GROUP CHIEF EXECUTIVE'S REVIEW

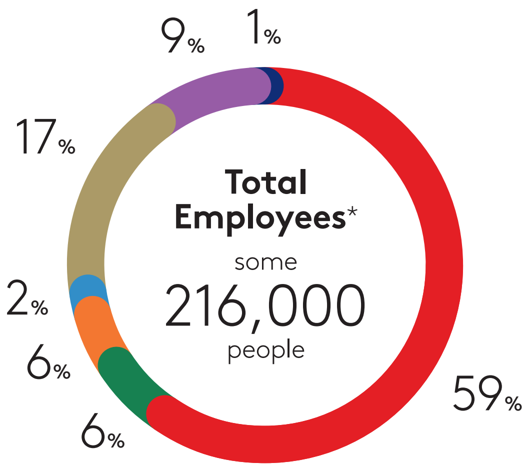
"Despite challenges faced in 2022, there was encouraging improvement in profitability in the second half of the year. Our teams across the Group have continued to focus on delivering against the Group's transformation objectives, working hard to manage our various businesses day-to-day, in highly volatile and unpredictable trading circumstances. Overall, the return to pre-pandemic normality in our markets, combined with the effective execution of our business strategy, give us confidence in the medium- to long-term trading prospects of the Group."

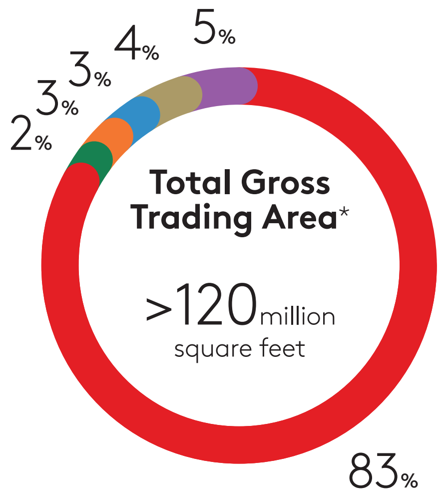
Introduction

2022 was another extremely challenging year for the Group, from the perspective both of operational disruption and macroeconomic headwinds. The Group's businesses in our home market of Hong Kong were badly impacted by the fifth COVID wave and related lockdown restrictions, which hit the city during the first quarter of the year. We saw significant shifts in customer behaviour, creating strain on both the supply chain and store operations. Life in Hong Kong has, however, returned to some form of normality as the year has progressed and pandemic restrictions have lifted.

The Group continued to see underlying losses from its investment in Yonghui, although they were reduced from the previous year. Yonghui's sales and profits improved in the first half of the year, but its performance in the second half was impacted by pandemic restrictions, the slowdown in the overall macroeconomic environment and its investments in digital. Pandemic-related restrictions also adversely affected our 7-Eleven and Mannings businesses on the Chinese mainland.

In Southeast Asia ('SEA'), we faced a different set of challenges. The economies in our SEA markets began reopening at the beginning of the year,





- Grocery Retail
- Convenience Stores
- Health and Beauty
- Home Furnishings
- Restaurants
- Other Retailing
- Store Support Centre and Shared Services

* Including 100% of associates and joint ventures.

supporting sales recovery for some retail formats. Pent-up demand for travel and other services, however, reduced demand for eating at home and, thus, impacted performance in Grocery Retail.

The Group faced unprecedented cost inflation in the period, impacting the cost of goods, our operating costs and consumer sentiment, particularly in our SEA Grocery Retail business. The pandemic has also accelerated customer preferences for shopping online. We are therefore balancing the need to invest in digital capacity and capability and concurrently ensuring that we remain competitive by being disciplined in spending.

Our teams across the Group have continued to focus on delivering against the Group's transformation objectives, working hard to manage our various businesses day-to-day, in highly volatile and unpredictable trading circumstances. I am grateful to all our colleagues for the commitment they have shown, as well as their many achievements during the year.

2022 performance

The Group reported total sales revenue from its subsidiaries of US$9.2 billion, broadly in line with the prior year. Total revenue for the Group, including 100% of associates and joint ventures, was US$27.6 billion, slightly behind 2021 levels.

The Group reported a subsidiaries underlying profit of US$64 million for the full year. Inclusive of US$35 million underlying losses attributable to associates and joint ventures, the Group reported underlying profit of US$29 million for the full year. There was an encouraging improvement in second-half underlying profit to US$80 million, over 10% higher than the same period last year, and representing a US$132 million increase in profitability from the US$52 million underlying loss incurred in the first half.

