
# Dairy Farm

## Annual Report 2019

Our Goal:

"To give our customers across Asia a store they TRUST, delivering QUALITY, SERVICE and VALUE."

Dairy Farm

Dairy Farm International Holdings Limited is incorporated in Bermuda and has a standard listing on the London Stock Exchange, with secondary listings in Bermuda and Singapore. The Group's businesses are managed from Hong Kong by Dairy Farm Management Services Limited through its regional offices. Dairy Farm is a member of the Jardine Matheson Group.

Jardines
A member of the Jardine Matheson Group


# Contents

# Corporate Information

## Directors

Ben Keswick
Chairman and Managing Director

Ian McLeod
Group Chief Executive

Clem Constantine
*(joined the Board on 11th November 2019)*

Neil Galloway
*(stepped down on 31st March 2019)*

Mark Greenberg

George J. Ho

Adam Keswick

Simon Keswick
*(stepped down on 1st January 2020)*

Michael Kok
*(stepped down on 8th May 2019)*

Dr Delman Lee

Anthony Nightingale

Y.K. Pang

Jeremy Parr

Lord Sassoon, Kt

Percy Weatherall

John Witt

## Company Secretary

Jonathan Lloyd

## Registered Office

Jardine House
33-35 Reid Street
Hamilton
Bermuda

## Dairy Farm Management Services Limited

## Directors

Ben Keswick
Chairman

Ian McLeod
Group Chief Executive

Clem Constantine
Chief Financial Officer
*(joined the board on 19th November 2019)*

Neil Galloway
Group Finance & IKEA Director
*(stepped down on 31st March 2019)*

Choo Peng Chee
Chief Executive Officer – North Asia
& Group Convenience

Sam Kim
Chief Executive Officer – Health & Beauty and
Chief Marketing & Business Development Officer

Martin Lindström
Group Director – IKEA

Simon McDowell
Group Chief Customer Officer and
Chief Executive Officer North Asia Health and Beauty
*(stepped down on 31st July 2019)*

Michael Wu
Chairman and Managing Director, Maxim's

Mark Greenberg

David Hsu

Anne O'Riordan
*(joined the board on 1st June 2019)*

Y.K. Pang

Jeremy Parr

John Witt

## Corporate Secretary

Jonathan Lloyd

# Dairy Farm At-a-Glance

**Network Span**

12 Asian markets and territories

**Store Network**

10,533 outlets

(Including associates and joint ventures.)

## Geographical Locations

- Grocery Retail
- Convenience Stores
- Health and Beauty
- Home Furnishings
- Restaurants
- Other Retailing

### Mainland China
- Yonghui (Grocery Retail)
- 7-Eleven (Convenience Stores)
- Mannings (Health and Beauty)
- Maxim's (Restaurants)

### Macau
- San Miu (Grocery Retail)
- 7-Eleven (Convenience Stores)
- Mannings (Health and Beauty)
- IKEA (Home Furnishings)
- Maxim's (Restaurants)

### Hong Kong
- MarketPlace (Grocery Retail)
- Wellcome (Grocery Retail)
- 7-Eleven (Convenience Stores)
- GNC (Health and Beauty)
- Mannings (Health and Beauty)
- IKEA (Home Furnishings)
- Maxim's (Restaurants)

### Taiwan
- Jasons (Grocery Retail)
- Wellcome (Grocery Retail)
- IKEA (Home Furnishings)

### Thailand
- Maxim's (Restaurants)

### The Philippines
- Rose Pharmacy (Health and Beauty)
- Robinsons (Grocery Retail, Convenience Stores, Health and Beauty, Other Retailing)

### Cambodia
- Giant (Grocery Retail)
- Lucky (Grocery Retail)
- Guardian (Health and Beauty)
- Maxim's (Restaurants)

### Vietnam
- Guardian (Health and Beauty)
- Maxim's (Restaurants)

### Singapore
- Cold Storage (Grocery Retail)
- Giant (Grocery Retail)
- Jasons (Grocery Retail)
- MarketPlace (Grocery Retail)
- 7-Eleven (Convenience Stores)
- Guardian (Health and Beauty)
- Maxim's (Restaurants)

### Malaysia
- Cold Storage (Grocery Retail)
- Giant (Grocery Retail)
- Jasons (Grocery Retail)
- Shopsmart (Grocery Retail)
- Guardian (Health and Beauty)
- Maxim's (Restaurants)

### Brunei
- Guardian (Health and Beauty)

### Indonesia
- Giant (Grocery Retail)
- Hero (Grocery Retail)
- Guardian (Health and Beauty)
- IKEA (Home Furnishings)

# Highlights

- **Multi-year transformation making progress**
- **Underlying profit impacted by social unrest in Hong Kong**
- **Improvement in Southeast Asia Grocery Retail and Health and Beauty**

| **Results** | **2019 US$m** | 2018 US$m restated# | Change % |
|---|---|---|---|
| Sales | | | |
| – subsidiaries | **11,192** | 11,749 | (5) |
| – including associates and joint ventures* | **27,665** | 21,957 | 26 |
| Underlying EBITDA† | **1,439** | 1,607 | (10) |
| Underlying profit attributable to shareholders‡ | **321** | 358 | (10) |
| Net non-trading items | **3** | (273) | n/a |
| Profit attributable to shareholders | **324** | 85 | 282 |
| Net debt | **821** | 744 | 10 |

| | **US¢** | US¢ | % |
|---|---|---|---|
| Underlying earnings per share‡ | **23.72** | 26.48 | (10) |
| Basic earnings per share | **23.93** | 6.27 | 282 |
| Dividends per share | **21.00** | 21.00 | – |
| Net asset value per share^ | **89.39** | 83.27 | 7 |

| **Store Network*** | **2019** | 2018 | Net change |
|---|---|---|---|
| Food | **5,732** | 5,474 | +258 |
| – Grocery Retail | **2,518** | 2,501 | +17 |
| – Convenience Stores | **3,214** | 2,973 | +241 |
| Health and Beauty | **2,402** | 2,322 | +80 |
| Home Furnishings | **12** | 10 | +2 |
| Restaurants | **1,753** | 1,298 | +455 |
| Other Retailing | **634** | 643 | –9 |
| | **10,533** | 9,747 | +786 |

* On a 100% basis.

† Underlying EBITDA represents underlying operating profit before depreciation and amortisation.

‡ The Group uses 'underlying profit' in its internal financial reporting to distinguish between ongoing business performance and non-trading items, as more fully described in note 35 to the financial statements. Management considers this to be a key measure which provides additional information to enhance understanding of the Group's underlying business performance.

^ Net asset value per share is based on the book value of shareholders' funds.

# The accounts have been restated due to the change in accounting policy upon adoption of IFRS 16 'Leases', as set out in note 1 to the financial statements.

**Total Sales*** ↑ 26%

**Underlying Profit** ↓ 10%

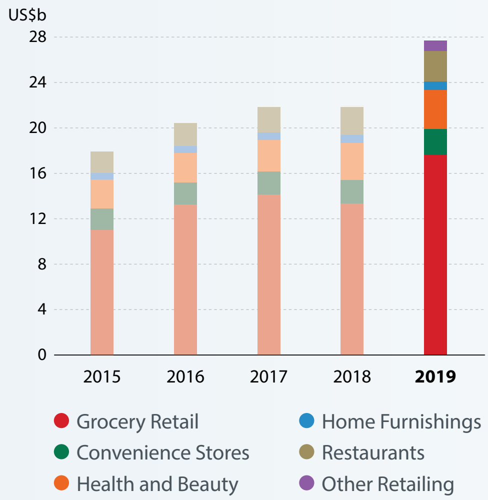
**Profit Attributable to Shareholders** ↑ 282%

**Number of Stores*** 10,533

**Number of Employees*** some 230,000 people

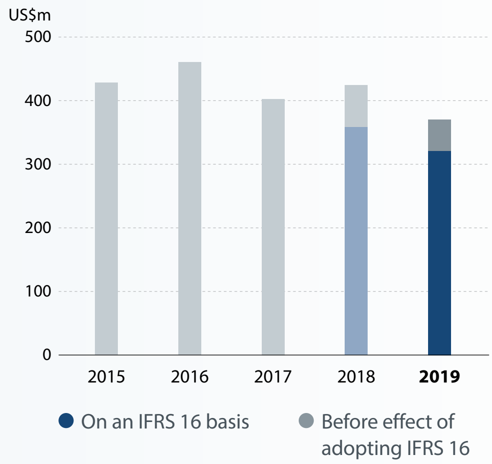
## Total Sales*

# US$27.7 billion



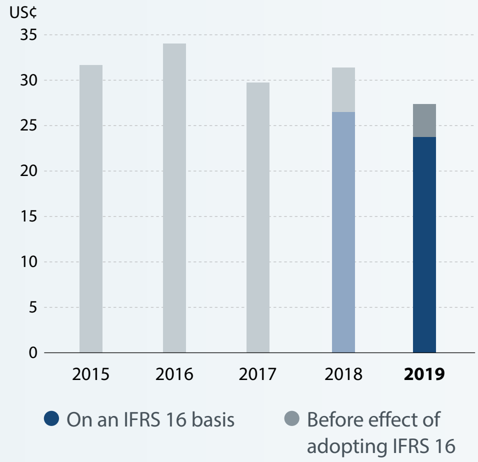

## Underlying Profit Attributable to Shareholders

# US$321 million



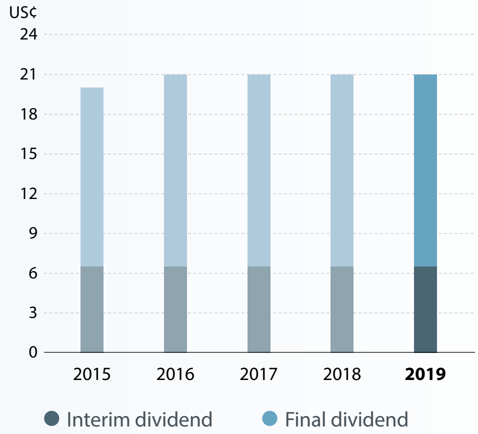

## Underlying Earnings per Share

# US¢23.72




## Ordinary Dividends per Share

# US¢21.00



# Chairman's Statement

**" While difficult market conditions in Hong Kong impacted the Group's financial performance during the year, the multi-year transformation of the Dairy Farm Group continued to gain momentum during 2019, with signs of progress across our businesses. The Group's space optimisation plan, new store formats and improvement programmes together generated greater efficiencies and started to deliver tangible results. We expect this progress to continue in 2020, although the Group's results are being materially impacted by the ongoing COVID-19 outbreak. Performance for the remainder of the year will depend on the duration, geographic extent and impact of the outbreak and the measures taken to control it. "**

## Overview

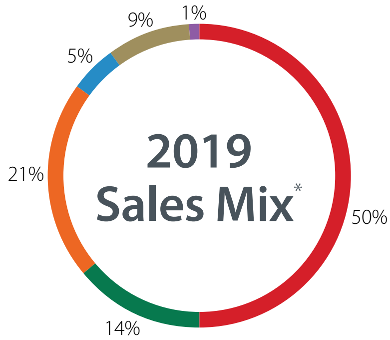
The Dairy Farm Group's multi-year transformation programme to reshape and reorganise the business adapting to the changing needs of customers, continued to gain momentum during 2019. Opportunities are being unlocked across the Group as the business seeks to leverage its scale effectively and develop a more coherent approach to improving its customer proposition, both by banner and at a country level.

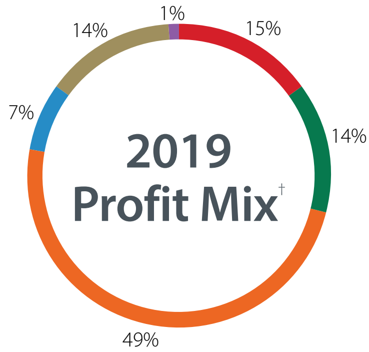
While the Group began to see some early benefits from its transformation programme, profitability was impacted by market conditions in Hong Kong in the second half of the year caused by social unrest. The ongoing COVID-19 outbreak has added extra complexity to Group's businesses and the Group's results are being significantly impacted by it. Performance for the remainder of the year will depend on the duration, geographic extent and impact of the outbreak and the measures taken to control it. The Group's diverse retail portfolio does, however, provide some insulation against market uncertainties and Dairy Farm remains firmly focused on the successful delivery of its transformation.

## Operating performance

Sales of US$11.2 billion for the year by the Group's subsidiaries were 5% behind those of 2018. Total sales of US$27.7 billion, including 100% of associates and joint ventures, were 26% higher, reflecting the investment in Robinsons Retail in the prior year.

The underlying operating profit of the Group's subsidiaries was US$437 million, 14% lower than 2018, primarily due to social unrest in Hong Kong which disrupted trading at some of the Group's banners in the second half of the year. Among the Group's subsidiaries, the impact was greatest for Mannings, because of the significant reduction in the number of visitors from the Chinese mainland to Hong Kong. Ongoing investments in the IKEA store network in the year also reduced Group




- 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.

profitability. Offsetting these impacts was a significant improvement in profitability in our Southeast Asia Grocery Retail business, as the space optimisation plan took effect. The businesses also benefitted from transformation and improvement programmes.

Underlying profit attributable to shareholders was US$321 million, down 10% from US$358 million last year. Underlying earnings per share of US¢23.72 were also down 10%.

The Group maintained solid net cash flows from operating activities of US$1,288 million. Net debt at the end of 2019 was US$821 million, an increase from US$744 million last year.

The Board is recommending an unchanged final dividend of US¢14.50 per share, giving a total dividend of US¢21.00 per share for the year, which is in line with 2018.

### Food – Grocery Retail

The divestment of the Rustan Supercenters business, as well as the execution of the Group's space optimisation plan in Southeast Asia, led to overall sales for the Grocery Retail business reducing by 12% to US$5.2 billion. Sales in Hong Kong and Macau Grocery Retail rose in 2019.

There was a significant improvement in operating profit in the Group's Grocery Retail business, from US$22 million in 2018 to US$63 million in 2019. The improvement was driven by Southeast Asia, as the space optimisation plan took effect. The foundation for future growth by the business were also strengthened by the ongoing transformation and improvement programmes.

Profits in Hong Kong and Macau Grocery Retail were impacted by cost pressures and ongoing investments in people and capabilities, but the Group has started to see improving trends in underlying profit performance.

### Convenience

Sales in the Convenience business increased by 4% to US$2.2 billion, driven by new store growth and strong like-for-like sales in Chinese mainland in particular. Enhancements to range and services are proving popular with customers and the business continues to focus on brand differentiation to support sales growth. Profits for the year declined by US$6 million, however, as a result of pre-opening costs in respect of the expansion of the 7-Eleven store network in Guangdong, as a net total of over 200 new stores were opened in 2019. Profits in 2018 were also positively impacted by a number of one-off items.

# Chairman's Statement

### Health and Beauty

Total sales for the Health and Beauty Division increased by 1% to US$3.1 billion, supported by the consolidation of Rose Pharmacy as well as strong growth in other Southeast Asian markets. Operating profit, however, declined by 11% to US$296 million, as the business was impacted by the social unrest in Hong Kong. The Group has been addressing these challenging conditions by appropriate management of costs.

Weakness in North Asia Health and Beauty was partially offset by strong revenue and like-for-like sales growth in Southeast Asia, particularly in Indonesia and Malaysia. Guardian in Southeast Asia delivered a strong performance during the year, with improvements in operating standards, service and product availability, and it benefitted from a growing middle-class customer base in Indonesia, Malaysia, and Vietnam.

### Home Furnishings

In Home Furnishings, sales for IKEA were up by 6% in the year. Operating margins were, however, adversely affected through a combination of currency movements, cost of goods changes and pre-opening costs in support of strong store expansion.

### Associates

The contribution from key associate Maxim's declined to US$82 million from US$105 million in the prior year, as the business was impacted by the ongoing social unrest in Hong Kong. Despite the challenging market conditions in the second half, however, Maxim's reported a 4% growth in sales overall for the year, as it saw the benefit of its acquisition of the Starbucks Thailand business.

Yonghui in the Chinese mainland reported strong sales growth and positive like-for-like sales. Our share of results in Yonghui grew from US$15 million in 2018 to US$23 million in 2019 and benefitted from the partial sell-down by Yonghui of their investment in the Yunchuang Technology business, which was announced in December 2018. The Group also benefitted from the contribution from its interest in Robinsons Retail, which it acquired in late 2018.

## Transformation

The Group's multi-year transformation programme to reshape and reorganise the business, adapting to the changing needs of customers, continued to gain momentum during 2019. Opportunities are being unlocked across the group as the business seeks to leverage its scale effectively and develop a more coherent approach to improving its customer proposition, both by banner and at a country level. The Group's space optimisation plan, new store formats and improvement programmes generated greater efficiencies and started to deliver tangible results in the year.

## Corporate developments

In May, Maxim's acquired the Starbucks franchise in Thailand, with some 370 stores in operation, through a 64%-owned joint venture.

As at 31st December 2019, Dairy Farm, including associates and joint ventures, operated over 10,000 outlets across all formats, compared with some 9,700 at 31st December 2018.

## People

Undoubtedly 2019 was a challenging year for many of our businesses, however the hard work, resilience and determination of colleagues and their commitment to serve our customers every day has been outstanding. I would like to thank all the Group's employees for their efforts in moving the Group towards becoming a truly modern-day retailer that puts our customers first.

Neil Galloway stepped down as Group Finance Director at the end of March 2019. The Board would like to express its gratitude for the significant contribution Neil made to the Group over a number of years.

Clem Constantine showed strong leadership during his time as interim Chief Financial Officer following Neil's departure, and the Board confirmed his appointment to the role permanently in November 2019.

Michael Kok stepped down from the Board on 8th May 2019 and Simon Keswick retired as a Director with effect from 1st January 2020. It was announced on 20th January 2020 that Lord Sassoon will retire from the Board on 9th April 2020. The Board would like to express its gratitude for the significant contribution all three Directors have made to the Group over many years. Clive Schlee will join the Board with effect from 6th May 2020.

As announced on 5th March 2020, with effect from 15th June 2020 the roles of Chairman and Managing Director, which are currently held on a combined basis by Ben Keswick, will be separated. Ben Keswick will remain as Chairman and John Witt will take on the role of Managing Director of the Company.

## Prospects

Dairy Farm is undergoing transformation across all areas of its business and this scale of change will take time to execute successfully. However, good progress is being made in implementing the Group's customer-focused and market-driven strategy and Dairy Farm is well-placed to achieve long-term sustainable growth. Performance for the remainder of the year will depend on the duration, geographic extent and impact of the COVID-19 outbreak and the measure taken to control it.

**Ben Keswick**
Chairman
5th March 2020

# Group Chief Executive's Review

**"The Group continued to make progress in 2019 in improving the fundamentals underpinning our businesses as part of our multi-year transformation. While we still have work to do to complete phase one of our transformation plan, we are pleased with the progress so far and are turning attention to some areas of phase two with the objective of delivering well consistently… The diversity of the Group's business mix from the perspective of both direct and indirectly managed businesses, formats and geography did provide some insulation from unprecedented market challenges."**

## Introduction

Overall, the Group continued to make progress in 2019 in improving the fundamentals underpinning our businesses as part of our multi-year transformation. While we still have work to do to complete phase one of our transformation plan which entails building a strong retail foundation, we are pleased with the progress so far and are turning attention to some areas of phase two with the objective of delivering well consistently across all facets of our business.

