we have followed a process of strategic category planning, and we have also introduced enhanced governance and control mechanisms with respect to supplier-led cost price increases, which have mitigated price increases and provided additional savings for our customers.

Progress on strategic priorities

1. Growth in China

7-Eleven South China continued to expand, with over 200 new stores opened during the year, whilst also strengthening the foundations of the business. New product development continues to accelerate, with around 1,000 SKUs launched, supported by the development of important Own Brand strategic supply partnerships. In the area of infrastructure, 7-Eleven completed a major upgrade of 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. 7-Eleven is also expanding its online offering. Daily O2O transaction volume has quadrupled during the year. In addition, a number of pilots with respect to online store community groups have been initiated, with encouraging initial performance.

Mannings China's like-for-like sales grew strongly in the first half. However, the rise in the number of COVID-19 cases and subsequent restrictions on movement since late May has impeded sales momentum over the second half of the year. Following a detailed review of our Mannings store portfolio across China, we have undergone a period of space optimisation. The consolidation of the store network into Guangdong province is now complete, and supports an ability to not only focus growth in a more concentrated geography, but also leverage the above-store infrastructure of 7-Eleven where it makes sense to do so. Cross-border e-commerce sales growth continues to be strong, with additional capabilities introduced and opportunities now being explored to enhance range and value and improve the overall customer experience.

Yonghui's financial performance was materially impacted during the year, but it continues to invest in enhancing its business fundamentals with the ongoing strong growth of e-commerce; the launch of new formats such as warehouse stores; and the ongoing digitisation of its store operations.

2. Maintaining Hong Kong strength

Wellcome Hong Kong reported good sales growth and improvement in profit in 2021 compared to 2019 levels, highlighting strong underlying improvements in its business fundamentals. Relative to 2019 levels, Wellcome's sales significantly outperformed the decline of the broader market as reported by official Hong Kong retail sales statistics.

As a result of disciplined cost price reviews; the introduction of quality Own Brand products at affordable prices; lower negotiated cost of goods; and the introduction of the *Low Prices Locked* campaign, Wellcome has continued to reinvest in prices, with average selling prices reducing over the past 20 months. This has resulted in annualised savings of over HK$300 million for our customers.

Format development was another key area of focus in the year. The new 'Wellcome Fresh' concept was introduced in October, offering the best elements of both traditional wet markets and modern grocery retail. In addition, the Group continued to progress the upgrade of its upscale Market Place stores. Initial performance of these new concepts has been encouraging, with a strong uplift in sales, fresh participation, and basket sizes.

Mannings Hong Kong has continued to focus on local customers and the delivery of strong value for these customers. Since the launch of its price reinvestment campaign in July 2020, market share has increased materially, with strong levels of sales and volume uplift for key SKUs. Customer value perception has also improved steadily. Like-for-like sales and profitability for Mannings improved strongly in the second half relative to the first half. However, performance of the business continued to be significantly behind pre-pandemic levels, due to the impact of the pandemic and the ongoing absence of Chinese mainland tourist traffic.

In 2021, 7-Eleven celebrated its 40th anniversary of serving the Hong Kong community, and in July, it reached its 1,000th store milestone, solidifying its position as the largest convenience store chain in Hong Kong. The team continued to innovate for customers throughout the year. Around 250 new Own Brand ready-to-eat products were introduced to the market and a number of successful customer engagement programmes, such as collectibles campaigns for which the banner is now renowned, were launched. Good sales momentum was achieved over the course of the year, with like-for-like sales performance improving in the second half as the restrictions on customer movement began to normalise in Hong Kong.

IKEA's Hong Kong sales performance was impacted by reduced traffic caused by the pandemic as well as global supply chain constraints impacting availability, although e-commerce sales remained strong. IKEA continues to innovate with both its format and service offerings for the customer. For example, the upgraded Market Place store in Discovery Bay saw the introduction of the world-first 'IKEA Close to You' store-in-store concept. IKEA also introduced its first IKEA compact store, a 500 square metre location in Tai Po stocking both accessories and food, with encouraging early results. Home planning services have been launched across all Hong Kong stores during the year, providing customers with one-stop professional home planning advice.

Maxim's remains committed to pursuing its multi-brand strategy. During the year, Maxim's expanded its digital solutions for customers such as mobile ordering to support its takeaway business, as well as enhanced CRM capabilities through *yuu* Rewards and its Eatizen app. Based on the success of its Shake Shack franchise, which has now opened in Shenzhen, Macau, Beijing, Shanghai and Hong Kong, Maxim's has announced a strengthened partnership with Shake Shack and plans to expand into more locations across the Chinese mainland.