Our Health and Beauty business saw double-digit sales growth and over 60% profit growth for the full year, as Mannings in Hong Kong continued to gain market share and Guardian in SEA benefitted from markets reopening. The performance of the business was, however, still considerably behind that of 2019. The profitability of our Convenience and IKEA businesses was broadly in line with the prior year, despite significant COVID-related disruption, particularly in the first half in Hong Kong, as well as availability challenges as a result of extensive supply chain disruption. IKEA's sales and profits were also ahead of its performance in 2019. Grocery Retail, which benefitted from restaurant dining restrictions last year, saw lower profits in 2022. Profitability was also impacted by inflationary pressures, which affected cost of goods sold as well as operating costs. Although Grocery Retail profits reduced year on year, the transformation programme that began five years ago has laid strong foundations for the Group's businesses, supporting significantly enhanced levels of profit for the Grocery Retail division in 2022 compared to those of 2019.

The Group's share of underlying losses from associates and joint ventures was US$35 million, as key associates continued to be impacted by COVID-related disruption in the year. Maxim's saw its profits impacted by social distancing restrictions in Hong Kong and China in the first quarter, which led to a loss in the first half. Maxim's profitability recovered strongly in the second half, however, demonstrating the underlying resilience of the business and its diversified pan-Asian portfolio. The Group's share of underlying Yonghui's losses was US$80 million, as its performance was impacted by pandemic restrictions, as well as its ongoing investment in digital transformation. Robinsons Retail reported strong revenue and profit growth, as it benefitted from the reopening of the Philippines economy.

Business initiatives and developments

Own brand

The Group's Own Brand business is performing increasingly strongly, with significant effort invested in driving profitable growth in this area. New contemporary designs for the Meadows brand have highlighted the brand's quality and ensured on-shelf credibility and impact. Every new product over the last three years across Grocery, General Merchandise and Health and Beauty has included a completely new pack design: almost 10,000 in all, covering the launch of around 3,500 SKUs. With over 2,300 new and relaunched Grocery Own Brand items on the shelf, volume penetration has increased by more than 50% compared to three years ago and is now in the double-digit range.

Health and Beauty has followed the success of the Own Brand relaunches in Food by introducing new ranges of both Mannings and Guardian products at pace in 2022. There are now over 1,300 new or revised items in stores with new design and market positioning, and over 900 more items are planned for 2023. The new ranges have been very well received, with Own Brand now accounting for one in every four Mannings items purchased by our customers and our Own Brand cotton range achieving the number one market share position not just in Mannings but throughout Hong Kong.

Digital

Driving digital innovation remains a key strategic priority for the Group. Since its launch in July 2020, the performance of the *yuu* Rewards coalition loyalty programme has exceeded expectations, with over four million members having signed up. The *yuu*-niverse has continued to expand over the past two years, with the addition of restaurant, insurance and fuel partners. In January 2023, *yuu* Rewards expanded its scope further, with travel partner Agoda joining the programme. We remain excited about the future prospects of *yuu* Rewards and look forward to expanding the *yuu*-niverse further as we unlock additional partnership opportunities.

In May 2022, *yuu-to-me* e-commerce functionality was launched on the *yuu* app, offering customers an integrated one-stop online shopping experience and home delivery across leading Hong Kong brands to customers. Initial performance has been encouraging, with strong growth in order values and per-user spending. The team has also worked hard to drive significant improvements in operational excellence and the online customer shopping experience, with over 96% of orders now delivered 'on time' and 87% 'in full', and product fulfilment of all orders reaching almost 99%.

The Group has also invested in capability to support our digital ambitions. We have recruited a number of high calibre individuals who bring extensive relevant global digital retail experience, in areas including online warehousing, online platforms, social media platforms and traditional offline retail digital transformation.

The Group has built on the success of the *yuu* Rewards loyalty programme in Hong Kong by launching *yuu* Rewards in Singapore in October 2022. We have entered partnerships with minden.ai, a tech venture founded by Temasek, BreadTalk Group, DBS Bank, PAssion Card, Mandai Wildlife Group and Singtel. The coalition loyalty programme unites some of Singapore's most popular brands, offering customers an effortless way to earn rewards on everyday purchases across over 1,000 outlets. Initial performance has been very encouraging, with over one million members joining since launch.

Business portfolio optimisation

On 23rd February 2023, the Group announced that it had entered into an agreement to transition its Malaysian Grocery Retail businesses to a leading local retail group led by successful local entrepreneur, Datuk Andew Lim. Completion of the transaction is expected to take place in early March 2023, and will provide further growth opportunities to our team members and enable greater competitiveness, service and value for customers in Malaysia. The Group remains fully committed to its other retail businesses in Malaysia and will enhance its strategic focus on the fast-growth health and beauty segment through Guardian stores.