The Group's Grocery Retail profits increased significantly in the year, driven by an improvement in Southeast Asia Grocery Retail as the space optimisation plan delivered enhanced quality and operating standards. While the turnaround of the Southeast Asian businesses remains at an early stage, there are encouraging signs of improvement.

Underlying performance for our Convenience format was pleasing. We continued to invest in mainland China, with the network having now grown to almost 1,300 stores. We also continued to invest in IKEA, with two additional stores opened in 2019. E-commerce growth was also strong for IKEA as improvements were made to website functionality across the region.

The Group's investments in Yonghui and Robinsons Retail delivered good returns. Underlying profit growth in Yonghui was strong as it benefitted from the partial sell-down of their investment in the Yunchuang Technology business, which was announced in December 2018. Robinsons Retail successfully integrated the Rustan acquisition in 2019.

The diversity of the Group's business mix from the perspective of both direct and indirectly managed businesses, formats and geography did provide some insulation from unprecedented market challenges. In particular, the social unrest in Hong Kong materially impacted the performance of the Group's Health and Beauty division, as well as Maxim's.

## Five strategic imperatives

### 1) Grow in China

7-Eleven delivered strong growth, with almost 1,300 stores now opened, and we are pleased with the underlying performance of the business with strong like-for-like sales growth throughout the year. Strong focus has been put on the development of the ready-to-eat offering, which has resulted in higher day time traffic and converted consumer behaviour to encourage eating at 7-Eleven. On-top of this, digital and other services – such as facial recognition payment – continue to be one of the key drivers in China. There remains significant opportunity for growth in the longer-term with Guangdong province home to over 100 million people. In the short-term, however, competition for site rentals has intensified and we will remain disciplined in our property growth strategy.

Mannings China reported good like-for-like sales growth in the second half due to strong O2O e-commerce growth as well as encouraging results from new format designs. We have also developed a revised cross-border e-commerce platform for Mannings, with an upgraded and integrated supply chain to support fulfilment and accessibility. Our scale of growth in Mannings China has not fulfilled its potential historically, but we see


opportunities for further space development through a realignment programme which aims to identify the optimal store format and size. There will be a stronger focus on the Greater Bay Area where Mannings has strong brand awareness and where the business can leverage the existing scale of 7-Eleven in the region.

We continue to develop a strong and growing relationship with Yonghui. Projects to leverage the scale of both companies are beginning to bear fruit with partnerships in procurement enhancing efficiency and reducing costs. In addition, Mannings branded products have been introduced into almost 450 Yonghui stores. We anticipate further shared learning and idea generation between the two businesses going forward. We also continue to develop relationships with China's technology companies, with a series of trials taking place to better understand the changes in customer expectations as regards the use of technology in this market and beyond.

### 2) Maintain strength in Hong Kong

The social unrest in Hong Kong negatively impacted our operations in our home market last year. Reduction in tourist traffic has had the greatest impact on Mannings within our portfolio. Disruptions to stores have also impacted our key associate Maxim's. IKEA's Hong Kong operations were also disrupted by the social unrest.

However, even within Hong Kong, we benefitted to some extent from the diversified mix of our businesses. While there was disruption to stores, a clear trend towards more eating at home supported solid like-for-like sales growth for Wellcome Hong Kong. A combination of improvement programmes and a more disciplined approach to store space saw an improving trend in underlying profit performance. We remain confident about the future growth potential of our Grocery Retail business in Hong Kong.

Performance for our Convenience format was pleasing with sales and profit ahead of last year. This is despite challenging conditions in the second half. In order to continue to build store traffic and brand differentiation, aggressive development of ready-to-eat and the Own Brand range was a key focus. This will continue in 2020.

Faced with the current challenges, the Group is adopting a prudent approach to cost control. The challenges in Hong Kong were also difficult for our team members but their commitment towards putting customers first was nevertheless unwavering and I would like to thank all of them for their hard work and dedication.

### 3) Revitalise Southeast Asia

Profitability in our Southeast Asian Grocery Retail business improved significantly in 2019 as we execute our multi-year transformation plan. Greater efficiencies generated from improvement programmes as well as our space optimisation plan supported the strong growth in profits. While the turnaround remains at an early stage, there are encouraging signs.

Our upscale stores continue to show signs of recovery as we raise operating standards of quality, freshness, availability and range. Remodelled pilot stores have been developed and initial performance has been encouraging.

We continue to re-engineer our food offering within Giant to focus on improving the customer proposition and optimising space. A detailed plan is being executed and we are expecting to see continued progress in 2020.

We are taking a holistic view towards space optimisation, of which the conversion of a Giant hypermarket to an IKEA store in Sentul, Indonesia is a good example. The store was opened in November, only five months after handover and was the fastest IKEA store opening in history.

# Group Chief Executive's Review

Our Guardian Health and Beauty business remains a significant opportunity for us in Southeast Asia. Over 1,000 stores have now been opened across the region, with the business achieving strong like-for-like sales growth overall in the region. Profits in Singapore, Malaysia and Indonesia each achieved double-digit percentage growth. Indonesia grew particularly strongly, driven by strong retail execution as we introduced better, more relevant range into stores and invested in store fitout in a cost-effective manner.

Guardian is leveraging its strong brand name in the region both from the perspective of Own Brand, as well as innovative partnerships. Guardian Own Brand performance for products introduced into Rose Pharmacy has been strong. Guardian Singapore also entered into an exclusive partnership in 2019 with leading Korean Health and Beauty retailer Olive Young to enhance its range in the K-beauty segment.

We are continuing to invest in growth of the IKEA network across the Group, but in particular in Indonesia. While this will have some short-term impact on profits due to new store startup costs and pre-opening expenses, we remain confident about our underlying profitability for IKEA and its growth potential in the markets where we operate the franchise.

Robinsons Retail made a positive contribution in 2019. The adoption of the new lease accounting standard, IFRS 16, led to Robinsons Retail reporting a decline in profits.

### 4) Build capability

Since the start of 2018, we have significantly changed the leadership team to assemble a group of people who have strong track records in the Retail and Consumer industries. In addition to the senior leadership team, we have also built management depth within the business. There have been close to 200 middle-management new hires since 2018. In addition, over 80% of senior managers have taken new or expanded responsibilities.

The result of the strengthening of our capabilities has driven a significantly different way of working and seen a significant improvement in our ability to collaborate across functions, banners and regions, which has led to successful execution of a number of improvement programmes. We plan to change our Store Support Centre to an open plan environment to facilitate better collaboration.

We are taking a proactive approach towards nurturing younger talent within the organisation and collaborating more closely with the Jardine Matheson Group. Graduates of the Jardine Executive Trainee programme have taken opportunities in key areas of the business including commercial operations, merchandising, digital and finance management. We are also working more closely with Jardines in developing a pipeline of junior talent and graduate trainees.

We now have the ability to drive considerable changes necessary to not only improve Dairy Farm's performance but to transform the business to a modern-day retailer focused on delivering what customers want, where and how they want it.

### 5) Driving digital innovation

Retail is rapidly changing and Dairy Farm has historically been slow to respond to the pace of digital change.

Since the appointment of our Chief Digital Officer and Chief Technology Officer in the fourth quarter of 2018, a significant review of the previous ad-hoc programmes has been undertaken. Focus and discipline in our IT investments has been enhanced and we are confident that returns on our IT investments will improve over the coming years.

We have now successfully consolidated our IT systems in Singapore by introducing SAP and removing a significant number of legacy systems.

We have invested in e-commerce across both our Home Furnishings and Health and Beauty businesses. Enhanced website functionality supported growth for IKEA. In addition, we have invested in e-commerce infrastructure to support the growth of online sales for our Health and Beauty businesses. E-commerce for Guardian Singapore was relaunched in early 2020 with significant improvement in the customer experience. We expect these investments to support online sales growth for Mannings Hong Kong later in 2020.

Significant investments have also been made to enhance the Group's own digital data analytics capabilities, which will support the future growth of our businesses. In addition, progress is also being made in our partnerships with technology companies, which will support our digital transformation.

## Leveraging scale

The key objective of our transformation is to leverage our expertise and scale more effectively across our countries and banners. This will be achieved by operating more effectively as one company. While we fully recognise that there needs to be localisation of the offer and customer proposition at both a banner and a country level, 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 been a key area of focus to date and will continue to be in 2020 and beyond. We are continuing to make progress in improving consistency and lowering costs in areas such as Procurement, Category Management, People Development, Store Productivity, Supply Chain Optimisation and Business Process Re-engineering. At the store level, we have been working on a number of projects to improve the workflow for team members and remove unnecessary duplication of work. For example, auto-replenishment systems have been introduced into Mannings Hong Kong, which reduces the amount of manual labour required for store team members when re-ordering inventory. In addition, programmes to introduce new systems and processes to improve fresh food quality and lower waste are being implemented and have been introduced to over 300 stores across the company, which are also yielding significant cost savings. At the Store Support Centre level, we have also taken a more centralised approach across functions to leverage the scale of the organisation. As an example, we have taken a centralised approach to marketing by moving away from having different media agencies across each banner and country. This has yielded a 90% reduction in the number of agencies we use and considerable cost savings.

The Group is now adopting a more consistent approach to Own Brand. One example is with the launch of the Meadows brand in our Food businesses. The brand is common across markets and we are able to leverage its scale in common sourcing, as well as marketing. The number of SKUs brought to market has progressively increased with focus on increasing range over time. The value proposition is exceptional with high quality products introduced that are significantly cheaper than branded equivalent products, helping to support value-for-money in our store offer. In addition, customers can find Meadows branded products across multiple banners including our supermarkets and convenience stores. We are piloting other Own Brand development options across our Health and Beauty businesses and leveraging scale when opportunities arise.

## Impactful growth

As the business transforms there is a great opportunity to improve the Group's impact on the communities it serves, by demonstrating that Dairy Farm's business and commercial objectives are closely correlated with addressing societal challenges and by creating a consistent approach across our businesses to how they address those challenges. The Group is developing an enduring sustainable business architecture that is aligned with its corporate strategy and commercial ambitions. There is much work to do but the journey is underway to become a truly purpose-led business.

## Year ahead

The Dairy Farm transformation remains on track. Our efforts over the past two years to enhance capability, change the way in which we operate, to address underlying business challenges previously neglected and to focus on consistently improving retail basics across our business are all combining to enhance Dairy Farm's prospects for the future. This cultural change to drive Standardisation, Synergy and Scale is now integrated into our way of working.

We also benefit from the diversity of our portfolio, not only in terms of retail sector, format and geographical spread, but also in the balance between Dairy Farm managed businesses and Dairy Farm invested businesses. While we have seen some businesses with a Hong Kong bias adversely impacted in their 2019 performance, others have seen performance improve, most notably in Southeast Asia where our turnaround plans are beginning to bear fruit. In addition, the integration of our Rustan business into Robinsons Retail has proved to be a successful financial investment decision in its first year.

We are not ignoring the current short-term challenges and have been pro-active in adapting to a changing operating environment, seeking to optimise our current trading position in difficult circumstances. However, the diversity of our portfolio does provide the Group with greater resilience when facing external market uncertainties such as the events of 2019 and the current COVID-19 challenges of 2020.

All sustainable business transformations take time to execute and we are still in the early stages of that transformation. Nonetheless, we are encouraged by our underlying progress to date, remain resolute in our confidence in our turnaround plan and are grateful for the determination and effort of all our team members across Dairy Farm in their personal hard work to make a sustainable performance difference over time, both for our shareholders and most importantly, our customers.

**Ian McLeod**
Group Chief Executive
5th March 2020

# Sustainable Transformation at Dairy Farm

**Dairy Farm Group is going through a significant transformation. We are transforming every level of our business and bringing together all our banners under one Dairy Farm. This business change is all about putting our customers at heart of everything we do, whilst building a sustainable long-term business which serves the communities around us. It is also a demonstration of how we live our values; to care passionately, do the right thing, respect each other and put our customers first.**

The Dairy Farm Group is going through a significant multi-year transformation, bringing together all our banners under one Dairy Farm.

While it is essential that the business transforms, at the operating level this move towards best practice in Asian retail also gives rise to an opportunity to improve our impact on our communities, allowing us to take greater steps to becoming a more sustainable business. With the business change, the Group can leverage its scale and resources to take a collective stance on key issues such as the environment, responsible consumption and social inclusion. This transformation and alignment of our businesses is also a demonstration of how we live our values: to care passionately, do the right thing, respect each other and put our customers first. By putting our customers at the heart of everything we do, we are building a sustainable long-term business which serves the communities around us.

## 2019 Progress

We firmly believe in giving back to the communities in which we live and work, supporting the community initiatives of NGOs and other charitable organisations who share our goals and values.

During 2019, we strengthened our efforts to support the communities around us. We collaborated more closely with industry and government authorities in the regions we operate to help find solutions to tackle large societal problems. A good example of this is our involvement in "Drink without Waste" ("DWW") in Hong Kong which is an industry and NGO-led body aiming to align industry and government on the path towards a statutory producer responsibility scheme, increasing the recovery of plastic beverage waste in Hong Kong and creating a circular economy. As part of our commitment to DWW, Dairy Farm has embarked on a pilot scheme of Reverse Vending Machines located at some of our retail locations to support DWW's long term goal of diverting plastic that would otherwise go to landfill.

We are also working smarter within our own businesses, with food waste being a key focus. In our new and refitted stores where improvements in our supply chain and better product sourcing are already in place, we have seen food waste in our 'Fresh' category reduced by 50%.

Plastic waste is also being addressed as a priority and in our reformatted Giant and Upscale stores, we have visibly reduced our plastic packaging and wrapping. In April 2019 we introduced new internal guidelines in Hong Kong to use less plastics in stores and have, so far, achieved a 25% decrease in plastic waste. Internal training has also been stepped up, with frontline team members, to ensure the effectiveness of these initiatives is maximised. We are working with our suppliers too – requesting them to use much less plastic; light-weighting plastic, removing unnecessary foam, as well as removing single-use plastics in our in-store cafes and Store Support Centres. Incorporating new and innovative materials going forward will help ensure that our customers get their products in perfect and fresh condition, while reducing the impact of single use plastics through design of products with greater environmental focus.

Our customers trust us to be a responsible retailer and to provide them with the best products sourced from around the globe. We are improving guidelines to our suppliers on quality with a greater emphasis on responsible sourcing. A good example of this is our commitment to have Own Brand eggs cage-free in Taiwan supermarkets by 2025 and for all our upscale food businesses to follow suit by 2028. Dairy Farm is taking a more holistic approach to tackling animal welfare issues with respect to food safety, food quality and sustainable environmental management. Over time, we aim to influence positive environmental, ethical practices and behaviour across the agricultural supply chain, addressing and solving issues in a sustainable way. All of these initiatives focus on doing the right thing for those customers who want more transparency on where their food comes from and how it was produced. We aim to provide them with the choices they want, respecting their preferences, and creating greater awareness within our communities.

Health plays a major role in our business with our health and beauty banners supporting the communities they serve with our trusted brands. Our businesses support vulnerable groups in their respective communities, running activities promoting health and wellbeing. For example, Guardian in Indonesia recently ran a #StrongerTogether campaign for the LovePink Foundation in the fight against breast cancer and how early detection saves lives.

As we refit and reformat our existing store network, significant consideration has been given to the environmental impact of these programmes. Trials are currently underway to utilise recycled pallet material in some of our upscale stores in Malaysia and Hong Kong. The fixtures and cladding have been produced from pallets taken from our local Distribution Centres that were destined for disposal. New initiatives around materials used, improvement programmes, education and behavioural change are being rolled out across the portfolio with physical improvements being made to insulation, more energy efficient refrigeration and installation of LED lighting where possible. Energy

# Sustainable Transformation at Dairy Farm

efficiency targets and monitoring systems are now in place with a view to actively reduce energy use across our stores and warehouses. With these programmes, and through subtle changes to behaviour, as well as the ongoing education of our team members in stores and support Centres, we have seen a significant combined reduction of 6 Million kWh across our Hong Kong, Singapore and Malaysian Markets*.

PT Hero, was awarded one of the Most Valued Business in Indonesia in 2019 in recognition of Hero's momentum in sustainability initiatives. Hero also won SINDO INOVASI 2019 for CSR Innovation and received the Human Initiative Award, and Best Partner in Humanity in recognition of Hero's service to the communities across Indonesia including; Hero and Giant supermarkets ongoing children's education development programmes; IKEA's Bunk Beds for Lombok, and their support to help build a "Children Playing Center" in Lombok as communities there are still suffering the aftereffects of the 2018 earthquakes. Hero was given the Gold Award in the Womens Empowerment Category and Industrial Relations Award 2019, and Best Social Dialogue Awards Category for the strong commitment shown in labour relations.

IKEA launched its "People and Plant Positive' plan in 2019 and the "Three Roads Forward" programme to drive continual improvement. The IKEA sustainability strategy has 4 areas of focus. Waste management, to reduce operational waste in stores and prolong IKEA product life. Energy Efficiency and Independency, using 100% renewable energy and increasing energy efficiency by 2030. Circular IKEA, rental and leasing of furniture, waste material remade and circular packing. People and Planet, incorporating much greater coworker community involvement activity.

Without the hard work and dedication of our 230,000 team members we would not be able to support and serve our customers and contribute to the communities around us. The wellbeing and safety of our team members, and other working parties is paramount to Dairy Farm. We are committed to providing a safe working environment and creating a culture that values health, safety and wellbeing of our team members, as well as our customers.

## Looking forward to a more Sustainable Future

While acknowledging these achievements, as a Group of businesses, we are only at the start of our sustainability journey. We have some work ahead but we will not duck hard challenges in favour of tokenism. Our focus is on making real, sustainable and long-term progress. Our aim is to embed impactful growth into our businesses and not treat sustainability as a 'bolt-on function' but to integrate it into the fabric of our business progress and growth.

## Sustainable Development at Dairy Farm 2020-2025

Dairy Farm is now in the process of building an enduring sustainable business that is aligned with our corporate strategy and commercial ambitions. This sustainable transformation won't happen overnight, it will be a multi-year programme and takes place in tandem with the broader business transformation. We have a five-year sustainability development timeline 2020-2025 and in the coming year we will establish Group wide policies and set the Group agenda whilst supporting the transformation. There is undoubtedly much work to do, but Dairy Farm's sustainable transformation sits across all our values as a business…

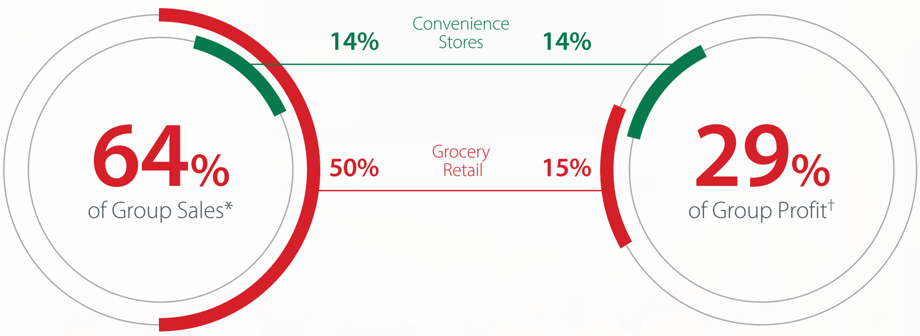
* Data from City FM Monthly Energy Report Dated 25th February 2020.