3. Revitalising Southeast Asia

Our Southeast Asian Grocery Retail businesses saw strong underlying performance in 2021 and, relative to 2019 levels, store sales per square metre increased by 25%. A combination of a strong improvement in underlying sales productivity, and efficiency savings following the implementation of business improvement programmes, has led to a significant positive swing in profitability for Southeast Asia Grocery Retail relative to 2019.

In Singapore, we have seen strong improvements in both our relative price position and customer perception scores following the relaunch of the Giant brand in Singapore, combined with the introduction of the *Low Prices that Last* programme. Within the key fresh food category for Giant, we have also gained significant market share. This has in turn translated to improved underlying sales productivity and profitability and arrested the previous trend of market share decline in the face of increased market competition both online and offline. With strong foundations in place, Giant is well positioned to grow in Singapore. In the fourth quarter, Giant opened its first new store in Singapore in over four years. Around half of our upscale stores in Singapore have either been, or are in the process of being, refreshed and we have plans to complete this process for most stores by the end of 2022. Refreshed upscale stores have exhibited strong performance from the perspective of both sales, customer count and basket uplift.

The pandemic has heavily impacted performance for Malaysia Grocery Retail, with government-imposed restrictions on movement impacting traffic and trading limitations in areas such as general merchandise, apparel and beer, wine and spirits. The pandemic has also impacted supply chain capacity and the progress of some of our transformation initiatives, with contract work being heavily constrained. Despite the challenges and delay caused by COVID-19, the Giant brand in Malaysia was relaunched in the first half with a greater focus on fresh, range enhancements and a detailed reapportionment of space. Subsequently, we have seen very positive customer feedback, which has supported a strong improvement in customer perception scores. In November, Giant Malaysia launched its own *Low Prices that Last* price reinvestment programme, which led to strong volume and sales growth for key SKUs.

In May, PT Hero, the Group's 89.3%-owned subsidiary in Indonesia, announced that, following a strategic review, it would be pivoting its trading operations away from the Giant banner by increasing investment in its strong brands of IKEA, Guardian and Hero Supermarkets. This change in strategy is a decisive and necessary response to changing market dynamics, particularly given the move away from the hypermarket format by Indonesian consumers in recent years. During the third quarter, PT Hero successfully executed the restructure of Giant in Indonesia. As a result, six stores have been successfully converted to the Hero banner, with the first IKEA conversion in Bali now open. A number of stores have been successfully divested.

Guardian's performance across Southeast Asia has continued to be affected by the pandemic and its impact on both tourism and mall traffic. Despite these challenges, the Guardian team has remained focused on improving the underlying fundamentals of the business. During 2021, the *Low Prices Locked* programme was introduced in all key markets, improving Guardian's already strong price position relative to competitors and driving double-digit volume growth on key SKUs. Customer perception scores have also improved since the launch of these programmes.

In addition, the Guardian team has begun to execute its multi-year range and sales optimisation programme. Leveraging deep research on customer insights as well as analysis on changing shopping behaviour by cluster, Guardian will focus on driving range simplification, improved promotional efficiency and a more tailored product mix according to demographic cluster. It will also focus on introducing additional innovation and newness to its range. The hard work which has been put in by the team in continuing to serve our customers in Malaysia has been rewarded by customers voting Guardian the winner of the Platinum award in the 2021 Putra Brand Awards.

IKEA's performance in Indonesia was impacted in the year by a combination of reduced traffic and supply chain constraints impacting availability. However, we believe the foundations have been laid to support strong growth when the external environment normalises. IKEA's total network space in Indonesia has more than doubled since the start of the year, following the opening of the Bandung and Jakarta Garden City stores. In November, IKEA opened its first Giant conversion outside of Java Island in Bali. This expansion reflects IKEA's strategic imperatives of being more accessible and affordable to the people of Indonesia, and we believe these stores will generate good returns for shareholders over time.

Robinsons Retail has exhibited some continued improvement in quarterly performance indicative of the recovery of the Philippines economy. The integration of Rose Pharmacy is making good progress. The company is also continuing to build on its digital strategy with strong growth in e-commerce and is further enhancing online capabilities to serve and fulfill customer needs.