Corporate social responsibility

Over the course of 2022, we have continued to make strong progress in supporting our Corporate Social Responsibility (CSR) mission *to provide environmental and social benefits to the communities we serve*. A number of programmes have been introduced to support our key CSR focus areas: serving communities, sustaining the planet and sourcing responsibly. 2022 was also the first year the Group began to disclose a comprehensive set of quantitative ESG metrics with reference to the Global Reporting Initiative standard and the United Nations Sustainable Development Goals.

Serving communities

The Group's businesses are important cornerstones of the communities we serve and our first CSR focus area of serving communities reflects our mission to improve people's lives – especially those in underprivileged communities. Over the course of the past 18 months, a number of new programmes have been introduced to make a tangible and lasting impact on the communities we serve.

In November 2021, Wellcome teamed up with long-term partner Foodlink to launch *Sik Jor Fan Mei*, a Rice Donation Charity Programme. Under 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 was originally to raise HK$5 million within 365 days. We have achieved our targets significantly earlier – only five months after the launch.

Following the success of the *Sik Jor Fan Mei* programme in Hong Kong, we have launched similar charity programmes in Singapore and Malaysia. Working with The Food Bank Singapore, a non-profit organisation that provides free meals and dry rations to families in need, we launched the *Have You Eaten?* programme, under which DFI donates SG¢10 for every kilogram of Meadows Own Brand rice sold, with a goal of donating a million meals to help those in hardship over the next two years. In Malaysia, the *Sudah Makan?* Initiative was launched in the same month, in collaboration with The Lost Food Project.

In the second half of the year, Guardian launched its community service programme *Guardiancares* across SEA, aimed at raising the self-esteem of children from low-income families. Under this initiative, donations to buy bath care products for those in need will be made for every one litre of Guardian bath care product sold. The aim is to provide enough products for 20 million baths for underprivileged children across SEA.

Sustaining the planet

The Group has set ambitious climate targets, aligned with the Paris Agreement, to prevent the harm caused by climate change to ecosystems and societies. The Group is committed to a near-term target of halving our Scope 1 and 2 emissions by 2030 and to achieving net zero by 2050. DFI has already made good progress in reducing its emissions, reducing Scope 1 and 2 emissions by 10% between 2021 and 2022. The Group is working on a plan to reduce Scope 3 carbon emissions. A range of energy saving and efficiency enhancement initiatives have been implemented in 2022, which are expected to reduce consumption in 2023.

The Group is supporting the transition towards a circular economy by reducing and managing waste. Food waste and loss are significant drivers of global food insecurity and climate change. Since 2018 the Group has adopted a holistic strategy for reducing food waste, through its *Fresher for Customers* programme. The programme focusses on improving supply chain, warehouse, logistics and operational management to deliver fresher produce to customers and reduce the ratio of food loss significantly. Overall, food waste has been reduced by nearly 40% since 2017. In addition to food waste reduction, the Group aims to increase the proportion of diverted waste to 80% by 2030.

The Group is changing the way we develop and source products and packaging to reduce plastic consumption. We are working to switch our Own Brand products to more environmentally friendly materials or reusable packaging, reducing unnecessary plastic packaging and increasing the use of recycled content. The Group is exploring ways of transitioning away from single use plastic bags and also encouraging increased recycling from customers.

Sourcing responsibly

The Group's responsible sourcing initiatives focus on safeguarding animal welfare, respecting human welfare and protecting biodiversity. The Group is working hard with our suppliers to offer customers products sourced in an ethical, transparent and responsible way. We are committed to no animal testing in all our Own Brand products, except where it is legally required. On limiting the scale of deforestation, we have obtained international certifications to protect forest ecosystems, including certified paper from sustainable forestry sources and Rainforest Alliance certified coffee for our Convenience business in Hong Kong. To protect marine life, 34% of our Own Brand seafood products have obtained certifications such as Marine Stewardship Council (MSC), where 100% of canned tuna are certified.

The year ahead

The lifting of pandemic restrictions on the Chinese mainland is having a positive impact on the Hong Kong and Chinese mainland economies and the Group is cautiously optimistic that the Group will see improved overall performance in 2023. There remain additional market challenges, however, including rising interest rates, inflationary and wage pressures and uncertainty as to the impact these factors will have on consumer sentiment. Overall, the return to pre-pandemic normality in our markets, combined with the effective execution of our business strategy, give us confidence in the medium- to long-term trading prospects of the Group.

Ian McLeod
Group Chief Executive
2nd March 2023