"We care passionately. We do the right thing. We respect each other and we put our customers first."

Business Review

# Food

## Operating profit for Grocery Retail increased significantly, driven by Southeast Asia as we execute towards our multi-year transformation plan. Convenience sales increased 4% to US$2.2 billion, driven by new store growth and strong like-for-like sales in China.




* 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.


**19.9 billion**
Total Sales‡ (US$)

**145 million**
Operating Profit (US$)

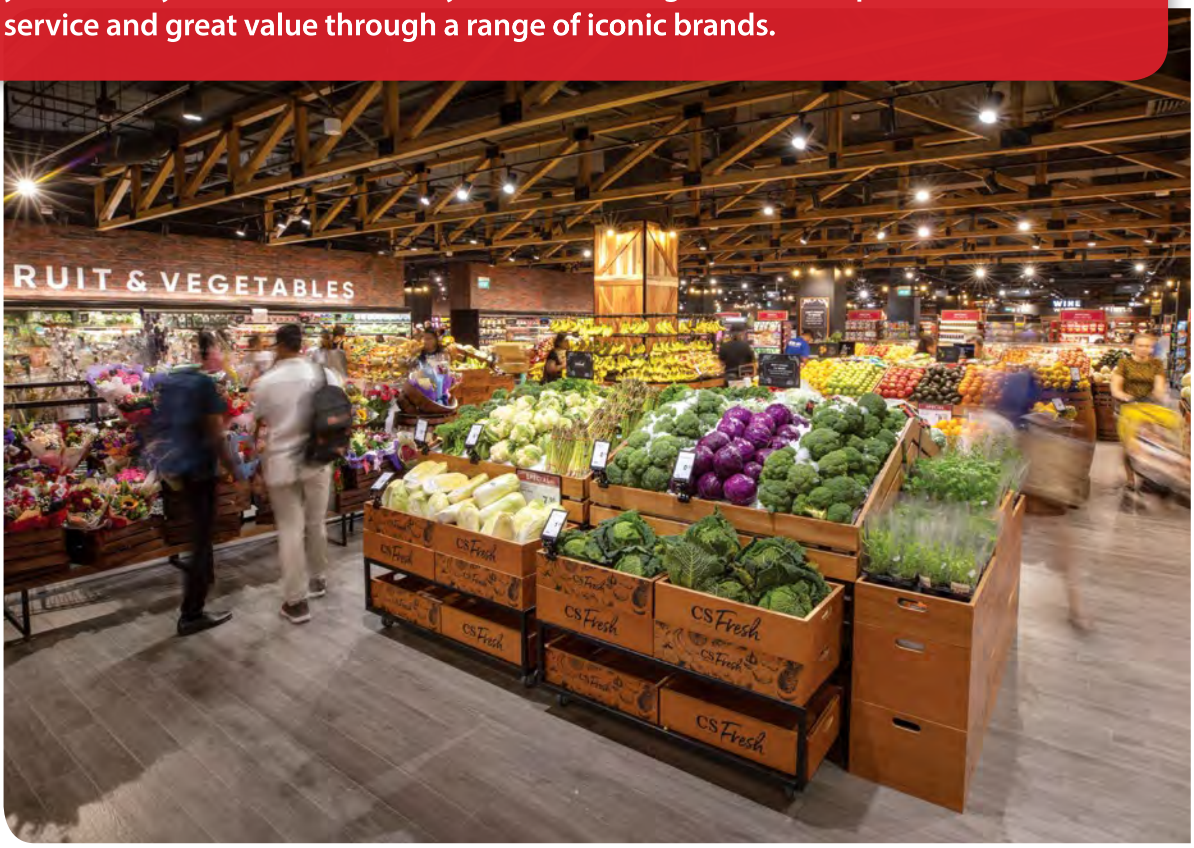
**5,732 stores**
Store Network‡

‡ Including 100% of associates and joint ventures.

Business Review — Food

## Grocery Retail

**Dairy Farm's Grocery Retail business has been serving our customers for over 70 years. Today we lead the industry in Asia, offering the freshest produce, excellent service and great value through a range of iconic brands.**






Consistent with the Group's strategy of proactively managing our business portfolio, the Rustan Supercenters business was successfully integrated into Robinsons Retail in 2019. The Rustan deal as well as the execution of our store optimisation plan in Southeast Asia led to sales for the Grocery Retail unit reducing by 12% to US$5.2 billion. Operating profit, however, increased close to three-fold to US$63 million, compared to US$22 million reported in 2018. The improvement in performance was driven by Southeast Asia, as we continue to execute towards our multi-year transformation plan, with the space optimisation plan also yielding benefits.

Sales in Hong Kong and Macau were ahead of the prior year. While the social unrest in Hong Kong did disrupt trading, Wellcome's like-for-like sales grew as customers shifted towards eating at home. Underlying profitability improvements have been encouraging as we start to enhance efficiency across the business despite some cost pressures. Reported profitability was impacted by ongoing investments in people and capabilities. Our price reinvestment campaign in Taiwan led to improved performance in the second half, despite the market backdrop of weak sentiment and fierce competition.

The divestment of the Rustan Supercenters business as well as the Southeast Asian space optimisation plan impacted our reported sales for Southeast Asia Grocery Retail. However, the space optimisation initiatives as well as improvements in format and range are delivering some encouraging results, particularly in our upscale and smaller format stores. Ongoing success in executing against our transformation plan supported profit growth for the Southeast Asian grocery businesses in 2019.



## Convenience Store

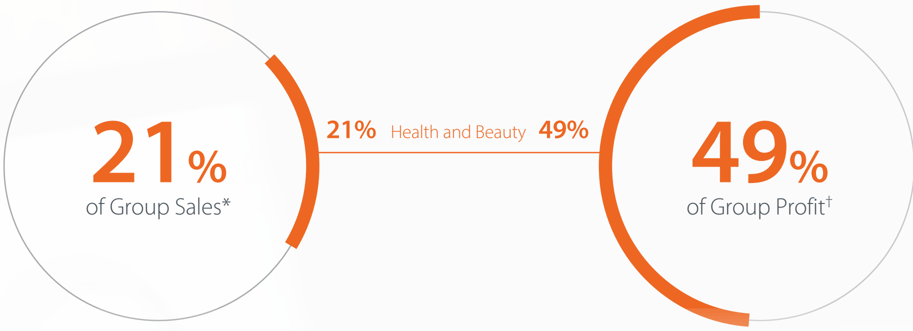
**With 30 years of delivering the convenience shopping experience, 7-Eleven, the leading global chain of one-stop stores, continues to run and operate in Hong Kong, Macau, Southern China and Singapore and offers innovative products and services to customers.**

Convenience sales increased 4% to US$2.2 billion, driven by new store growth and strong like-for-like sales in China. Underlying profit performance for the Division was pleasing. Investments into the growth of our China business, however, as well as the non-recurrence of some one-off factors which positively impacted profit in 2018 led to reported profits for the Division reducing by US$6 million to US$82 million.

Business Review

# Health and Beauty

**Sales for our Health and Beauty Division benefitted from strong revenue and like-for-like sales growth in our Guardian business in Southeast Asia. Like-for-like sales for both China and Macau also improved over the course of the year as we continued to improve the customer offer. However, these positives were offset by the impact that the social unrest in Hong Kong has had on Mannings.**




* 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.


● Health and Beauty

**3.4** billion
Total Sales‡ (US$)

**296** million
Operating Profit (US$)

**2,402** stores
Store Network‡

‡ Including 100% of associates and joint ventures.

Business Review — Health and Beauty

## Health and Beauty

**Dairy Farm's Health and Beauty business operates across Asia through well-established and trusted brands such as Mannings and GNC in North Asia, Guardian in Southeast Asia and Rose Pharmacy in the Philippines, serving our customers with a wide range of health, beauty, personal care and baby care products.**


Sales for our Health and Beauty Division benefitted from strong revenue and like-for-like sales growth in our Guardian business in Southeast Asia. Improvements in the customer range, particularly in the Beauty category, as well as investments in store fitout supported sales growth. Like-for-like sales for both China and Macau also improved over the course of the year as we continued to improve the customer offer. However, these positives were offset by the impact that the social unrest in Hong Kong has had on Mannings, with the business seeing decline in foot traffic both from visitors to Hong Kong and local customers.

Reported sales for our Health and Beauty Division were US$3.1 billion in 2019, ahead of 2018, supported by the consolidation of Rose Pharmacy.

Diversity in our business geography mix saw robust profit growth by Guardian Indonesia, Malaysia and Singapore partially offset challenging trading conditions which impacted Mannings Hong Kong. The good performance of our Southeast Asia business was driven by strong sales growth as well as better mark-down management. Overall, operating profit for the Division reduced 11% to US$296 million.


In the Philippines, Rose Pharmacy's profitability also improved materially. The acquisition of the remaining 51% interest in the business in late 2018 allowed the Group to accelerate growth in new stores as well as investment into Own Brands, with financial performance improving as a result.

We continued to improve the customer offer throughout the Health and Beauty Division. Some examples include the relaunched Mannings cross-border e-commerce offering through a WeChat mini programme, with a significant increase in range and Guardian Singapore's exclusive partnership with leading Korean health and beauty retailer Olive Young.

We are also beginning to leverage the strong brands that we have within our Health and Beauty portfolio, with the introduction of Mannings Own Brand into almost 450 Yonghui stores across China, as well as Wellcome Taiwan stores.

Business Review

# Home Furnishings

**We continued to invest in the future growth of our Home Furnishings business in 2019. Sales grew 6% to a record US$766 million. Taiwan and Indonesia both reported strong sales growth, with two new store openings. In addition, e-commerce growth was also strong across all markets with investments made to support website functionality.**

**5%** of Group Sales*

5% Home Furnishings 7%

**7%** of Group Profit†

* 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.


Home Furnishings

**766** million
Total Sales‡ (US$)

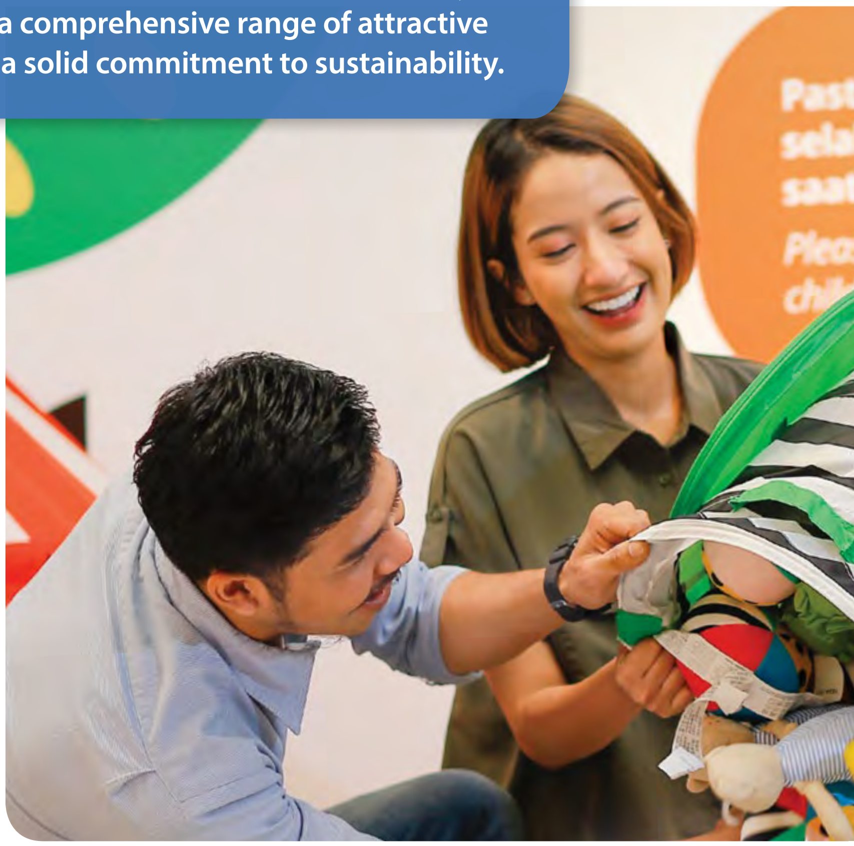
**43** million
Operating Profit (US$)

**12** stores
Store Network‡

‡ Including 100% of associates and joint ventures.

## Home Furnishings

**The world's largest furniture retailer, IKEA, is operated by Dairy Farm in Hong Kong, Macau, Taiwan and Indonesia. Renowned for design, functionality and quality at affordable prices, IKEA offers a comprehensive range of attractive home furnishing products, underpinned by a solid commitment to sustainability.**



We continued to invest in the future growth of our Home Furnishings business in 2019. Sales grew 6% to a record US$766 million. Taiwan and Indonesia both reported strong sales growth, with two new store openings. In addition, e-commerce growth was also strong across all markets with investments made to support website functionality. Like-for-like sales in Hong Kong, however, were impacted in the second half by the social unrest.

The IKEA team continues to innovate from the perspective of store format with the conversion of the Giant hypermarket in Sentul, Indonesia to an IKEA store, a good example of taking a holistic view to space optimisation. The store was opened in November, only five months after handover and was the fastest ever IKEA store opening in history and the first ever hypermarket conversion. Performance for the store since opening has been pleasing. IKEA also introduced a pick-up point format in Bandung, Indonesia in September 2019, a year ahead of the official store opening in 2020.

Our investments into new stores, higher cost of goods as well as currency fluctuations impacted operating profits in the short-term. However, we remain confident in the future prospects of IKEA across the region. Our first store in Macau will open in the first half of 2020. In addition to a new store opened in Southern Taipei in 2019, good progress has been made with new store projects in Taiwan as well as in Indonesia, which are anticipated to open in 2020. Our strategic plans to meet the demands of the growing middle-income consumer involve opening traditional and new IKEA formats.


anak Anda
dalam pengawasan
Anda berbelanja.


IKEA

Business Review

# Restaurants

**Maxim's reported 4% growth in sales to US$2.7 billion. The acquisition of the Starbucks franchise in Thailand through a 64%-owned joint venture was another milestone in the year. A portfolio of some 370 retail outlets was acquired as part of the deal. After this acquisition, Maxim's has now secured the Starbucks franchise in six markets.**

**9%** of Group Sales*

9% Restaurants 14%

**14%** of Group Profit†

* 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.


● Restaurants

**2.7 billion**
Total Sales‡ (US$)

**82 million**
Share of Results (US$)

**1,753 stores**
Store Network‡

‡ Including 100% of associates and joint ventures.

# Business Review — Restaurants

## Restaurant

**Founded in 1956, Maxim's is a household name in Hong Kong, famous for its mooncakes and successful restaurants, bakeries, cafes and catering. The Maxim's network has expanded across Asia Pacific, with over 1,700 outlets in Hong Kong, Macau, mainland China, Vietnam, Cambodia, Thailand, Singapore and Malaysia.**


Maxim's reported 4% growth in sales to US$2.7 billion. The acquisition of Starbucks franchise in Thailand through a 64%-owned joint venture in May supported sales growth for the year. A portfolio of some 370 retail outlets was acquired as part of the deal. After this acquisition, Maxim's has now secured the Starbucks franchise in six markets.

Profitability, however, was impacted significantly by the social unrest in Hong Kong, with disruptions caused to restaurants and shops, as well as reduction in foot traffic. Mooncake sales performance did continue to grow in 2019.

It was another successful year for the introduction of new concepts, with expansion of the Shake Shack franchise into China. Shake Shack is expected to expand into Macau in 2020. Maxim's also launched The Cheesecake Factory in Macau in 2019, with one opening in the heart of the Cotai area.

In addition to the Starbucks Thailand acquisition, Maxim's continues to diversify its business in Southeast Asia, as well as growing its Starbucks business in the region. The Genki Sushi franchise is also being expanded in Thailand, Singapore and Malaysia.


SHAKE SHACK

Business Review

# Other Associates


## The Group's investments in Yonghui and Robinsons Retail delivered good returns with Dairy Farm's share of results from both companies growing in 2019.

Yonghui delivered strong sales growth in the year, driven largely by store openings, while also achieving positive like-for-like sales. Underlying profit growth was strong due to the partial sell-down of the investment in the Yunchuang digital business as well as lower cost from employee share incentive expenses.

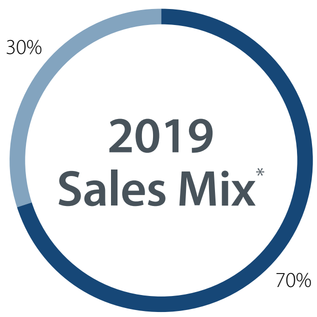
Reported profitability for Robinsons Retail in 2019 was impacted by the adoption of IFRS 16 as its profits in 2018 were not adjusted for the new lease accounting standard. Underlying profit before interest, tax, depreciation and amortisation increased by double-digit percentage.

## Other Associates

**Dairy Farm owns a 19.99% stake in Yonghui Superstores, a leading grocery retailer in China with over 1,300 stores. In November 2018, Dairy Farm also acquired a 20% stake in Robinsons Retail, one of the largest multi-format retailers in the Philippines.**


Other Associates

# Financial Review





● North Asia
● Southeast Asia

* Including share of associates and joint ventures.
† On a 100% basis.

> **"Strong profit growth in the Food segment was driven by Southeast Asia Grocery Retail as the Group's multi-year transformation plan started to deliver enhanced quality and operating standards."**

## Accounting policies

The accounting policies are consistent with those of the previous year. The Directors continue to review the appropriateness of the accounting policies adopted by the Group with regard to developments in International Financial Reporting Standards ('IFRS'). In 2019, the Group adopted IFRS 16 'Leases'. The standard requires the Group to recognise almost all of its leases onto the balance sheet by capitalising future lease payments into a lease liability and a corresponding right-of-use asset. The Group has applied IFRS 16 based on a full retrospective approach. The adoption of this standard has a material effect on the financial statements, and the comparative financial statements have been restated in accordance with the requirements under IFRS. The impact on the Group's results for 2018 can be found in note 1 to the financial statements.

