Group Chief Executive's Review

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Introduction

It is both a pleasure and a privilege to join DFI Retail Group as Group Chief Executive. I am excited to be part of an organisation with such a long history and which plays such an important role in serving all of the communities where it operates.

The past few years have been very challenging for the Group, our customers, team members and shareholders. Post the pandemic, there is a need to reset DFI and align the business to a strategic framework focussed on capital allocation priorities and growth plans that will improve performance over the coming years. I believe this realignment of the organisation will generate enhanced returns for shareholders.

Overall financial performance in 2023 has been encouraging. Total underlying profit attributable to shareholders was US$155 million for the year, an increase of US$126 million compared to the prior year. There remains a significant opportunity, however, to continue to build on this profit recovery. I am confident that, with the right focus on our customers, team members and shareholders, as well as the right balance of local autonomy and centralised scale, we will gain share from our competitors and sustainably grow returns for our shareholders.

Strategic framework

Since joining the Group in August, I have visited all our markets and formats, meeting team members and learning about our business and customers. This has been a great opportunity to receive input and I have been impressed by the energy our team members bring to serving our customers. Over the course of this period, a new strategic framework has been introduced: Customer First, People Led, Shareholder Driven. An aligned strategic framework is crucial to supporting the Group's capital allocation priorities and growth plans over the coming three to five years.

Customer First

As a leading retailer across multiple formats in the markets where we operate, we must evolve at the same pace as our customers' changing shopping behaviours. While significant progress has been made over the past few years in enhancing retail fundamentals within the Group, there remain opportunities to improve local relevance across our assortment, Own Brand mix, store execution and design. Additionally, we are resetting our approach to creating a digital proposition across the businesses that is significantly less margin dilutive yet protects our future market share.

People Led

As a People Led organisation, we are focussed on deeply embedding our values throughout the Group, speeding up decision making and improving Inclusion, Equity and Diversity to ensure local relevancy of decision-making to customers. Our team members are closest to the views of our customers and their voices must be heard.

Shareholder Driven

We have committed to driving improved shareholder returns. We must win with customers, but do this through a disciplined capital and resource allocation model that creates sustainable returns as well achievement of our Environmental, Social and Governance ('ESG') commitments.

Organisation structure

An important milestone achieved over the course of the second half of 2023 was the alignment of our organisation structure to the new strategic framework. Our customers, competitors and the markets in which we operate are changing. We must ensure our organisation is prepared to meet the challenge. Decisions that impact our customers must be made close to the customer. Centralised services must add value to the banners through scale and expertise, all delivered through a lean overheads model. We will invest only where our business leaders commit to delivering attractive returns. Based upon these principles, we have moved accountability to a format structure across Food, Health and Beauty, Convenience and Home Furnishings, removing the regional layer. By moving to a format structure, each of our formats will optimise the assortment, digital proposition and store design principles to deliver service, quality and value to our customers in a more consistent manner that can also be tailored to the format's individual strategies.

Aligned to the format structure is a new go-to-market digital strategy. Driving Digital has been a key strategic focus for DFI Retail Group during the past several planning periods and will continue and intensify. We need, however, to revise our strategy based on the post-COVID needs of our customers. The end goal is to provide them with great choice and service at an affordable price, capturing potential opportunities and creating greater synergies between our stores and online businesses. Consequently, accountability for the technology function, the *yuu* Rewards business and the Digital function has been split. This will enable us to create greater focus on these three important strategic areas and support the creation of a Customer First digital proposition.

2023 performance

The Group reported total revenue from subsidiaries in 2023 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$26.5 billion, slightly behind 2022 levels.

The Group reported a subsidiaries underlying profit attributable to shareholders of US$112 million for the full year, over 70% higher than the prior year. Profit from associates was US$43 million, US$78 million higher than the prior year. Total underlying profit attributable to shareholders was US$155 million for the year, an increase of US$126 million compared to the prior year.

Our Health and Beauty business reported over 20% sales growth and nearly 130% profit growth for the full year, driven by traffic recovery from markets reopening and gross margin improvement. Recovery of customer foot traffic also supported strong profit growth for our Convenience division, which grew 74% compared to the prior year.