4. Building capability

Since the start of our transformation, the Group has balanced both internal promotions and the introduction of external capability, and the change in leadership within the organisation has brought depth of experience and thinking to the Group. Having made strong progress through the second phase of the transformation (Delivering Consistently Well), we are now actively progressing into the third phase (Driving the DFI Difference). Consequently, there is a greater need to optimise the balance between the consistency brought about by centralisation and the agility afforded to businesses allowed to operate a higher degree of autonomy. Some adjustments to our organisation design were made in the year to support greater levels of regional autonomy, which we believe will drive even stronger transformation success in the future.

We have focused on enhancing capabilities for team members both in our Store Support Centre as well as team members in stores. In this regard, we have made significant investments in training and improving systems and processes to upskill our store team members and serve our customers better. To give a sense of the magnitude of change, total training investment for team members exceeded 300,000 hours in 2021. This was more than double 2019 levels. In 2021, additional capabilities in digital and CRM have been added to the team, which will support the acceleration of the Group's digital transformation to adapt to the rapidly changing environment. In August, Johnny Wong joined the Group as CEO of DFI Digital, bringing strong experience gained in a number of leading organisations in this area. Digital innovation remains an area of ongoing focus for the Group, and we expect to make ongoing investments in capability to support our development.

5. Driving digital innovation

The *yuu* Rewards programme continues to exceed expectations and now has almost four million members, representing over 60% of Hong Kong's adult population. The programme is attracting high levels of engagement, with over 130 billion points issued and 64 billion points redeemed since launch. All brands have benefitted from stronger levels of customer engagement relative to previous programmes, including the successful Mannings *Mann Card* programme. Further, the common loyalty currency of *yuu* points is now supporting an over 50% increase in cross-banner shopping relative to the start of 2021. Since its launch, *yuu* has continued to expand its ecosystem through the inclusion of Maxim's as a partner, the introduction of *yuu* Insure and Shell as fuel partner, as well as the launch of *yuu-to-me* e-commerce functionality on the app.

E-commerce remains a key focus area for the Group as we continue to adapt and improve our customer service proposition. Overall daily e-commerce orders for the Group have more than doubled. E-commerce sales growth continues at double-digit pace for IKEA. In some markets, IKEA's e-commerce penetration has exceeded 20%. In Hong Kong, we have introduced pilots offering customers the choice between delivery within 60 minutes and delivery within 24 hours, to tailor to different shopping occasions. Within Grocery Retail in Hong Kong, our average order volume has increased by over 120%.

We are continuing to experiment through alternative e-commerce offerings for customers. In Singapore we have piloted CART, a brand new shopping experience bringing our key brands in Singapore onto one platform. Customers can now shop over 20,000 products from Cold Storage, CS Fresh, Giant, Guardian on one app.

In addition to focusing on e-commerce growth, the Group is continuing to upgrade and enhance existing legacy IT systems, to improve the digitisation of in-store operations. 7-Eleven South China successfully completed the upgrade of its IT systems for all stores and distributions centres in August, future-proofing further business expansion plans. In partnership with leading Chinese omnichannel digital service provider Dmall, the new system was purpose-built for convenience retail to provide a digital operating system to support all aspects of 7-Eleven's value chain. Over the course of the year, we have begun to upgrade elements of Wellcome's IT systems to enhance in-store efficiency.

6. Own Brand development

One of the key drivers of value for our customers has been the ongoing momentum and success of Own Brand development. Within Grocery Retail, over 2,000 Own Brand SKUs have been launched since 2019, and over 1,300 SKUs have been launched in the past year. *Meadows* is now the number one brand across the whole Group, with over four items now being sold every second! Key highlights for 2021 include:

- Own Brand penetration has now reached double-digits in volume terms.

- During the year, we relaunched both *Yu Pin King* and *Giant* Own Brand product ranges. We also launched the *Meadows Essentials* range, providing our customers with additional choice through different levels of pricing tiers within our Own Brand range.

- *Meadows* is now the number one brand for nuts in Hong Kong and the number one snacks brand across Singapore.

- Our Own Brand products hold number one positions across multiple categories within the Group, including condiments, water, snacks and frozen food categories.

- As a testament to our strong international sourcing credentials, our Own Brand products were awarded over 80 international food quality awards. In addition, our relaunched *Yu Pin King* rice was judged best-tasting rice by the World Rice Conference.