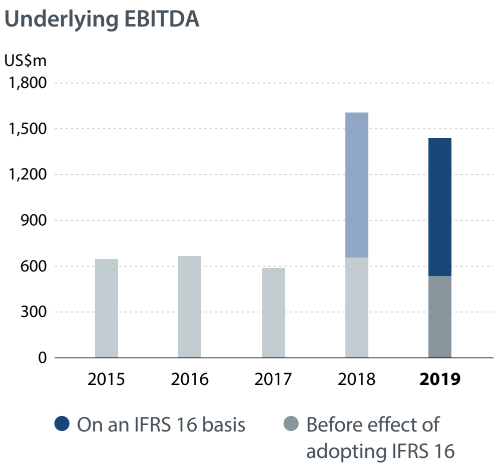
## Results

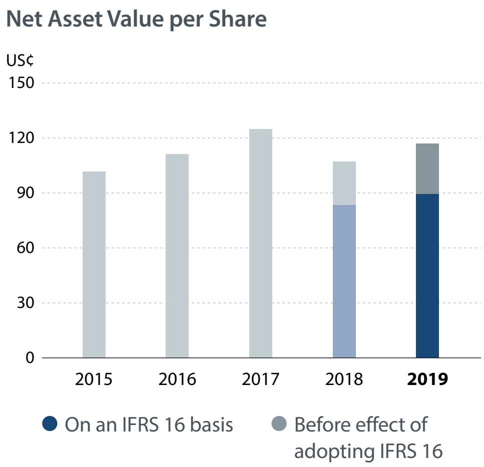
The ongoing execution of the Group's space optimisation plan as well as the divestment of the Rustan Supercenters business saw sales, excluding those of associates and joint ventures, reduced 5% to US$11.2 billion. Strong profit growth in the Food segment was driven by Southeast Asia Grocery Retail as the Group's multi-year transformation plan started to deliver enhanced quality and operating standards. Performance for the Health and Beauty Division was impacted by difficult trading conditions caused by the social unrest in Hong Kong, while increased investments in the growth of the store network impacted Home Furnishings profits. Overall, underlying operating profit at US$437 million, reduced 14% relative to the prior year.

Net financing charges decreased by US$8 million compared to 2018 mainly due to lower interest expense on lease liabilities partly offset by higher interest charge on bank borrowings as a result of higher debt to fund investments in the Philippines last year.

The Group's share of the results of associates and joint ventures increased 11% to US$126 million compared with 2018 principally due to higher contribution from Yonghui and the new contribution from Robinsons Retail since the Group invested 20% interest in November 2018, partly offset by the lower contribution from Maxim's.

The tax charge for 2019 was US$69 million, 29% lower than 2018, mainly due to reduced profit contribution from Hong Kong businesses.



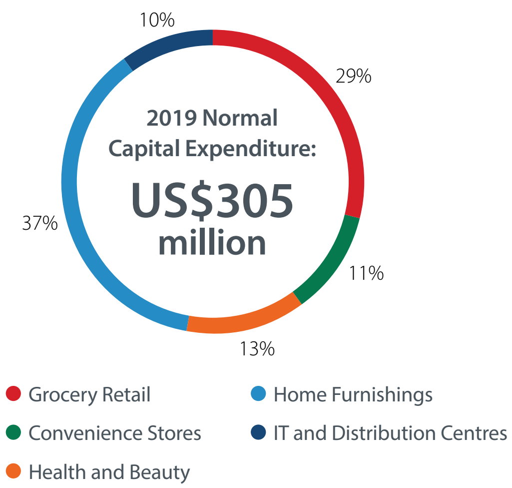

Underlying net profit was US$321 million, 10% behind 2018 levels. Underlying earnings per share were US¢23.72, as compared to US¢26.48 in 2018 on a restated basis.

## Cash flow

| Summarised Cash Flow | 2019 US$m | 2018 US$m restated |
|---|---|---|
| Underlying operating profit | **437** | 506 |
| Depreciation and amortisation | **1,002** | 1,101 |
| Increase in working capital | **(77)** | (21) |
| Net interest and other financing charges paid | **(160)** | (164) |
| Dividends received from associates | **89** | 94 |
| Others | **(3)** | (58) |
| Cash flows from operating activities | **1,288** | 1,458 |
| Principal elements of lease payments | **(790)** | (815) |
| Cash flows from operating activities after lease payments | **498** | 643 |
| Normal capital expenditure | **(305)** | (256) |
| Investments | **(6)** | (278) |
| Disposals | **28** | 33 |
| Cash flow from investing activities | **(283)** | (501) |
| Cash flow before financing but after lease payments | **215** | 142 |

The Group maintained good operating cash flow and generated a net inflow from operating activities after lease payments of US$498 million in the year, compared to US$643 million in 2018. The unfavourable movement in working capital this year was partly due to a negative impact on payments to suppliers as a result of the earlier Chinese New Year holidays in 2020.

Normal capital expenditure was higher at US$305 million versus US$256 million in 2018 principally due to increased investment for new IKEA stores in Taiwan and Indonesia.



# Financial Review

The Group's businesses, including associates and joint ventures, added a net 786 outlets in 2019, and now consists of 10,533 stores across all formats in 12 markets. Included in this total are 1,351 Yonghui stores, 1,753 Maxim's stores and 1,918 Robinsons Retail stores.

| **Number of Stores** | **2019** | 2018 |
|---|---|---|
| At 1st January | **9,747** | 7,180 |
| Net additions | **786** | 689 |
| Additions related to Robinsons Retail investment in 2018 | **–** | 1,878 |
| At 31st December | **10,533** | 9,747 |

## Balance sheet

Total assets, excluding cash and bank balances, of US$8.1 billion were broadly in line with 2018. Inventory was down by 2% to US$896 million reflecting the continuous effort to manage inventory. Net operating assets were US$1.2 billion at the end of 2019, a 7% increase versus the previous year.

The Group ended the year with net debt of US$821 million, US$77 million higher as compared to US$744 million at 31st December 2018, reflecting the continuous investments in our stores.

## Dividend

The Board is recommending an unchanged final dividend of US¢14.50 per share, bringing the total dividend in respect of 2019 to US¢21.00 per share, the same as the prior year.

## Financing

Where required, and typically for working capital purposes, borrowings are normally taken out in local currencies by the Group's operating subsidiaries to fund daily operations. Borrowings to fund any strategic expansion of the Group are managed centrally and typically funded in United States dollars and Hong Kong dollars, with hedging of foreign exchange and interest rate risk as may be appropriate depending on the particular investment.

The Group, excluding associates and joint ventures, had gross debt of US$1,122 million at the year end, an increase of US$82 million from 2018. The gross debt is funded by total committed and uncommitted lines of US$2,344 million. At the end of 2019, US$462 million of committed and US$760 million of uncommitted facilities were unused and available. The Group had cash balances of US$301 million as at 31st December 2019. The Group has implemented a global liquidity cash pooling scheme which enables the Group to manage and optimise its working capital funding requirements on a daily basis.

Net financing charges excluding those on lease liabilities increased from US$33 million in 2018 to US$39 million in 2019, reflecting the drawdown of facilities to fund the purchase of the additional investments in the Philippines and higher interest rates.

## Financial risk management

A comprehensive discussion of the Group's financial risk management policies is included in note 37 to the financial statements. The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objectives are to limit exchange and interest rate risks and to provide a degree of certainty about costs. As a matter of policy, the Group does not enter into speculative transactions in derivatives. The investment of the Group's cash resources is managed so as to minimise risk while seeking to enhance yield. Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt (short and long term), to maximise flexibility for the future development of the business.

## Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 133 to 134.

**Clem Constantine**
Chief Financial Officer
5th March 2020

# Directors' Profiles

**Ben Keswick** *
***Chairman and Managing Director***

Mr Keswick joined the Board as Managing Director in 2012 and became Chairman in 2013. He has held a number of executive positions since joining the Jardine Matheson group in 1998, including finance director and then chief executive officer of Jardine Pacific between 2003 and 2007 and, thereafter, group managing director of Jardine Cycle & Carriage until 2012. He has an MBA from INSEAD. Mr Keswick is chairman of Jardine Matheson Limited, Jardine Cycle & Carriage and Yonghui Superstores and a commissioner of Astra. He is also executive chairman and managing director of Jardine Matheson and Jardine Strategic, chairman and managing director of Hongkong Land and Mandarin Oriental, and a director of Jardine Pacific and Jardine Motors.

**Ian McLeod** *
***Group Chief Executive***

Mr McLeod joined the Board as Group Chief Executive in 2017. He has extensive experience in the retail sector and was previously chief executive of Southeastern Grocers in the United States, before which he was managing director of Coles in Australia. He is also a director of Yonghui Superstores and a commissioner of Hero.

**Clem Constantine** *
***Chief Financial Officer***

Mr Constantine joined the Board as Chief Financial Officer in November 2019, having joined the Dairy Farm leadership team as Group Property Director in September 2018. He is a Chartered Accountant with extensive experience in senior finance and property roles in the retail sector. He has previously held finance, international and property directorships with Marks and Spencer, the Arcadia group, Debenhams and the Burton Group in the United Kingdom.

**Mark Greenberg**

Mr Greenberg joined the Board in 2006. He is group strategy director of Jardine Matheson. He previously spent 16 years in investment banking with Dresdner Kleinwort Wasserstein in London. He is also a director of Jardine Matheson Limited, Hongkong Land, Jardine Cycle & Carriage and Mandarin Oriental, and a commissioner of Astra and Permata Bank.

**George J. Ho**

Mr Ho joined the Board in 1998. He was previously engaged in private law practice in San Francisco and is currently engaged in the broadcasting and multi-media industries. Mr Ho is also chairman of Hong Kong Commercial Broadcasting Company and president of Hong Kong Red Cross.

**Adam Keswick**

Mr Keswick joined the Board in 2012. Having joined Jardine Matheson in 2001, he was appointed to the board in 2007 and was deputy managing director from 2012 to 2016. Mr Keswick is a director of Hongkong Land, Jardine Strategic and Mandarin Oriental. He is also a director of Ferrari NV and Yabuli China Entrepreneurs Forum and vice-chairman of the supervisory board of Rothschild & Co.

**Dr Delman Lee**

Dr Lee joined the Board in May 2018. He is currently the president and chief technology officer of TAL Apparel, an independent non-executive director of The Bank of East Asia and a director of Tradelink Electronic Commerce. He is also a council member of The Hong Kong Management Association.

* Executive Director

# Directors' Profiles

| | |
|---|---|
| **Anthony Nightingale** | Mr Nightingale joined the Board in 2006 and was Managing Director of the Company from 2006 to 2012. He is also a director of Hongkong Land, Jardine Cycle & Carriage, Jardine Matheson, Jardine Strategic, Mandarin Oriental, Prudential, Schindler, Shui On Land and Vitasoy, and a commissioner of Astra. He is chairperson of The Sailors Home and Missions to Seafarers in Hong Kong. |
| **Y.K. Pang** | Mr Pang joined the Board in 2016. He is deputy managing director and chairman of Hong Kong of Jardine Matheson, and chairman of Jardine Pacific and Gammon. He previously held a number of senior executive positions in the Jardine Matheson group, which he joined in 1984, including chief executive of Hongkong Land between 2007 and 2016. Mr Pang is also deputy chairman of Jardine Matheson Limited, and a director of Hongkong Land, Jardine Matheson (China), Jardine Strategic and Mandarin Oriental. He is chairman of the Hong Kong Tourism Board, deputy chairman of the Hong Kong Management Association, a member of the Council and General Committee of the Hong Kong General Chamber of Commerce and the Employers' Federation of Hong Kong. |
| **Jeremy Parr** | Mr Parr joined the Board in 2015. He is general counsel of the Jardine Matheson group. He was previously a senior corporate partner with Linklaters, where he was the global head of the firm's corporate division, based in London. Mr Parr is also a director of Jardine Matheson Limited, Jardine Matheson and Mandarin Oriental. |
| **Lord Sassoon, Kt** | Lord Sassoon joined the Board in 2013. He began his career at KPMG, before joining SG Warburg (later UBS Warburg) in 1985. From 2002 to 2006 he served as a civil servant in the United Kingdom Treasury, where he had responsibility for financial services and enterprise policy. He subsequently chaired the Financial Action Task Force and conducted a review of the UK's system of financial regulation. From 2010 to 2013 Lord Sassoon was the first Commercial Secretary to the Treasury and acted as the Government's Front Bench Treasury spokesman in the House of Lords. He is a director of Hongkong Land, Jardine Matheson and Mandarin Oriental. He is also President of the China-Britain Business Council. As announced on 20th January 2020, Lord Sassoon will be retiring as a Director on 9th April 2020. |
| **Percy Weatherall** | Mr Weatherall joined the Board in 2000 and was Managing Director from 2000 to 2006. He first joined the Jardine Matheson group in 1976 and retired from executive office in 2006. He is also a director of Hongkong Land, Jardine Matheson, Jardine Strategic and Mandarin Oriental. He is chairman of Corney & Barrow and the Nith District Salmon Fishery Board. |
| **John Witt** | Mr Witt joined the Board in 2016, following his appointment as group finance director of Jardine Matheson. He is a Chartered Accountant and has an MBA from INSEAD. He has been with the Jardine Matheson group since 1993 and has held a number of senior finance positions. Most recently, he was the chief financial officer of Hongkong Land. He is also a director of Jardine Matheson Limited and a commissioner and chairman of the executive committee of Astra. |

# Our Leadership

## Ian McLeod

***Group Chief Executive***

Ian was named Group Chief Executive of Dairy Farm in September 2017, having spent the previous two years as CEO of Southeastern Grocers, the fifth largest supermarket chain in the United States. With over 30 year's retail experience, Ian began his career with Asda (subsequently Wal-Mart) in 1981, where he spent 20 years working in the United Kingdom and Germany. Following this, he moved to Halfords where he became CEO in 2005. In 2008, he moved to Australia as Managing Director of Coles, overseeing 2,200 outlets and 100,000 employees. Whilst there he oversaw fundamental improvements in product quality and value as well as customer service. This resulted in Coles producing substantial increases in both turnover and profits, as well as significant market outperformance.

Ian attended the Harvard Business School Advanced Management Program in 1999 and was awarded an Honorary Doctorate in his native Scotland in 2010 for services to Business and Retail.

## Chris Bush

***Chief Executive Officer – South East Asia Food***

Chris Bush was appointed CEO – South East Asia Food in August 2019.

Chris is a highly experienced senior food retailer with an impressive track record in leadership roles in Tesco for over 30 years, including CEO roles in Malaysia, Thailand, Korea and the U.K. After a period of time in a consultancy role for a major retailer in the United States, Chris joined Dairy Farm in 2018 to lead the transformation of the food business in Indonesia.

Chris has Business background and executive training from Manchester Business school in United Kingdom.

## Choo Peng Chee

***Chief Executive Officer – North Asia & Group Convenience***

Choo was appointed Chief Executive Officer – North Asia & Group Convenience in May 2018, covering all food retail operations (supermarkets, hypermarkets and convenience stores) in Hong Kong, Macau, China and Taiwan, also the convenience format in Singapore.

He joined Dairy Farm in 2000 and was the Chief Executive Officer of Cold Storage, Market Place and Shop N Save in Singapore from 2005 to 2009. He subsequently served as the Chief Executive Officer for Wellcome Hong Kong from 2010, and was appointed as the Regional Director, North Asia (Food) in 2013.

Choo brings with him more than 35 years of retail experience to this role and has an MBA in Retailing from the University of Stirling, Scotland.

## Clem Constantine

***Chief Financial Officer***

Mr Constantine took up the position of Chief Financial Officer in November 2019, having joined the Dairy Farm leadership team as Group Property Director in September 2018. He is a Chartered Accountant with extensive experience of senior finance and property roles in the retail sector. He has previously held finance, international and property directorships with Marks and Spencer, the Arcadia Group, Debenhams and the Burton Group in the United Kingdom.

# Our Leadership

## Edward Hunter

***Group Supply Chain Director***

Edward joined Dairy Farm as the Group Supply Chain Director in September 2018.

Prior to this, Edward has held several leadership roles within P&G around the world including most recently as Vice President for Product Supply Chain for Asia responsible for supply chain delivery of all P&G categories across Asian markets including China, Hong Kong, Taiwan, Japan, India, Vietnam, Indonesia, Thailand, Australia, Korea, the Philippines and Myanmar.

Edward graduated in Chemical Engineering.

## Sam Kim

***Chief Executive Officer – Health & Beauty and Chief Marketing & Business Development Officer***

Sam was appointed Chief Executive Officer – Health & Beauty and Chief Marketing & Business Development Officer in August 2019.

Sam joined Dairy Farm as Chief Executive Officer – Southeast Asia Division in April 2018. Prior to joining Dairy Farm, he was the Chief Executive Officer at Home plus (formerly Tesco) in South Korea where he launched the "Minus is Plus" campaign leading to a transformation of the corporate culture, improving organisational capabilities and eventually, performance of the business.

Before that, Sam spent 30 years at P&G, where he was one of the top Asian executives having assumed many senior leadership positions including Regional Head for P&G ASEAN and Asia Development Markets from 2008 to 2015. He personally helped start up P&G Korea in 1989, and later also served as the President of P&G Korea from 2003 to 2008.

Sam has dual degrees in Political Science and Management from Wharton School, University of Pennsylvania, where he also serves currently on the Board of Advisors for Penn's Huntsman Program. He is also an advisor to the Asian Alumni Council of Phillips Academy, Andover, and a member of the Andover Development Board.

## Martin Lindström

***Group Director – IKEA***

Martin was appointed Group Director – IKEA in January 2013 with responsibilities for the Group's IKEA operations in Taiwan, Hong Kong and Indonesia. Prior to that, he was General Manager of IKEA Taiwan in 2007 and subsequently CEO of the Dairy Farm IKEA business in 2010.

Martin has more than 20 years' experience in a variety of senior positions with the IKEA business in Europe, Eastern Europe and more than a decade in the Asia Pacific region.

## Judith Nelson

***Group Human Resources Director***

Judith joined Dairy Farm as the Group Human Resources Director in July 2018.

Judith is an experienced HR leader who has led significant transformation and change across the UK and various international markets. More recently she has been a director and consultant to a number of businesses, including the e-commerce delivery enterprise, Deliveroo.

Prior to this, Judith built a remarkable career with Tesco where she started as a trainee and ultimately led the people function for their international business comprising 12 markets across Asia and Europe, before her appointment as HR Director for Tesco UK where she transformed the function, built HR capabilities across Tesco, and created a people strategy and people operating model that delivered on the business' long-term plan.

## Marcus Spurrell

***Chief Digital Officer***

Marcus joined Dairy Farm as the Chief Digital Officer in October 2018.

Marcus has over 25 years direct management experience in this field, having held a number of positions working in a digital environment from website development, e-commerce data analytics to personalised customer communication. Prior to joining Dairy Farm, he was the Senior Vice President for Digital, Loyalty and e-commerce at Ahold Delhaize Group where he led a transformation of its loyalty programmes that delivered strong business results. Marcus previously held several Digital and e-commerce leadership roles for Adidas Group across Asia Pacific, USA, and Europe.

Marcus has a joint honours degree in Japanese and Economics from SOAS London University, and have lived in Asia for 13 years.

## Charlie Wood

***Group Counsel***

Charlie was appointed Group Counsel in January 2007. He was initially recruited in September 1999 to set up a legal department for Dairy Farm in Hong Kong, and subsequently became responsible for the legal affairs of Dairy Farm in North Asia before assuming his current role.

Charlie qualified as a solicitor in England and worked in private practice in London for three years before moving to Vietnam in 1995 to work for an international law firm.