Food profit reduced relative to the prior year. Within North Asia, first half performance was impacted by the absence of pantry-stocking seen during the fifth wave of COVID in Hong Kong in the equivalent period last year. However, North Asia Food performance improved in the second half and profit during that period also increased compared to the prior year. South East Asia Food financial performance was adversely affected by intense competition and weakening consumer sentiment caused by rising cost of living pressures.

IKEA saw like-for-like ('LFL') sales decline due to reduced home renovation and furniture demand, as a result of a softening in property market sentiment caused by higher interest rates. Profit also fell, primarily as a result of the revenue shortfall.

The Group's share of underlying profits from associates was US$43 million, representing a US$78 million increase from the prior year. Maxim's reported strong recovery with its share of underlying profit more than doubling relative to the prior year, as customers returned to dining out. The Group's share of Yonghui's underlying losses was US$36 million, an improvement relative to the prior year. Robinsons Retail reported good underlying business performance but its contribution to the Group's profits reduced due to foreign exchange losses and higher net financing charges.

The Group reported strong operating cash flow after lease payments of US$419 million, 50% higher than the US$279 million reported in the prior year. Operating cash flow after lease payments and normal capital expenditure was US$222 million, over six times higher than the US$35 million reported in 2022.

Environmental, social, governance ('ESG')

The growing awareness of the impact from climate change has sparked a global movement towards sustainable practices and environmental responsibility. As a leading pan-Asian retailer, we have the unique opportunity to contribute to and be part of the solution. Indeed, being part of the solution is an important component of our Customer First, People Led and Shareholder Driven strategic framework.

The Group's strong commitment to ESG is reflected in our three strategic pillars: serving communities, sustaining the planet, and sourcing responsibly across the markets in which we operate. In November, the Group's greenhouse gas emissions targets were validated by the Science Based Targets initiative ('SBTi'). We became one of the first Asian retailers to receive validation from the SBTi for its near-term emissions reduction targets, aligned with its criteria and recommendations. The validated targets cover Scope 1, Scope 2, and Scope 3 greenhouse gas ('GHG') emissions. For Scope 1 and 2, the committed target is to reduce half emissions by 2030. DFI has also pledged separately to achieve net-zero emissions by 2050, with an annual investment plan to achieve this long-term goal. SBTi has also validated DFI's Scope 3 emissions reduction target, focussing on purchased goods and services (category 1) as well other significant categories.

DFI has also achieved a significant improvement in its independent ESG Risk Rating from Morningstar Sustainalytics, a leading global ESG rating provider, with our score improving from 25.3 in 2022 to 22.9 in 2023. This represents a ranking improvement from top 50% to top 29% in the Global Food Retail sub-industry. DFI's overall management score from Sustainalytics, which assesses the robustness of a company's ESG programmes, practices, and policies, is also rated as 'Strong'. This improvement represents external validation of the strong ESG management efforts that have been made by the Group, despite above-average risk exposure for the sub-industry. These efforts have included proactive climate risk management in line with Task Force on Climate related Financial Disclosures ('TCFD') recommendations and auditing of supply chains against ethical standards.

I am personally passionate about this topic and the achievement of our ESG objectives, particularly our emissions reduction targets, is a core focus of the leadership team. Whilst the journey will not be easy, we believe it is necessary and we will continue to drive the organisation to be a change agent in the markets that we serve.

Outlook

The reopening of economies following the pandemic has had a positive overall impact on the Group's financial performance in 2023. Customer behaviours are, however, rapidly evolving and the Group is dynamically adapting to changing market conditions. In our home market of Hong Kong, for example, we have seen increased levels of outbound travel, particularly into the Chinese Mainland over weekends and public holidays. There remain additional market challenges such as high interest rates, inflationary and wage pressures and uncertainty as to the impact these factors will have on consumer sentiment. Nevertheless, I am confident in the short-, medium- and longer-term prospects of the Group and believe we have put in place strong foundations to drive sustainable growth and shareholder returns over the coming years.

Scott Price
Group Chief Executive
7th March 2024