Own Brand development within Health and Beauty has also been an area of focus. A full strategic review has been conducted, and plans are now in place to launch over 1,000 re-developed or new Health and Beauty products during 2022. The first relaunches took place in the fourth quarter of 2021 in two major commodity categories: cotton and paper. An integrated development and launch plan through commercial, sourcing, product marketing and strong in-store execution has resulted in strong double-digit sales growth relative to prior sales levels, and we expect momentum to accelerate over the course of 2022.

Corporate social responsibility

The purpose of our transformation plan started four years ago was to transform the organisation across multiple retail sectors, countries and territories and create a business that is more relevant to our customers and competitive within each of our markets, and of which our team members feel proud to be a part. Whilst we are doing all we can to improve the service we offer to our customers, we recognise that we can do more, both addressing the many challenges we face as a business and recognising the responsibilities we have outside the company. As a large enterprise, we have a duty to think about the needs of those around us – our team members, customers and our communities within our markets – as well as the impact we have on the world.

We are therefore thinking more carefully about not just our business and financial responsibilities, but also our broader social responsibilities.
In this context, we have developed our Corporate Social Responsibility (CSR) mission: *to provide communities we serve with benefits that help them and help the environment too.* Our approach is to build change that matters, harness our team's passion and strive to make a difference. We have identified the key pillars and priorities of our CSR approach: serving communities, sustaining the planet and sourcing responsibly. We are now dedicating significant resource towards building programmes that make a difference in each of these areas.

We have made some encouraging progress so far in the area of serving our communities. In Hong Kong, there are over 1.6 million people who are living at or below the poverty line. In November, Wellcome teamed up with long-term partner Foodlink to launch a Rice Donation Charity Programme called '*Sik Jor Fan Mei*', which is a traditional Cantonese greeting meaning 'Have you eaten yet?'. As part of the programme, Wellcome pledges to donate HK¢50 for every kilogram of *Yu Pin King* brand rice sold at its stores to help those in need. The aim of the programme is to raise HK$5 million within a year. The generosity of our customers has enabled Wellcome to raise funds at a much faster rate than expected. As of February 2022, we are now over 75% of the way towards achieving our original target. Following this successful introduction, we aim to introduce impactful programmes across other subsidiary business units over time.

Maxim's is also committed to serving the communities that it operates in. Maxim's was the first bakery chain to launch its Surplus Bread Donation Programme in 2009 and has since saved and donated over 5.6 million bread items, partnering with nearly 90 NGOs. In 2021, Maxim's expanded its volunteer network to over 30 corporate partners, distributing over 280,000 bakery items to vulnerable groups in the community.

In the area of sustaining the planet, the Group has placed significant emphasis on energy efficiency in 2021, which has also generated material cost savings. Wellcome installed the largest solar panel system in Hong Kong on the rooftop of its Fresh Food Processing Centre, generating one million kWh of electricity per year – enough to meet the annual electricity needs of nearly 250 households. Campaigns to change energy behaviours were introduced in key markets, and led to DFI receiving Smart Energy Awards from its key energy supplier, CLP Group, in 2021. Plans have also been developed to significantly improve energy efficiency in future years.

Our IKEA franchise continues to work with Inter IKEA Group to achieve its ambitions of becoming people and planet positive. Strong progress has been made in new product ranges such as introduction of new, more energy-efficient LED bulbs and increase in plant-based food offerings. In addition, IKEA is working hard towards a systematic shift towards a circular economy to reduce the environmental footprint of furniture. We have introduced circular hubs in all of our markets to sell returned or display furniture. In addition, new furniture leasing services are currently being trialed.

In addition, significant work has been undertaken to understand our carbon emissions and our future sustainability targets, areas we hope to share with our key stakeholders in the near future.

The year ahead

Our transformation, which began four years ago, has been a tough journey and one which is not yet complete. External market conditions over the past two and a half years have increased the challenges, and the Group's results have been impacted materially by the performance of Yonghui in 2021. However, we remain confident that the plans we have in place and the progress we have made put DFI Retail Group in a strong position to drive sustainable growth over the medium- to long-term.

There remain a number of areas of uncertainty with respect to the extent and duration of the pandemic, particularly following the recent spread of the Omicron variant. However, we remain optimistic when conditions normalise.

I would like to take this opportunity to thank each and every team member for their ongoing tireless efforts during what continued to be a challenging 2021 as well as the last four years of our transformation journey to drive sustainable improvements for our shareholders and customers.

Ian McLeod
Group Chief Executive
3rd March 2022