# Consolidated Profit and Loss Account

for the year ended 31st December 2019

| | Note | 2019 Underlying business performance US$m | 2019 Non-trading items US$m | 2019 Total US$m | 2018 Underlying business performance US$m restated | 2018 Non-trading items US$m restated | 2018 Total US$m restated |
|---|---|---|---|---|---|---|---|
| Sales | 2 | **11,192.3** | **–** | **11,192.3** | 11,749.3 | – | 11,749.3 |
| Cost of sales | | **(7,658.5)** | **–** | **(7,658.5)** | (8,100.5) | – | (8,100.5) |
| Gross margin | | **3,533.8** | **–** | **3,533.8** | 3,648.8 | – | 3,648.8 |
| Other operating income | | **189.8** | **19.3** | **209.1** | 194.9 | 207.0 | 401.9 |
| Selling and distribution costs | | **(2,700.7)** | **–** | **(2,700.7)** | (2,806.4) | – | (2,806.4) |
| Administration and other operating expenses | | **(586.4)** | **(30.2)** | **(616.6)** | (531.7) | (495.9) | (1,027.6) |
| Operating profit | 3 | **436.5** | **(10.9)** | **425.6** | 505.6 | (288.9) | 216.7 |
| Financing charges | | **(164.9)** | **–** | **(164.9)** | (171.7) | – | (171.7) |
| Financing income | | **6.7** | **–** | **6.7** | 5.1 | – | 5.1 |
| Net financing charges | 4 | **(158.2)** | **–** | **(158.2)** | (166.6) | – | (166.6) |
| Share of results of associates and joint ventures | 5 | **114.9** | **11.4** | **126.3** | 112.8 | 1.2 | 114.0 |
| Profit before tax | | **393.2** | **0.5** | **393.7** | 451.8 | (287.7) | 164.1 |
| Tax | 6 | **(69.5)** | **0.8** | **(68.7)** | (93.8) | (2.8) | (96.6) |
| Profit after tax | | **323.7** | **1.3** | **325.0** | 358.0 | (290.5) | 67.5 |
| Attributable to: | | | | | | | |
| Shareholders of the Company | | **320.9** | **2.9** | **323.8** | 358.2 | (273.4) | 84.8 |
| Non-controlling interests | | **2.8** | **(1.6)** | **1.2** | (0.2) | (17.1) | (17.3) |
| | | **323.7** | **1.3** | **325.0** | 358.0 | (290.5) | 67.5 |
| | | **US¢** | | **US¢** | US¢ | | US¢ |
| Earnings per share | 7 | | | | | | |
| – basic | | **23.72** | | **23.93** | 26.48 | | 6.27 |
| – diluted | | **23.71** | | **23.92** | 26.47 | | 6.27 |

# Consolidated Statement of Comprehensive Income

for the year ended 31st December 2019

| | Note | 2019 US$m | 2018 US$m restated |
|---|---|---|---|
| Profit for the year | | **325.0** | 67.5 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurements of defined benefit plans | *21* | **15.9** | (12.0) |
| Tax relating to items that will not be reclassified | | **(2.4)** | 2.2 |
| | | **13.5** | (9.8) |
| Share of other comprehensive income of associates and joint ventures | | **0.7** | 0.9 |
| | | **14.2** | (8.9) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Net exchange translation differences | | | |
| – net gain/(loss) arising during the year | | **25.5** | (91.1) |
| – transfer to profit and loss | | **3.4** | 45.2 |
| | | **28.9** | (45.9) |
| Cash flow hedges | | | |
| – net (loss)/gain arising during the year | | **(2.6)** | 3.1 |
| – transfer to profit and loss | | **(5.5)** | 1.8 |
| | | **(8.1)** | 4.9 |
| Tax relating to items that may be reclassified | | **1.6** | (1.0) |
| Share of other comprehensive income of associates and joint ventures | | **2.8** | – |
| | | **25.2** | (42.0) |
| Other comprehensive income/(expense) for the year, net of tax | | **39.4** | (50.9) |
| Total comprehensive income for the year | | **364.4** | 16.6 |
| Attributable to: | | | |
| Shareholders of the Company | | **362.1** | 37.1 |
| Non-controlling interests | | **2.3** | (20.5) |
| | | **364.4** | 16.6 |

# Consolidated Balance Sheet

at 31st December 2019

| | Note | At 31st December 2019 US$m | At 31st December 2018 US$m restated | At 1st January 2018 US$m restated |
|---|---|---|---|---|
| **Net operating assets** | | | | |
| Intangible assets | *9* | **589.2** | 571.0 | 707.9 |
| Tangible assets | *10* | **820.2** | 756.6 | 1,086.7 |
| Right-of-use assets | *11* | **3,186.3** | 3,430.9 | 3,646.1 |
| Associates and joint ventures | *12* | **2,101.9** | 2,030.9 | 1,582.2 |
| Other investments | *13* | **6.8** | 7.4 | 6.9 |
| Non-current debtors | *14* | **142.4** | 151.3 | 113.8 |
| Deferred tax assets | *15* | **18.2** | 14.4 | 26.4 |
| Non-current assets | | **6,865.0** | 6,962.5 | 7,170.0 |
| Stocks | | **896.1** | 913.1 | 950.0 |
| Current debtors | *14* | **281.3** | 326.0 | 345.2 |
| Current tax assets | | **26.1** | 35.2 | 27.1 |
| Cash and bank balances | *16* | **301.4** | 296.2 | 332.4 |
| | | **1,504.9** | 1,570.5 | 1,654.7 |
| Assets classified as held for sale | | **–** | – | 11.2 |
| Current assets | | **1,504.9** | 1,570.5 | 1,665.9 |
| Current creditors | *17* | **(2,315.4)** | (2,364.4) | (2,429.6) |
| Current borrowings | *18* | **(938.2)** | (1,025.7) | (412.7) |
| Current lease liabilities | *19* | **(728.3)** | (736.1) | (710.6) |
| Current tax liabilities | | **(126.5)** | (84.3) | (71.6) |
| Current provisions | *20* | **(56.0)** | (84.2) | (61.2) |
| | | **(4,164.4)** | (4,294.7) | (3,685.7) |
| Liabilities directly associated with assets classified as held for sale | | **–** | – | (6.2) |
| Current liabilities | | **(4,164.4)** | (4,294.7) | (3,691.9) |
| Net current liabilities | | **(2,659.5)** | (2,724.2) | (2,026.0) |
| Long-term borrowings | *18* | **(184.0)** | (14.5) | (522.0) |
| Non-current lease liabilities | *19* | **(2,577.5)** | (2,816.5) | (2,944.0) |
| Deferred tax liabilities | *15* | **(34.9)** | (23.4) | (41.3) |
| Pension liabilities | *21* | **(31.3)** | (47.6) | (34.2) |
| Non-current creditors | *17* | **(13.2)** | (39.7) | (42.7) |
| Non-current provisions | *20* | **(125.1)** | (134.7) | (129.4) |
| Non-current liabilities | | **(2,966.0)** | (3,076.4) | (3,713.6) |
| | | **1,239.5** | 1,161.9 | 1,430.4 |

| | Note | At 31st December 2019 US$m | At 31st December 2018 US$m restated | At 1st January 2018 US$m restated |
|---|---|---|---|---|
| **Total equity** | | | | |
| Share capital | *22* | **75.1** | 75.1 | 75.1 |
| Share premium and capital reserves | *24* | **59.2** | 58.3 | 57.9 |
| Revenue and other reserves | | **1,074.9** | 993.0 | 1,238.1 |
| Shareholders' funds | | **1,209.2** | 1,126.4 | 1,371.1 |
| Non-controlling interests | | **30.3** | 35.5 | 59.3 |
| | | **1,239.5** | 1,161.9 | 1,430.4 |

Approved by the Board of Directors

**Ian McLeod**
**Clem Constantine**
Directors

5th March 2020

# Consolidated Statement of Changes in Equity

for the year ended 31st December 2019

| | Share capital US$m | Share premium US$m | Capital reserves US$m | Revenue and other reserves US$m | Attributable to shareholders of the Company US$m | Attributable to non-controlling interests US$m | Total equity US$m |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| At 1st January | | | | | | | |
| – as previously reported | 75.1 | 33.9 | 24.4 | 1,313.6 | 1,447.0 | 43.9 | **1,490.9** |
| – change in accounting policy *(note 1)* | – | – | – | (320.6) | (320.6) | (8.4) | **(329.0)** |
| – as restated | 75.1 | 33.9 | 24.4 | 993.0 | 1,126.4 | 35.5 | **1,161.9** |
| Total comprehensive income | – | – | – | 362.1 | 362.1 | 2.3 | **364.4** |
| Dividends paid by the Company | – | – | – | (284.0) | (284.0) | – | **(284.0)** |
| Unclaimed dividends forfeited | – | – | – | 0.1 | 0.1 | – | **0.1** |
| Share-based long-term incentive plans | – | – | 0.9 | – | 0.9 | – | **0.9** |
| Change in interests in subsidiaries | – | – | – | 0.8 | 0.8 | (7.5) | **(6.7)** |
| Change in interests in associates and joint ventures | – | – | – | 2.9 | 2.9 | – | **2.9** |
| Transfer | – | 0.2 | (0.2) | – | – | – | **–** |
| At 31st December | **75.1** | **34.1** | **25.1** | **1,074.9** | **1,209.2** | **30.3** | **1,239.5** |
| 2018 | | | | | | | |
| At 1st January | | | | | | | |
| – as previously reported | 75.1 | 33.1 | 24.8 | 1,557.0 | 1,690.0 | 65.7 | 1,755.7 |
| – change in accounting policy *(note 1)* | – | – | – | (318.9) | (318.9) | (6.4) | (325.3) |
| – as restated | 75.1 | 33.1 | 24.8 | 1,238.1 | 1,371.1 | 59.3 | 1,430.4 |
| Total comprehensive income | – | – | – | 37.1 | 37.1 | (20.5) | 16.6 |
| Dividends paid by the Company | – | – | – | (284.0) | (284.0) | – | (284.0) |
| Dividends paid to non-controlling interests | – | – | – | – | – | (0.2) | (0.2) |
| Unclaimed dividends forfeited | – | – | – | 0.4 | 0.4 | – | 0.4 |
| Share-based long-term incentive plans | – | – | 0.4 | – | 0.4 | – | 0.4 |
| Change in interests in subsidiaries | – | – | – | (0.4) | (0.4) | (3.1) | (3.5) |
| Change in interests in associates and joint ventures | – | – | – | 1.8 | 1.8 | – | 1.8 |
| Transfer | – | 0.8 | (0.8) | – | – | – | – |
| At 31st December | 75.1 | 33.9 | 24.4 | 993.0 | 1,126.4 | 35.5 | 1,161.9 |

Revenue and other reserves at 31st December 2019 comprised revenue reserves of US$1,388.5 million *(2018: US$1,330.6 million)*, hedging reserves of US$0.7 million *(2018: US$4.3 million)* and exchange reserves of US$314.3 million loss *(2018: US$341.9 million loss)*.

# Consolidated Cash Flow Statement

for the year ended 31st December 2019

| | Note | **2019 US$m** | 2018 US$m restated |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | *3* | **425.6** | 216.7 |
| Depreciation and amortisation | *28(a)* | **1,002.2** | 1,101.3 |
| Other non-cash items | *28(b)* | **33.2** | 326.7 |
| Increase in working capital | *28(c)* | **(76.7)** | (20.5) |
| Interest received | | **7.1** | 3.9 |
| Interest and other financing charges paid | | **(166.7)** | (168.2) |
| Tax paid | | **(25.1)** | (96.0) |
| | | **1,199.6** | 1,363.9 |
| Dividends from associates and joint ventures | | **88.5** | 94.2 |
| Cash flows from operating activities | | **1,288.1** | 1,458.1 |
| **Investing activities** | | | |
| Purchase of subsidiaries | *28(d)* | **(2.6)** | (54.6) |
| Purchase of associates and joint ventures | *28(e)* | **(3.8)** | (223.1) |
| Purchase of intangible assets | | **(53.2)** | (33.2) |
| Purchase of tangible assets | | **(233.3)** | (222.6) |
| Additions to right-of-use assets | | **(18.4)** | (0.3) |
| Sale of subsidiaries | *28(f)* | **–** | (1.6) |
| Sale of properties | *28(g)* | **22.6** | 32.6 |
| Sale of tangible assets | | **5.7** | 1.9 |
| Cash flows from investing activities | | **(283.0)** | (500.9) |
| **Financing activities** | | | |
| Change in interests in subsidiaries | *28(h)* | **(6.7)** | (3.5) |
| Drawdown of borrowings | *18* | **1,778.4** | 998.2 |
| Repayment of borrowings | *18* | **(1,662.6)** | (963.6) |
| Net (decrease)/increase in other short-term borrowings | *18* | **(42.4)** | 67.1 |
| Principal elements of lease payments | | **(790.3)** | (814.7) |
| Dividends paid by the Company | *25* | **(284.0)** | (284.0) |
| Dividends paid to non-controlling interests | | **–** | (0.2) |
| Cash flows from financing activities | | **(1,007.6)** | (1,000.7) |
| Net decrease in cash and cash equivalents | | **(2.5)** | (43.5) |
| Cash and cash equivalents at 1st January | | **284.5** | 334.5 |
| Effect of exchange rate changes | | **6.3** | (6.5) |
| Cash and cash equivalents at 31st December | *28(j)* | **288.3** | 284.5 |

# Notes to the Financial Statements

## 1. Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and Interpretations adopted by the International Accounting Standards Board ('IASB'). The financial statements have been prepared on a going concern basis and under the historical cost convention except as disclosed in the accounting policies.

Details of the Group's principal accounting policies are included in note 35.

The Group has applied IFRS 16 'Leases' for the first time for the Group's annual reporting period commencing 1st January 2019. Changes to principal accounting policies are described below. There are no other amendments or interpretations, which are effective in 2019 and relevant to the Group's operations, that have a significant effect on the Group's accounting policies.

The Group has elected to early adopt the 'Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7' (effective 1st January 2020) in relation to hedge accounting for the Group's annual reporting period commencing 1st January 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively with respect to hedging relationships that existed at the start of the reporting period or were designated thereafter. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships which are directly affected by the uncertainty arising from the reforms and replacement of existing benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBOR reform'). The forthcoming IBOR reform may take effect at different times and may have a different impact on the hedged items (the fixed and floating rate borrowings) and the hedging instruments (the interest rate swaps and cross currency swaps used to hedge the borrowings). The reliefs have the effect that the IBOR reform should not generally cause hedge accounting to terminate. The reliefs under the amendments will end when the uncertainty arising from the IBOR reform are no longer present; or the hedging relationship is discontinued. Early adoption of these amendments has no impact on the Group's consolidated financial statements for 2019.

Apart from the above, the Group has not early adopted any other standard, interpretation or amendments that have been issued but not yet effective *(note 36)*.

The principal operating subsidiaries, associates and joint ventures have different functional currencies in line with the economic environments of the locations in which they operate. The functional currency of the Company is United States dollars. The consolidated financial statements are presented in United States dollars.

The Group's reportable segments are set out in notes 2, 3 and 5 and are described on page 55.

### Changes in principal accounting policies

*IFRS 16 'Leases'*

The standard replaces IAS 17 'Leases' and related interpretations, and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a lease liability and a corresponding right-of-use asset have to be recognised on the balance sheet for almost all leases by the lessees, except for leases with a term ending within 12 months or low-value assets. The Group's recognised right-of-use assets primarily relate to property leases, which are entered into for use as retail stores, distribution centres and offices. IFRS 16 affects primarily the Group's accounting for lessees while the accounting for lessors does not change significantly.

Prior to 2019, payments made under operating leases were charged to profit and loss on a straight-line basis over the period of the lease. Upon the adoption of IFRS 16, each lease payment is allocated between settlement of the lease liability and finance cost. The finance cost is charged to profit and loss over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

## 1. Basis of Preparation continued

### Changes in principal accounting policies continued

*IFRS 16 'Leases'* continued

In addition, leasehold land which represents payments to third parties to acquire interests in property, previously included in intangible assets and tangible assets, is now presented under right-of-use assets. Leasehold land is amortised over the useful life of the lease, which includes the renewal period if the lease is likely to be renewed by the Group without significant cost.

Changes to accounting policies on adoption of IFRS 16 have been applied retrospectively, and the comparative financial statements have been restated.

The effects of adopting IFRS 16 were as follows:

(i) On the consolidated profit and loss account for the year ended 31st December 2018:

| | Increase/(decrease) in profit US$m |
|---|---|
| Other operating income | 25.8 |
| Selling and distribution costs | 70.3 |
| Administration and other operating expenses | 41.7 |
| Net financing charges | (133.9) |
| Share of results of associates and joint ventures | (18.8) |
| Profit before tax | (14.9) |
| Tax | 4.8 |
| Profit after tax | (10.1) |
| Attributable to: | |
| Shareholders of the Company* | (7.2) |
| Non-controlling interests | (2.9) |
| | (10.1) |
| *Further analysed as: | |
| Underlying profit attributable to shareholders | (66.1) |
| Non-trading items | 58.9 |
| Profit attributable to shareholders | (7.2) |
| | US¢ |
| Basic underlying earnings per share | (4.89) |
| Diluted underlying earnings per share | (4.89) |
| Basic earnings per share | (0.53) |
| Diluted earnings per share | (0.53) |

## 1. Basis of Preparation continued

### Changes in principal accounting policies continued

*IFRS 16 'Leases'* continued

(ii) On the consolidated statement of comprehensive income for the year ended 31st December 2018:

| | Increase/(decrease) in total comprehensive income US$m |
|---|---|
| Profit for the year | (10.1) |
| Other comprehensive income | |
| Items that may be reclassified subsequently to profit or loss: | |
| Net exchange translation differences | |
| – net loss arising during the year | 7.9 |
| – transfer to profit and loss | (1.5) |
| Other comprehensive expense for the year, net of tax | 6.4 |
| Total comprehensive income for the year | (3.7) |
| Attributable to: | |
| Shareholders of the Company | (1.3) |
| Non-controlling interests | (2.4) |
| | (3.7) |

## 1. Basis of Preparation continued

### Changes in principal accounting policies continued

*IFRS 16 'Leases'* continued

(iii) On the consolidated balance sheet at 1st January:

| | Increase/(decrease) | |
|---|---|---|
| | 2019 | 2018 |
| | US$m | US$m |
| **Net operating assets** | | |
| Intangible assets | (95.7) | (106.8) |
| Tangible assets | (91.4) | (97.5) |
| Right-of-use assets | 3,430.9 | 3,646.1 |
| Associates and joint ventures | (36.0) | (18.8) |
| Non-current debtors | (9.0) | (48.8) |
| Deferred tax assets | (9.4) | – |
| Non-current assets | 3,189.4 | 3,374.2 |
| Current debtors | (46.0) | (5.5) |
| Current assets | (46.0) | (5.5) |
| Current creditors | 34.2 | 39.9 |
| Current lease liabilities | (736.1) | (710.6) |
| Current provisions | 19.9 | (8.7) |
| Current liabilities | (682.0) | (679.4) |
| Net current liabilities | (728.0) | (684.9) |
| Non-current lease liabilities | (2,816.5) | (2,944.0) |
| Deferred tax liabilities | 35.2 | 21.4 |
| Non-current provisions | (9.1) | (92.0) |
| Non-current liabilities | (2,790.4) | (3,014.6) |
| | (329.0) | (325.3) |
| **Total equity** | | |
| Revenue and other reserves | (320.6) | (318.9) |
| Shareholders' funds | (320.6) | (318.9) |
| Non-controlling interests | (8.4) | (6.4) |
| | (329.0) | (325.3) |

## 1. Basis of Preparation continued

### Changes in principal accounting policies continued

*IFRS 16 'Leases'* continued

(iv) On the consolidated cash flow statement for the year ended 31st December 2018:

| | Inflows/(outflows) US$m |
|---|---|
| **Operating activities** | |
| Operating profit | 137.8 |
| Depreciation and amortisation | 872.2 |
| Other non-cash items | (60.0) |
| Increase in working capital | (1.4) |
| Interest and other financing charges paid | (133.9) |
| | 814.7 |
| **Investing activities** | |
| Purchase of tangible assets | 0.3 |
| Additions to right-of-use assets | (0.3) |
| | – |
| **Financing activities** | |
| Principal elements of lease payments | (814.7) |
| | (814.7) |
| Net change in cash and cash equivalents | – |

## 2. Sales

| | Including associates and joint ventures | | Subsidiaries | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **US$m** | US$m | **US$m** | US$m |
| *Analysis by operating segment:* | | | | |
| Food | **19,907.3** | 15,424.7 | **7,375.6** | 7,992.2 |
| – Grocery retail | **17,603.4** | 13,320.6 | **5,190.2** | 5,888.1 |
| – Convenience stores | **2,303.9** | 2,104.1 | **2,185.4** | 2,104.1 |
| Health and Beauty | **3,400.8** | 3,225.7 | **3,051.0** | 3,035.8 |
| Home Furnishings | **765.7** | 721.3 | **765.7** | 721.3 |
| Restaurants | **2,701.2** | 2,585.5 | **–** | – |
| Other Retailing | **890.0** | – | **–** | – |
| | **27,665.0** | 21,957.2 | **11,192.3** | 11,749.3 |

Sales including associates and joint ventures comprise 100% of sales from associates and joint ventures.

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board for the purpose of resource allocation and performance assessment. Dairy Farm operates in five segments: Food, Health and Beauty, Home Furnishings, Restaurants and Other Retailing. Food comprises grocery retail and convenience store businesses (including the Group's associate, Yonghui, a leading grocery retailer in mainland China). Health and Beauty comprises the health and beauty businesses. Home Furnishings is the Group's IKEA businesses. Restaurants is the Group's catering associate, Maxim's, a leading Hong Kong restaurant chain. Other Retailing represents the department stores, specialty and Do-It-Yourself ('DIY') stores of the Group's newly acquired Philippines associate, Robinsons Retail.

Sales and share of results of Yonghui represent 12 months from October 2018 to September 2019 based on their latest published announcement *(2018: nine months from January to September 2018)* and that of Robinsons Retail represent 11 months from the date of acquisition, November 2018 to September 2019 based on their latest published announcement *(note 5)*.

Set out below is an analysis of the Group's sales by geographical locations:

| | Including associates and joint ventures | | Subsidiaries | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **US$m** | US$m | **US$m** | US$m |
| *Analysis by geographical area:* | | | | |
| North Asia | **20,560.3** | 17,254.1 | **7,339.5** | 7,422.4 |
| Southeast Asia | **7,104.7** | 4,703.1 | **3,852.8** | 4,326.9 |
| | **27,665.0** | 21,957.2 | **11,192.3** | 11,749.3 |

The geographical areas covering North Asia and Southeast Asia, are determined by the geographical location of customers. North Asia comprises Hong Kong, mainland China, Macau and Taiwan. Southeast Asia comprises Singapore, Cambodia, the Philippines, Thailand, Malaysia, Indonesia, Vietnam and Brunei.

## 3. Operating Profit

| | 2019 US$m | 2018 US$m |
|---|---|---|
| *Analysis by operating segment:* | | |
| Food | **145.1** | 110.2 |
| – Grocery retail | **63.1** | 22.3 |
| – Convenience stores | **82.0** | 87.9 |
| Health and Beauty | **295.5** | 330.2 |
| Home Furnishings | **42.7** | 68.4 |
| | **483.3** | 508.8 |
| Selling, general and administrative expenses | **(143.4)** | (103.0) |
| Underlying operating profit before adopting IFRS 16* | **339.9** | 405.8 |
| Effect of adopting IFRS 16 | **96.6** | 99.8 |
| Underlying operating profit | **436.5** | 505.6 |
| Non-trading items: | | |
| – business restructuring costs | **(15.6)** | (435.4) |
| – profit on sale of businesses and properties | **15.7** | 206.5 |
| – loss on reclassification of joint ventures as subsidiaries | **(13.9)** | (60.5) |
| – adjustment to deferred consideration for acquisition of a subsidiary | **3.6** | – |
| – fair value (loss)/gain on equity investments | **(0.7)** | 0.5 |
| | **425.6** | 216.7 |

Set out below is an analysis of the Group's underlying operating profit by geographical locations:

| | 2019 US$m | 2018 US$m |
|---|---|---|
| *Analysis by geographical area:* | | |
| North Asia | **443.4** | 513.7 |
| Southeast Asia | **39.9** | (4.9) |
| | **483.3** | 508.8 |
| Selling, general and administrative expenses | **(143.4)** | (103.0) |
| Underlying operating profit before adopting IFRS 16* | **339.9** | 405.8 |
| Effect of adopting IFRS 16 | **96.6** | 99.8 |
| Underlying operating profit | **436.5** | 505.6 |

* Property lease payments and depreciation of reinstatement costs under the lease contracts were included in the Group's analysis of operating and geographical segments' results.

## 3. Operating Profit continued

*The following items have been (charged)/credited in arriving at operating profit:*

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Cost of stocks recognised as expense | **(7,617.6)** | (8,060.5) |
| Amortisation of intangible assets *(note 9)* | **(27.1)** | (21.1) |
| Depreciation of tangible assets *(note 10)* | **(160.2)** | (203.5) |
| Depreciation of right-of-use assets *(note 11)* | **(814.9)** | (876.7) |
| Impairment of intangible assets *(note 9)* | **(20.7)** | (117.2) |
| Reversal of impairment/(impairment) of tangible assets *(note 10)* | **4.4** | (207.9) |
| Impairment of right-of-use assets *(note 11)* | **(1.9)** | (93.9) |
| Write down of stocks | **(5.7)** | (19.1) |
| Reversal of write down of stocks | **6.3** | 4.2 |
| Employee benefit expense | | |
| – salaries and benefits in kind | **(1,131.9)** | (1,129.1) |
| – share options and share awards granted *(note 24)* | **(2.0)** | (0.4) |
| – defined benefit pension plans *(note 21)* | **(37.7)** | (22.9) |
| – defined contribution pension plans | **(49.8)** | (54.0) |
| | **(1,221.4)** | (1,206.4) |
| Lease expenses | | |
| – short-term leases | **(47.3)** | (22.1) |
| – variable lease payments | **(51.3)** | (54.6) |
| – sublease income | **43.7** | 43.1 |
| | **(54.9)** | (33.6) |
| Auditors' remuneration | | |
| – audit | **(4.9)** | (3.3) |
| – non-audit services | **(1.9)** | (0.7) |
| | **(6.8)** | (4.0) |
| Concession and service income | **159.3** | 159.9 |
| Rental income from properties | **23.3** | 27.7 |
| Net foreign exchange gains | **2.6** | 2.7 |
| (Loss)/profit on sale of tangible and intangible assets | **(3.4)** | 11.7 |
| Gain on lease modification and termination | **4.1** | 6.2 |

## 4. Net Financing Charges

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Interest expense on bank loans and advances | **(41.8)** | (33.3) |
| Interest expense on lease liabilities | **(119.2)** | (133.9) |
| Commitment and other fees | **(3.9)** | (4.5) |
| Financing charges | **(164.9)** | (171.7) |
| Financing income | **6.7** | 5.1 |
| | **(158.2)** | (166.6) |

## 5. Share of Results of Associates and Joint Ventures

| | **2019* US$m** | 2018* US$m |
|---|---|---|
| *Analysis by operating segment:* | | |
| Food | **40.9** | 14.8 |
| – Grocery retail | **40.7** | 14.8 |
| – Convenience stores | **0.2** | – |
| Health and Beauty | **(1.4)** | (5.3) |
| Restaurants | **82.1** | 104.5 |
| Other Retailing | **4.7** | – |
| | **126.3** | 114.0 |

Share of results of associates and joint ventures included the following gains/(losses) from non-trading items *(note 8)*:

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Share of Yonghui's fair value (loss)/gain on equity investments | **(0.4)** | 1.2 |
| Share of net gains from partial divestment of subsidiaries by Yonghui | **11.8** | – |
| | **11.4** | 1.2 |

Results are shown after tax and non-controlling interests in the associates and joint ventures.

* Included Yonghui's 12 months results from October 2018 to September 2019 *(2018: nine months from January to September 2018)* and Robinsons Retail's 11 months results from November 2018 to September 2019 *(note 2)*.

## 6. Tax

| | 2019 US$m | 2018 US$m |
|---|---|---|
| *Tax charged to profit and loss is analysed as follows:* | | |
| Current tax | **(76.7)** | (102.1) |
| Deferred tax | **8.0** | 5.5 |
| | **(68.7)** | (96.6) |
| *Reconciliation between tax expense and tax at the applicable tax rate†:* | | |
| Tax at applicable tax rate | **(42.5)** | 20.9 |
| Income not subject to tax | **14.0** | 18.0 |
| Expenses not deductible for tax purposes | **(26.8)** | (82.4) |
| Tax losses and temporary differences not recognised | **(7.4)** | (39.4) |
| Utilisation of previously unrecognised tax losses | **0.1** | – |
| Deferred tax assets written off | **–** | (6.5) |
| Deferred tax liabilities written back | **–** | 3.0 |
| Over provision in prior years | **1.6** | 0.1 |
| Withholding tax | **(10.2)** | (12.9) |
| Change in tax rate | **–** | 0.7 |
| Other | **2.5** | 1.9 |
| | **(68.7)** | (96.6) |
| *Tax relating to components of other comprehensive income is analysed as follows:* | | |
| Remeasurements of defined benefit plans | **(2.4)** | 2.2 |
| Cash flow hedges | **1.6** | (1.0) |
| | **(0.8)** | 1.2 |

Share of tax charge of associates and joint ventures of US$30.7 million *(2018: US$29.0 million)* is included in share of results of associates and joint ventures.

† The applicable tax rate for the year was 16.3% *(2018: 17.1%)* and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates.

## 7. Earnings per Share

Basic earnings per share are calculated on profit attributable to shareholders of US$323.8 million *(2018: US$84.8 million)*, and on the weighted average number of 1,352.7 million *(2018: 1,352.6 million)* shares in issue during the year.

Diluted earnings per share are calculated on profit attributable to shareholders of US$323.8 million *(2018: US$84.8 million)*, and on the weighted average number of shares in issue after adjusting for the number of shares which are deemed to be issued for no consideration under the share-based long-term incentive plans based on the average share price during the year.

The weighted average number of shares is arrived at as follows:

| | **Ordinary shares in millions** | |
|---|---|---|
| | **2019** | 2018 |
| Weighted average number of shares for basic earnings per share calculation | **1,352.7** | 1,352.6 |
| Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans | **0.7** | 0.8 |
| Weighted average number of shares for diluted earnings per share calculation | **1,353.4** | 1,353.4 |

Additional basic and diluted earnings per share are also calculated based on underlying profit attributable to shareholders. A reconciliation of earnings is set out below:

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | | **Basic earnings per share** | **Diluted earnings per share** | | Basic earnings per share | Diluted earnings per share |
| | **US$m** | **US¢** | **US¢** | US$m | US¢ | US¢ |
| Profit attributable to shareholders | **323.8** | **23.93** | **23.92** | 84.8 | 6.27 | 6.27 |
| Non-trading items *(note 8)* | **(2.9)** | | | 273.4 | | |
| Underlying profit attributable to shareholders | **320.9** | **23.72** | **23.71** | 358.2 | 26.48 | 26.47 |

## 8. Non-trading Items

An analysis of non-trading items in operating profit and profit attributable to shareholders is set out below:

| | Operating profit | | Profit attributable to shareholders | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **US$m** | US$m | **US$m** | US$m |
| Business restructuring costs | **(15.6)** | (435.4) | **(13.2)** | (421.1) |
| Profit on sale of businesses | **–** | 178.3 | **–** | 178.3 |
| Loss on reclassification of joint ventures as subsidiaries | **(13.9)** | (60.5) | **(13.9)** | (60.5) |
| Profit on sale of properties | **15.7** | 28.2 | **15.7** | 28.2 |
| Adjustment to deferred consideration for acquisition of a subsidiary | **3.6** | – | **3.6** | – |
| Share of net gains from partial divestment of subsidiaries by Yonghui | **–** | – | **11.8** | – |
| Others | **(0.7)** | 0.5 | **(1.1)** | 1.7 |
| | **(10.9)** | (288.9) | **2.9** | (273.4) |

In August 2019, the Group acquired the remaining 70% shareholding in Jutaria Gemilang Sdn. Bhd. ('Jutaria') which resulted in a loss on deemed disposal of US$9.5 million. Following the acquisition, the Group disposed of its 30% economic interest to a third party at no consideration. Together with the full impairment charge on the goodwill arising from acquisition of US$4.4 million, a loss on reclassification of a joint venture as a subsidiary of US$13.9 million was charged to profit and loss *(note 28(d))*.

In 2018, the Group acquired the remaining 51% interest in Rose Pharmacy, Inc. ('Rose Pharmacy') in the Philippines from its joint venture partner and Rose Pharmacy became a wholly-owned subsidiary of the Group in December *(note 28(d))*. Upon the completion of the transaction, goodwill amounting to US$99.0 million was recognised, followed by a goodwill impairment charge amounting to US$15.3 million. Together with the loss on deemed disposal of Rose Pharmacy amounted to US$45.2 million, a loss on reclassification of a joint venture as a subsidiary of US$60.5 million was recorded.

Business restructuring costs in 2018 related to the Group's restructuring of its Southeast Asia Food business following the completion of a strategic review. The charges mainly comprised impairment charges on the carrying values of certain goodwill, tangible assets and right-of-use assets as well as business correction provisions which mainly represented expected payments to tenants and employees. In 2019, apart from certain balance of business restructuring costs incurred in Southeast Asia Food business, the management also decided to exit some stores in mainland China and the associated costs were charged to profit and loss.

Profit on sale of businesses in 2018 included US$169.6 million from the disposal of 100% interest in Rustan Supercenters, Inc. ('RSCI') under a partnership agreement with Robinsons Retail Holdings, Inc. ('Robinsons Retail'), and US$8.7 million from the disposal of 100% interest in Asia Investment and Supermarket Trading Company Limited ('AISTC') *(note 28(f))*.

## 9. Intangible Assets

| | Goodwill US$m | Leasehold land US$m | Computer software US$m | Other US$m | Total US$m |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Cost | | | | | |
| – as previously reported | 551.9 | 110.5 | 203.5 | 18.8 | **884.7** |
| – change in accounting policy *(note 1)* | 1.5 | (110.5) | – | – | **(109.0)** |
| – as restated | 553.4 | – | 203.5 | 18.8 | **775.7** |
| Amortisation and impairment | | | | | |
| – as previously reported | (115.5) | (13.3) | (80.0) | (9.2) | **(218.0)** |
| – change in accounting policy *(note 1)* | – | 13.3 | – | – | **13.3** |
| – as restated | (115.5) | – | (80.0) | (9.2) | **(204.7)** |
| Net book value at 1st January | 437.9 | – | 123.5 | 9.6 | **571.0** |
| Exchange differences | 6.7 | – | 1.2 | 0.2 | **8.1** |
| New subsidiary | 4.4 | – | – | – | **4.4** |
| Additions | – | – | 53.7 | – | **53.7** |
| Disposals | – | – | (0.2) | – | **(0.2)** |
| Amortisation | – | – | (25.2) | (1.9) | **(27.1)** |
| Impairment charge | (4.4) | – | (16.3) | – | **(20.7)** |
| Net book value at 31st December | **444.6** | **–** | **136.7** | **7.9** | **589.2** |
| Cost | 565.9 | – | 257.9 | 19.3 | **843.1** |
| Amortisation and impairment | (121.3) | – | (121.2) | (11.4) | **(253.9)** |
| | **444.6** | **–** | **136.7** | **7.9** | **589.2** |
| 2018 | | | | | |
| Cost | | | | | |
| – as previously reported | 569.1 | 118.3 | 178.4 | 43.7 | 909.5 |
| – change in accounting policy *(note 1)* | – | (118.3) | – | – | (118.3) |
| – as restated | 569.1 | – | 178.4 | 43.7 | 791.2 |
| Amortisation and impairment | | | | | |
| – as previously reported | (0.3) | (11.5) | (66.6) | (16.4) | (94.8) |
| – change in accounting policy *(note 1)* | – | 11.5 | – | – | 11.5 |
| – as restated | (0.3) | – | (66.6) | (16.4) | (83.3) |
| Net book value at 1st January | 568.8 | – | 111.8 | 27.3 | 707.9 |
| Exchange differences | (11.6) | – | (1.3) | (1.4) | (14.3) |
| New subsidiary | 99.0 | – | 0.4 | 5.5 | 104.9 |
| Additions | – | – | 32.2 | – | 32.2 |
| Disposal of subsidiaries | (101.5) | – | (1.1) | (18.5) | (121.1) |
| Disposals | – | – | (0.3) | – | (0.3) |
| Amortisation | – | – | (18.1) | (3.0) | (21.1) |
| Impairment charge | (116.8) | – | (0.1) | (0.3) | (117.2) |
| Net book value at 31st December | 437.9 | – | 123.5 | 9.6 | 571.0 |
| Cost | 553.4 | – | 203.5 | 18.8 | 775.7 |
| Amortisation and impairment | (115.5) | – | (80.0) | (9.2) | (204.7) |
| | 437.9 | – | 123.5 | 9.6 | 571.0 |

## 9. Intangible Assets continued

Goodwill is allocated to groups of cash-generating units ('CGU') identified by banners or group of stores acquired in each territory. The table below analyses the carrying value of goodwill by CGU.

| | 2019<br>US$m | 2018<br>US$m |
|---|---|---|
| San Miu Macau | **181.1** | 180.0 |
| Rose Pharmacy, the Philippines | **86.9** | 83.9 |
| Giant Singapore | **42.7** | 42.1 |
| Others | **133.9** | 131.9 |
| Total | **444.6** | 437.9 |

Addition of goodwill in 2019 related to the acquisition of the remaining 70% shareholding in Jutaria. The addition in 2018 related to the acquisition of the remaining 51% shareholding in Rose Pharmacy *(note 28(d))*.

Management has assessed the recoverable amount of each CGU based on value-in-use calculations using cash flow projections based on approved budgets which have forecasts covering a period of three years and projections for a further two years.

Goodwill arising from the acquisition of Jutaria in 2019 amounted to US$4.4 million was fully impaired after the impairment review.

In 2018, following the completion of a strategic review, the Group recognised impairment charges against goodwill relating to its Giant businesses in Malaysia and Singapore totalling US$101.5 million, and Rose Pharmacy in the Philippines of US$15.3 million in the profit and loss. Goodwill related to Giant Malaysia business was fully impaired and goodwill related to the businesses in Giant Singapore and Rose Pharmacy in the Philippines had been reduced to their estimated recoverable amounts.

Key assumptions used for value-in-use calculations for the significant balances of goodwill in 2019 include budgeted gross margins between 18% and 31% and average sales growth rates are between 1.0% and 2.7% to project cash flows, which vary across the Group's business segments and geographical locations, over a five-year period and thereafter, and are based on management expectations for the market development; and pre-tax discount rates of between 5% and 14% applied to the cash flow projections. The discount rates used reflect business specific risks relating to the relevant industry, business life-cycle and geographical location. On the basis of this review, management concluded that no further impairment charge is required.

Other intangible assets comprised mainly trademarks.

The amortisation charges are all recognised in arriving at operating profit and are included in selling and distribution costs, and administration and other operating expenses.

The remaining amortisation periods for intangible assets are as follows:

| | |
|---|---|
| Computer software | up to 7 years |
| Trademarks | up to 12 years |

## 10. Tangible Assets

| | Freehold properties US$m | Buildings on leasehold land* US$m | Leasehold improvements US$m | Plant & machinery US$m | Furniture, equipment & motor vehicles US$m | Total US$m |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Cost | | | | | | |
| – as previously reported | 133.4 | 493.7 | 825.1 | 691.9 | 503.2 | **2,647.3** |
| – change in accounting policy *(note 1)* | – | (95.6) | (22.9) | – | – | **(118.5)** |
| – as restated | 133.4 | 398.1 | 802.2 | 691.9 | 503.2 | **2,528.8** |
| Depreciation and impairment | | | | | | |
| – as previously reported | (26.4) | (242.6) | (606.3) | (497.3) | (426.7) | **(1,799.3)** |
| – change in accounting policy *(note 1)* | – | 15.9 | 11.2 | – | – | **27.1** |
| – as restated | (26.4) | (226.7) | (595.1) | (497.3) | (426.7) | **(1,772.2)** |
| Net book value at 1st January | 107.0 | 171.4 | 207.1 | 194.6 | 76.5 | **756.6** |
| Exchange differences | 1.5 | 4.7 | 3.5 | 1.8 | 1.1 | **12.6** |
| New subsidiary | – | – | 0.1 | 0.5 | – | **0.6** |
| Additions | – | 26.3 | 116.4 | 73.0 | 21.9 | **237.6** |
| Disposals | (0.5) | (17.8) | (5.0) | (7.5) | (0.6) | **(31.4)** |
| Depreciation charge | (1.4) | (8.0) | (64.6) | (63.4) | (22.8) | **(160.2)** |
| Reversal of impairment charge/ (impairment charge) | – | 7.3 | (2.5) | (0.4) | – | **4.4** |
| Net book value at 31st December | **106.6** | **183.9** | **255.0** | **198.6** | **76.1** | **820.2** |
| Cost | 134.8 | 411.2 | 872.9 | 701.2 | 518.7 | **2,638.8** |
| Depreciation and impairment | (28.2) | (227.3) | (617.9) | (502.6) | (442.6) | **(1,818.6)** |
| | **106.6** | **183.9** | **255.0** | **198.6** | **76.1** | **820.2** |

* In previous years, the total net book value of leasehold land and buildings was reported, while in 2019, the net book value of leasehold land was reclassified to right-of-use assets upon the adoption of IFRS 16.

## 10. Tangible Assets continued

| | Freehold properties US$m | Buildings on leasehold land* US$m | Leasehold improvements US$m | Plant & machinery US$m | Furniture, equipment & motor vehicles US$m | Total US$m |
|---|---|---|---|---|---|---|
| 2018 | | | | | | |
| Cost | | | | | | |
| – as previously reported | 141.2 | 543.0 | 860.2 | 718.3 | 525.8 | 2,788.5 |
| – change in accounting policy *(note 1)* | – | (98.0) | (24.6) | – | – | (122.6) |
| – as restated | 141.2 | 445.0 | 835.6 | 718.3 | 525.8 | 2,665.9 |
| Depreciation and impairment | | | | | | |
| – as previously reported | (6.3) | (119.1) | (590.8) | (483.8) | (404.3) | (1,604.3) |
| – change in accounting policy *(note 1)* | – | 10.2 | 14.9 | – | – | 25.1 |
| – as restated | (6.3) | (108.9) | (575.9) | (483.8) | (404.3) | (1,579.2) |
| Net book value at 1st January | 134.9 | 336.1 | 259.7 | 234.5 | 121.5 | 1,086.7 |
| Exchange differences | (2.3) | (12.4) | (4.2) | (4.3) | (4.4) | (27.6) |
| New subsidiary | – | – | 2.0 | – | 2.1 | 4.1 |
| Additions | – | 7.9 | 75.4 | 79.4 | 27.4 | 190.1 |
| Disposal of subsidiaries | – | (20.1) | (25.1) | (20.3) | (2.2) | (67.7) |
| Disposals | – | (3.4) | (6.9) | (4.8) | (2.9) | (18.0) |
| Depreciation charge | (1.6) | (14.8) | (77.8) | (69.2) | (40.1) | (203.5) |
| Impairment charge | (24.0) | (122.3) | (16.0) | (20.7) | (24.9) | (207.9) |
| Reclassified from assets held for sale | – | 0.4 | – | – | – | 0.4 |
| Net book value at 31st December | 107.0 | 171.4 | 207.1 | 194.6 | 76.5 | 756.6 |
| Cost | 133.4 | 398.1 | 802.2 | 691.9 | 503.2 | 2,528.8 |
| Depreciation and impairment | (26.4) | (226.7) | (595.1) | (497.3) | (426.7) | (1,772.2) |
| | 107.0 | 171.4 | 207.1 | 194.6 | 76.5 | 756.6 |

## 10. Tangible Assets continued

Rental income from properties amounted to US$23.3 million *(2018: US$27.7 million)* which had no contingent rents *(2018: US$0.4 million)*.

The maturity analysis of the undiscounted lease payments to be received after the balance sheet date are as follows:

| | 2019 US$m | 2018 US$m |
|---|---|---|
| Within one year | **16.2** | 12.2 |
| Between one and two years | **9.7** | 5.9 |
| Between two and five years | **6.0** | 5.6 |
| Beyond five years | **1.8** | 1.6 |
| | **33.7** | 25.3 |

There were no tangible assets pledged as security for borrowings at 31st December 2019 and 2018.

## 11. Right-of-use Assets

| | Leasehold land US$m | Properties US$m | Furniture, equipment & others US$m | Total US$m |
|---|---|---|---|---|
| **2019** | | | | |
| Net book value at 1st January | | | | |
| – as previously reported | – | – | – | **–** |
| – change in accounting policy *(note 1)* | 176.9 | 3,251.7 | 2.3 | **3,430.9** |
| – as restated | 176.9 | 3,251.7 | 2.3 | **3,430.9** |
| Exchange differences | 5.3 | 26.3 | 0.1 | **31.7** |
| New subsidiary | – | 1.7 | – | **1.7** |
| Additions | 18.4 | 142.5 | 0.8 | **161.7** |
| Depreciation charge | (4.0) | (809.6) | (1.3) | **(814.9)** |
| Impairment charge | – | (1.9) | – | **(1.9)** |
| Other movements | (0.5) | 377.4 | 0.2 | **377.1** |
| Net book value at 31st December | **196.1** | **2,988.1** | **2.1** | **3,186.3** |

## 11. Right-of-use Assets continued

| | Leasehold land US$m | Properties US$m | Furniture, equipment & others US$m | Total US$m |
|---|---|---|---|---|
| 2018 | | | | |
| Net book value at 1st January | | | | |
| – as previously reported | – | – | – | – |
| – change in accounting policy *(note 1)* | 194.6 | 3,448.0 | 3.5 | 3,646.1 |
| – as restated | 194.6 | 3,448.0 | 3.5 | 3,646.1 |
| Exchange differences | (8.2) | (49.5) | – | (57.7) |
| New subsidiary | – | 12.0 | – | 12.0 |
| Additions | 0.3 | 213.8 | 0.2 | 214.3 |
| Disposal of subsidiaries | – | (102.6) | – | (102.6) |
| Depreciation charge | (3.6) | (871.7) | (1.4) | (876.7) |
| Impairment charge | (6.2) | (87.7) | – | (93.9) |
| Other movements | – | 689.4 | – | 689.4 |
| Net book value at 31st December | 176.9 | 3,251.7 | 2.3 | 3,430.9 |

Furniture, equipment and others comprised furniture, equipment, plant & machinery, motor vehicles and others.

The typical lease terms associated with the right-of-use assets are as follows:

| | |
|---|---|
| Leasehold land | 25 to 999 years |
| Properties | 1 to 50 years |
| Furniture, equipment & others | 1 to 6 years |

There was no leasehold land pledged as security for borrowings at 31st December 2019 and 2018.

## 12. Associates and Joint Ventures

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Listed associates | **928.1** | 847.4 |
| Unlisted associate | **466.7** | 431.1 |
| Share of attributable net assets | **1,394.8** | 1,278.5 |
| Goodwill on acquisition | **701.9** | 740.4 |
| | **2,096.7** | 2,018.9 |
| Unlisted joint ventures | **5.2** | 12.0 |
| | **2,101.9** | 2,030.9 |

## 12. Associates and Joint Ventures continued

| | Associates | | Joint ventures | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **US$m** | US$m | **US$m** | US$m |
| *Movements of associates and joint ventures during the year:* | | | | |
| At 1st January | | | | |
| – as previously reported | **2,052.2** | 1,506.5 | **14.7** | 94.5 |
| – change in accounting policy *(note 1)* | **(33.3)** | (16.3) | **(2.7)** | (2.5) |
| – as restated | **2,018.9** | 1,490.2 | **12.0** | 92.0 |
| Exchange differences | **14.1** | (56.8) | **–** | (4.0) |
| Share of results after tax and non-controlling interests | **130.8** | 120.4 | **(4.5)** | (6.4) |
| Share of other comprehensive income/(expense) after tax and non-controlling interests | **3.5** | 1.3 | **–** | (0.4) |
| Dividends received | **(88.5)** | (94.2) | **–** | – |
| Acquisition and capital injections | **15.0** | 556.2 | **3.8** | 3.2 |
| Reclassification of joint ventures as subsidiaries | **–** | – | **(6.1)** | (72.4) |
| Other | **2.9** | 1.8 | **–** | – |
| At 31st December | **2,096.7** | 2,018.9 | **5.2** | 12.0 |
| Fair value of listed associates | **2,565.4** | 2,669.3 | | |

In November 2018, the Group completed the investment of 20% interest in Robinsons Retail. A 12.15% interest of which was attained through the exchange of the Group's 100% interest in RSCI with Robinsons Retail at a consideration of US$336.2 million and the remaining 7.85% interest through shares acquisition from the controlling shareholders and in the market at a consideration of US$220.0 million *(note 28(e))*.

### (a) Investment in associates

The material associates of the Group are listed as follows. These associates have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Nature of investments in material associates in 2019 and 2018:

| | | | % of ownership interest | |
|---|---|---|---|---|
| Name of entity | Nature of business | Country of incorporation/ place of listing | **2019** | 2018 |
| Maxim's Caterers Limited ('Maxim's') | Restaurants | Hong Kong/Unlisted | **50** | 50 |
| Yonghui Superstores Co., Ltd ('Yonghui') | Grocery retail | Mainland China/Shanghai | **19.99** | 19.99 |

## 12. Associates and Joint Ventures continued

### (a) Investment in associates continued

**Summarised financial information for material associates**

Summarised balance sheets at 31st December (unless otherwise indicated):

| | Maxim's | | Yonghui | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019*** | 2018* |
| | **US$m** | US$m | **US$m** | US$m |
| Non-current assets | **2,848.0** | 1,935.1 | **7,074.7** | 6,857.3 |
| Current assets | | | | |
| Cash and cash equivalents | **235.9** | 268.8 | **870.1** | 835.9 |
| Other current assets | **234.7** | 210.2 | **2,555.0** | 2,426.2 |
| Total current assets | **470.6** | 479.0 | **3,425.1** | 3,262.1 |
| Non-current liabilities | | | | |
| Financial liabilities† | **(799.4)** | (740.4) | **(3,753.8)** | (4,067.3) |
| Other non-current liabilities | **(252.7)** | (51.8) | **(48.6)** | (27.1) |
| Total non-current liabilities | **(1,052.1)** | (792.2) | **(3,802.4)** | (4,094.4) |
| Current liabilities | | | | |
| Financial liabilities† | **(1,022.5)** | (600.7) | **(1,081.9)** | (591.8) |
| Other current liabilities | **(169.5)** | (144.3) | **(2,495.4)** | (2,252.0) |
| Total current liabilities | **(1,192.0)** | (745.0) | **(3,577.3)** | (2,843.8) |
| Non-controlling interests | **(141.1)** | (14.7) | **(29.9)** | (119.4) |
| Net assets | **933.4** | 862.2 | **3,090.2** | 3,061.8 |

* Based on unaudited summarised balance sheet at 30th September 2019 and 2018, adjusted by the effect of adopting IFRS 16.

† Excluded trade and other payables and provisions, which are presented under other current and non-current liabilities.

## 12. Associates and Joint Ventures continued

### (a) Investment in associates continued

**Summarised financial information for material associates** continued

Summarised statements of comprehensive income for the year ended 31st December (unless otherwise indicated):

| | Maxim's | | Yonghui | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019*** | 2018* |
| | **US$m** | US$m | **US$m** | US$m |
| Sales | **2,701.2** | 2,585.5 | **11,822.8** | 8,051.9 |
| Depreciation and amortisation | **(431.2)** | (378.0) | **(387.7)** | (378.4) |
| Interest income | **3.1** | 3.4 | **5.9** | 7.9 |
| Interest expense | **(40.2)** | (29.7) | **(223.2)** | (134.9) |
| Profit from underlying business performance | **208.7** | 260.9 | **110.9** | 42.9 |
| Income tax expense | **(38.0)** | (49.2) | **(28.4)** | (20.6) |
| Profit after tax from underlying business performance | **170.7** | 211.7 | **82.5** | 22.3 |
| Profit after tax from non-trading items | **–** | – | **56.2** | 10.0 |
| Profit after tax | **170.7** | 211.7 | **138.7** | 32.3 |
| Non-controlling interests | **(6.5)** | (2.8) | **32.8** | 46.7 |
| Profit after tax and non-controlling interests | **164.2** | 208.9 | **171.5** | 79.0 |
| Other comprehensive income/(expense) | **0.3** | (6.0) | **–** | – |
| Total comprehensive income | **164.5** | 202.9 | **171.5** | 79.0 |
| Dividends received from associates | **53.6** | 51.0 | **30.5** | 43.2 |

* Based on unaudited summarised statement of comprehensive income for the 12 months ended 30th September 2019 and nine months ended 30th September 2018, adjusted by the effect of adopting IFRS 16.

The information contained in the summarised balance sheets and statements of comprehensive income reflect the amounts presented in the financial statements of the associates adjusted for differences in accounting policies between the Group and the associates, and fair value of the associates at the time of acquisition. 2018 information was restated for the change in accounting policy upon adoption of IFRS 16.

## 12. Associates and Joint Ventures continued

### (a) Investment in associates continued

**Reconciliation of the summarised financial information**

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interests in its material associates for the year ended 31st December:

| | Maxim's | | Yonghui | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **US$m** | US$m | **US$m** | US$m | **US$m** | US$m |
| Net assets | **933.4** | 862.2 | **3,090.2†** | 3,061.8† | | |
| *Interest in associates (%)* | ***50*** | *50* | ***19.99*** | *19.99* | | |
| Group's share of net assets in associates | **466.7** | 431.1 | **617.7** | 612.1 | **1,084.4** | 1,043.2 |
| Goodwill | **–** | – | **386.7** | 392.2 | **386.7** | 392.2 |
| Other reconciling items | **–** | – | **13.4** | 21.5 | **13.4** | 21.5 |
| Carrying value | **466.7** | 431.1 | **1,017.8** | 1,025.8 | **1,484.5** | 1,456.9 |
| Fair value | **n/a** | n/a | **2,067.7** | 2,188.9 | | |

† Based on unaudited summarised balance sheet at 30th September 2019 and 2018, adjusted by the effect of adopting IFRS 16.

There were no contingent liabilities relating to the Group's interests in associates at 31st December 2019 and 2018.

### (b) Investment in joint ventures

In the opinion of the Directors, none of the Group's interests in unlisted joint ventures are considered material.

**Commitments and contingent liabilities in respect of joint ventures**

There were no commitments and contingent liabilities relating to the Group's interests in joint ventures at 31st December 2019 and 2018.

## 13. Other Investments

| | 2019 US$m | 2018 US$m |
|---|---|---|
| *Movements during the year:* | | |
| At 1st January | **7.4** | 6.9 |
| Exchange differences | **0.1** | – |
| Change in fair value recognised in profit and loss | **(0.7)** | 0.5 |
| At 31st December | **6.8** | 7.4 |

Other investments are unlisted non-current equity investments measured at fair value through profit and loss. The fair value is based on observable current market transactions.

## 14. Debtors

| | 2019 US$m | 2018 US$m |
|---|---|---|
| Trade debtors | | |
| Third parties | **95.8** | 121.8 |
| Joint ventures | **0.2** | 1.4 |
| | **96.0** | 123.2 |
| Less: provision for impairment | **(7.4)** | (2.5) |
| | **88.6** | 120.7 |
| Other debtors | | |
| Third parties | **337.6** | 358.6 |
| Less: provision for impairment | **(2.5)** | (2.0) |
| | **335.1** | 356.6 |
| | **423.7** | 477.3 |
| Non-current | **142.4** | 151.3 |
| Current | **281.3** | 326.0 |
| | **423.7** | 477.3 |

Trade and other debtors, other than derivative financial instruments, are stated at amortised cost. The fair values of these debtors approximate their carrying amounts. Derivative financial instruments are stated at fair value.

## 14. Debtors continued

### Trade and other debtors

Sales to customers are mainly made in cash or by major credit cards. The average credit period on sale of goods and services varies among Group businesses and is normally not more than 30 days. The maximum exposure to credit risk is represented by the carrying amount of trade debtors after deducting the impairment allowance.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payment are considered indicators that the debtor is impaired. An allowance for impairment of trade and other debtors is made based on the estimated irrecoverable amount.

Other debtors are further analysed as follows:

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Derivative financial instruments | **0.3** | 6.3 |
| Other receivables | **14.8** | 32.7 |
| Financial assets | **15.1** | 39.0 |
| Rental and other deposits | **176.9** | 171.0 |
| Prepayments | **50.6** | 31.6 |
| Other | **92.5** | 115.0 |
| | **335.1** | 356.6 |

### Impairment of trade and other debtors

At 31st December 2019, trade debtors of US$3.2 million *(2018: US$8.7 million)* and other debtors of US$2.2 million *(2018: US$5.5 million)*, respectively, were past due but not impaired. The ageing analysis of these debtors is as follows:

| | **Trade debtors** | | **Other debtors** | |
|---|---|---|---|---|
| | **2019 US$m** | 2018 US$m | **2019 US$m** | 2018 US$m |
| Below 30 days | **0.5** | 3.0 | **1.0** | 4.1 |
| Between 31 and 60 days | **1.3** | 2.5 | **0.5** | 0.7 |
| Between 61 and 90 days | **1.3** | 1.9 | **0.3** | 0.3 |
| Over 90 days | **0.1** | 1.3 | **0.4** | 0.4 |
| | **3.2** | 8.7 | **2.2** | 5.5 |

Most of the balances have been settled subsequent to year end.

## 14. Debtors continued

### Impairment of trade and other debtors continued

At 31st December 2019, trade debtors of US$7.4 million *(2018: US$2.5 million)* and other debtors of US$2.5 million *(2018: US$2.0 million)* were impaired, which have been fully provided for in both years. The ageing analysis of these debtors is as follows:

| | Trade debtors | | Other debtors | |
|---|---|---|---|---|
| | **2019 US$m** | 2018 US$m | **2019 US$m** | 2018 US$m |
| Below 30 days | **–** | – | **–** | 0.7 |
| Between 31 and 60 days | **–** | – | **–** | – |
| Between 61 and 90 days | **–** | – | **0.3** | 0.6 |
| Over 90 days | **7.4** | 2.5 | **2.2** | 0.7 |
| | **7.4** | 2.5 | **2.5** | 2.0 |

*Movements in the provision for impairment are as follows:*

| | Trade debtors | | Other debtors | |
|---|---|---|---|---|
| | **2019 US$m** | 2018 US$m | **2019 US$m** | 2018 US$m |
| At 1st January | **(2.5)** | (3.9) | **(2.0)** | (2.6) |
| Exchange differences | **(0.1)** | 0.1 | **–** | 0.1 |
| Additional provisions | **(4.9)** | (0.4) | **(1.7)** | (1.3) |
| Disposal of subsidiaries | **–** | 0.1 | **–** | 1.3 |
| Unused amounts reversed | **–** | 1.4 | **0.3** | 0.5 |
| Amounts written off | **0.1** | 0.2 | **0.9** | – |
| At 31st December | **(7.4)** | (2.5) | **(2.5)** | (2.0) |

There were no debtors pledged as security for borrowings at 31st December 2019 and 2018.

## 15. Deferred Tax Assets/(Liabilities)

| | Accelerated tax depreciation US$m | Fair value gains/ losses US$m | Employee benefits US$m | Provisions and other temporary differences US$m | Total US$m |
|---|---|---|---|---|---|
| **2019** | | | | | |
| At 1st January | | | | | |
| – as previously reported | (46.6) | (2.9) | 9.4 | 5.3 | **(34.8)** |
| – change in accounting policy *(note 1)* | 25.8 | – | – | – | **25.8** |
| – as restated | (20.8) | (2.9) | 9.4 | 5.3 | **(9.0)** |
| Exchange differences | (0.3) | (0.2) | 0.1 | 0.5 | **0.1** |
| Credited/(charged) to profit and loss | 7.8 | – | 0.3 | (0.1) | **8.0** |
| Credited/(charged) to other comprehensive income | – | 1.6 | (2.4) | – | **(0.8)** |
| Other movements | – | – | – | (15.0) | **(15.0)** |
| At 31st December | **(13.3)** | **(1.5)** | **7.4** | **(9.3)** | **(16.7)** |
| Deferred tax assets | 10.3 | 0.5 | 2.4 | 5.0 | **18.2** |
| Deferred tax liabilities | (23.6) | (2.0) | 5.0 | (14.3) | **(34.9)** |
| | **(13.3)** | **(1.5)** | **7.4** | **(9.3)** | **(16.7)** |
| 2018 | | | | | |
| At 1st January | | | | | |
| – as previously reported | (50.7) | (3.2) | 6.4 | 11.2 | (36.3) |
| – change in accounting policy *(note 1)* | 21.4 | – | – | – | 21.4 |
| – as restated | (29.3) | (3.2) | 6.4 | 11.2 | (14.9) |
| Exchange differences | 0.3 | 0.2 | (0.3) | (0.5) | (0.3) |
| New subsidiary | – | – | 1.3 | 0.2 | 1.5 |
| Credited/(charged) to profit and loss | 8.2 | 1.1 | 0.7 | (4.5) | 5.5 |
| (Charged)/credited to other comprehensive expense | – | (1.0) | 2.2 | – | 1.2 |
| Disposal of subsidiaries | – | – | (0.9) | (1.1) | (2.0) |
| At 31st December | (20.8) | (2.9) | 9.4 | 5.3 | (9.0) |
| Deferred tax assets | 9.6 | (0.9) | 2.5 | 3.2 | 14.4 |
| Deferred tax liabilities | (30.4) | (2.0) | 6.9 | 2.1 | (23.4) |
| | (20.8) | (2.9) | 9.4 | 5.3 | (9.0) |

## 15. Deferred Tax Assets/(Liabilities) continued

Deferred tax balances predominantly comprise non-current items. Deferred tax assets and liabilities are netted when the taxes relate to the same taxation authority and where offsetting is allowed.

Deferred tax assets of US$46.3 million *(2018: US$34.2 million)* arising from unused tax losses of US$192.1 million *(2018: US$141.4 million)* have not been recognised in the financial statements. Included in the unused tax losses, US$64.6 million have no expiry date and the balance will expire at various dates up to and including 2029.

Deferred tax liabilities of US$1.8 million *(2018: US$4.0 million)* arising on temporary differences associated with investment in subsidiaries of US$18.4 million *(2018: US$40.4 million)* have not been recognised as there is no current intention of remitting the retained earnings of these subsidiaries to the holding companies in the foreseeable future.

## 16. Cash and Bank Balances

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Deposits with banks | **72.2** | 86.1 |
| Bank balances | **113.9** | 82.2 |
| Cash balances | **115.3** | 127.9 |
| | **301.4** | 296.2 |
| *Analysis by currency:* | | |
| Australian dollar | **2.9** | 1.1 |
| Chinese renminbi | **25.8** | 13.7 |
| Hong Kong dollar | **87.0** | 79.4 |
| Indonesian rupiah | **15.2** | 33.4 |
| Macau patacas | **30.9** | 26.5 |
| Malaysian ringgit | **18.5** | 18.4 |
| New Taiwan dollar | **36.2** | 62.0 |
| Philippine peso | **8.2** | 5.2 |
| Singapore dollar | **16.3** | 34.9 |
| United Kingdom sterling | **0.5** | 0.2 |
| United States dollar | **57.5** | 18.3 |
| Other | **2.4** | 3.1 |
| | **301.4** | 296.2 |

The weighted average interest rate on deposits with banks at 31st December 2019 was 2.2% *(2018: 1.4%)* per annum.

## 17. Creditors

| | 2019 US$m | 2018 US$m |
|---|---|---|
| Trade creditors | | |
| – third parties | **1,394.0** | 1,525.3 |
| – associates | **2.4** | 3.8 |
| | **1,396.4** | 1,529.1 |
| Accruals | **727.1** | 669.7 |
| Rental and other refundable deposits | **27.8** | 26.4 |
| Deferred consideration for acquisition of a subsidiary | **21.4** | 24.8 |
| Derivative financial instruments | **4.0** | 0.3 |
| Other creditors | **15.0** | 17.3 |
| Financial liabilities | **2,191.7** | 2,267.6 |
| Contract liabilities | **136.0** | 134.8 |
| Rental and other income received in advance | **0.9** | 1.7 |
| | **2,328.6** | 2,404.1 |
| Non-current | **13.2** | 39.7 |
| Current | **2,315.4** | 2,364.4 |
| | **2,328.6** | 2,404.1 |

Derivative financial instruments are stated at fair value. Other creditors are stated at amortised cost. The fair values of these creditors approximate their carrying amounts.

Contract liabilities principally include payments received in advance from customers for sale of unredeemed gift vouchers.

## 18. Borrowings

| | 2019 US$m | 2018 US$m |
|---|---|---|
| Current | | |
| – bank overdrafts | **13.1** | 11.7 |
| – other bank advances | **925.1** | 714.0 |
| | **938.2** | 725.7 |
| Current portion of long-term bank borrowings | **–** | 300.0 |
| | **938.2** | 1,025.7 |
| Long-term bank borrowings | **184.0** | 14.5 |
| | **1,122.2** | 1,040.2 |

All borrowings are unsecured. The fair values of borrowings are not materially different from their carrying amounts.

## 18. Borrowings continued

The Group's borrowings are further summarised as follows:

| By currency | Weighted average interest rates<br>% | Fixed rate borrowings<br>Weighted average period outstanding<br>Year | <br><br>US$m | Floating rate borrowings<br>US$m | Total<br>US$m |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Chinese renminbi | 4.4 | – | – | 14.3 | **14.3** |
| Hong Kong dollar | 4.0 | – | – | 536.4 | **536.4** |
| Malaysian ringgit | 4.1 | – | – | 192.3 | **192.3** |
| New Taiwan dollar | 2.1 | – | – | 10.7 | **10.7** |
| Philippine peso | 3.9 | – | – | 4.0 | **4.0** |
| United States dollar | 2.5 | – | – | 364.5 | **364.5** |
| | | | **–** | **1,122.2** | **1,122.2** |
| 2018 | | | | | |
| Chinese renminbi | 4.4 | – | – | 9.1 | 9.1 |
| Hong Kong dollar | 3.8 | – | – | 316.2 | 316.2 |
| Malaysian ringgit | 4.6 | – | – | 158.7 | 158.7 |
| New Taiwan dollar | 1.3 | – | – | 5.8 | 5.8 |
| Philippine peso | 6.0 | – | – | 23.8 | 23.8 |
| United States dollar | 3.3 | 0.2 | 200.0 | 326.6 | 526.6 |
| | | | 200.0 | 840.2 | 1,040.2 |

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account hedging transactions.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at 31st December after taking into account hedging transactions are as follows:

| | **2019**<br>**US$m** | 2018<br>US$m |
|---|---|---|
| Floating rate borrowings | | |
| – within one year | **1,122.2** | 840.2 |

## 18. Borrowings continued

*The movements in borrowings are as follows:*

| | Bank overdrafts US$m | Short-term borrowings US$m | Long-term borrowings US$m | Total US$m |
|---|---|---|---|---|
| **2019** | | | | |
| At 1st January | 11.7 | 1,014.0 | 14.5 | **1,040.2** |
| Exchange differences | (0.1) | 6.9 | 0.3 | **7.1** |
| Change in bank overdrafts | 1.5 | – | – | **1.5** |
| Drawdown of borrowings | – | 1,469.7 | 308.7 | **1,778.4** |
| Repayment of borrowings | – | (1,523.1) | (139.5) | **(1,662.6)** |
| Net decrease in other short-term borrowings | – | (42.4) | – | **(42.4)** |
| At 31st December | **13.1** | **925.1** | **184.0** | **1,122.2** |
| 2018 | | | | |
| At 1st January | 1.1 | 411.6 | 522.0 | 934.7 |
| Exchange differences | (0.4) | (4.1) | (0.3) | (4.8) |
| New subsidiary | – | 23.8 | – | 23.8 |
| Disposal of subsidiaries | – | (26.2) | – | (26.2) |
| Transfer | – | 300.0 | (300.0) | – |
| Change in bank overdrafts | 11.0 | – | – | 11.0 |
| Drawdown of borrowings | – | 998.2 | – | 998.2 |
| Repayment of borrowings | – | (756.4) | (207.2) | (963.6) |
| Net increase in other short-term borrowings | – | 67.1 | – | 67.1 |
| At 31st December | 11.7 | 1,014.0 | 14.5 | 1,040.2 |

Net change in other short-term borrowings represents the aggregated net drawdown and repayment movement under the Group's global liquidity cash pooling scheme, which is implemented for enhancing the daily cash flow management.

## 19. Lease Liabilities

| | **2019** | 2018 |
|---|---|---|
| | **US$m** | US$m |
| At 1st January | | |
| – as previously reported | **–** | – |
| – change in accounting policy *(note 1)* | **3,552.6** | 3,654.6 |
| – as restated | **3,552.6** | 3,654.6 |
| Exchange differences | **29.7** | (57.7) |
| New subsidiaries | **1.8** | 13.4 |
| Additions | **139.3** | 209.0 |
| Disposal of subsidiaries | **–** | (130.5) |
| Lease payments | **(909.5)** | (948.6) |
| Interest expense | **119.2** | 133.9 |
| Other movements | **372.7** | 678.5 |
| At 31st December | **3,305.8** | 3,552.6 |
| Non-current | **2,577.5** | 2,816.5 |
| Current | **728.3** | 736.1 |
| | **3,305.8** | 3,552.6 |

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

The Group is not exposed to any residual guarantees in respect of the leases entered into at 31st December 2019 and 2018.

The Group has entered into lease contracts which have not commenced at 31st December 2019 amounting to US$107.6 million *(2018: US$15.0 million)*.

## 20. Provisions

| | Closure cost provisions US$m | Obligations under onerous leases US$m | Reinstatement and restoration costs US$m | Total US$m |
|---|---|---|---|---|
| **2019** | | | | |
| At 1st January | | | | |
| – as previously reported | 90.3 | 98.7 | 40.7 | **229.7** |
| – change in accounting policy *(note 1)* | (25.0) | (98.7) | 112.9 | **(10.8)** |
| – as restated | 65.3 | – | 153.6 | **218.9** |
| Exchange differences | 1.2 | – | 1.4 | **2.6** |
| New subsidiary | – | – | 0.1 | **0.1** |
| Additional provisions | 10.6 | – | 5.4 | **16.0** |
| Unused amounts reversed | (8.7) | – | (1.3) | **(10.0)** |
| Utilised | (39.9) | – | (6.6) | **(46.5)** |
| At 31st December | **28.5** | **–** | **152.6** | **181.1** |
| Non-current | 0.3 | – | 124.8 | **125.1** |
| Current | 28.2 | – | 27.8 | **56.0** |
| | **28.5** | **–** | **152.6** | **181.1** |
| 2018 | | | | |
| At 1st January | | | | |
| – as previously reported | 47.5 | 12.5 | 29.9 | 89.9 |
| – change in accounting policy *(note 1)* | (5.6) | (12.5) | 118.8 | 100.7 |
| – as restated | 41.9 | – | 148.7 | 190.6 |
| Exchange differences | (2.2) | – | (1.8) | (4.0) |
| New subsidiary | 0.2 | – | 0.6 | 0.8 |
| Additional provisions | 51.7 | – | 11.2 | 62.9 |
| Disposal of subsidiaries | (0.1) | – | (0.2) | (0.3) |
| Unused amounts reversed | (6.5) | – | (3.1) | (9.6) |
| Utilised | (19.7) | – | (1.8) | (21.5) |
| At 31st December | 65.3 | – | 153.6 | 218.9 |
| Non-current | 6.5 | – | 128.2 | 134.7 |
| Current | 58.8 | – | 25.4 | 84.2 |
| | 65.3 | – | 153.6 | 218.9 |

Closure cost provisions are established when legal or constructive obligations, and obligations from restructuring plans, arise from store closure or disposal of businesses.

Provisions for reinstatement and restoration costs comprised the estimated costs, to be incurred by the Group as lessees, in dismantling and removing the underlying assets, restoring the sites on which they are located or restoring the underlying assets to the condition required by the terms and conditions of the leases.

## 21. Pension Plans

The Group operates defined benefit pension plans in Hong Kong, Indonesia, Taiwan and the Philippines, with the major plan in Hong Kong. These plans are final salary defined benefits, calculated based on members' lengths of service and their salaries in the final years leading up to retirement. All pension benefits are paid in one lump sum. With the exception of certain plans, all the defined benefit plans are closed to new members. In addition, all plans are impacted by discount rate while liabilities are driven by salary growth.

The Group's defined benefit plans are both funded and unfunded, with the assets of the funded plans held independently of the Group's assets in separate trustee administered funds. Plan assets held in trusts are governed by local regulations and practices in each country. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with the company and the boards of trustees. The Group's major plans are valued by independent actuaries annually using the projected unit credit method.

The amounts recognised in the consolidated balance sheet are as follows:

| | **2019**<br>**US$m** | 2018<br>US$m |
|---|---|---|
| Fair value of plan assets | **183.2** | 169.3 |
| Present value of funded obligations | **(208.0)** | (210.0) |
| | **(24.8)** | (40.7) |
| Present value of unfunded obligations | **(6.5)** | (6.9) |
| Net pension liabilities | **(31.3)** | (47.6) |
| *Analysis of net pension liabilities:* | | |
| Pension assets | **–** | – |
| Pension liabilities | **(31.3)** | (47.6) |
| | **(31.3)** | (47.6) |

## 21. Pension Plans continued

The movements in the net pension liabilities are as follows:

| | Fair value of plan assets US$m | Present value of obligations US$m | Total US$m |
|---|---|---|---|
| **2019** | | | |
| At 1st January | 169.3 | (216.9) | **(47.6)** |
| Current service cost | – | (17.9) | **(17.9)** |
| Interest income/(expense) | 5.7 | (7.0) | **(1.3)** |
| Past service cost | – | (17.3) | **(17.3)** |
| Administration expenses | (1.2) | – | **(1.2)** |
| | 4.5 | (42.2) | **(37.7)** |
| | 173.8 | (259.1) | **(85.3)** |
| Exchange differences | 1.2 | (1.8) | **(0.6)** |
| Remeasurements | | | |
| – return on plan assets, excluding amounts included in interest income | 15.8 | – | **15.8** |
| – change in financial assumptions | – | (6.5) | **(6.5)** |
| – experience gains | – | 6.6 | **6.6** |
| | 15.8 | 0.1 | **15.9** |
| Contributions from employers | 17.9 | – | **17.9** |
| Contributions from plan participants | 0.1 | (0.1) | **–** |
| Benefit payments | (1.5) | 3.0 | **1.5** |
| Settlements | (21.6) | 40.9 | **19.3** |
| Transfer (to)/from other plans | (2.5) | 2.5 | **–** |
| At 31st December | **183.2** | **(214.5)** | **(31.3)** |
| 2018 | | | |
| At 1st January | 189.4 | (223.6) | (34.2) |
| Current service cost | – | (17.4) | (17.4) |
| Interest income/(expense) | 5.4 | (5.9) | (0.5) |
| Past service cost | – | (4.2) | (4.2) |
| Administration expenses | (0.8) | – | (0.8) |
| | 4.6 | (27.5) | (22.9) |
| | 194.0 | (251.1) | (57.1) |
| Exchange differences | (0.5) | 1.6 | 1.1 |
| New subsidiary | 1.1 | (5.1) | (4.0) |
| Disposal of subsidiaries | (0.2) | 5.8 | 5.6 |
| Remeasurements | | | |
| – return on plan assets, excluding amounts included in interest income | (15.6) | – | (15.6) |
| – change in financial assumptions | – | 5.9 | 5.9 |
| – experience losses | – | (2.3) | (2.3) |
| | (15.6) | 3.6 | (12.0) |
| Contributions from employers | 12.5 | – | 12.5 |
| Benefit payments | (21.3) | 27.6 | 6.3 |
| Settlements | (0.4) | 0.4 | – |
| Transfer (to)/from other plans | (0.3) | 0.3 | – |
| At 31st December | 169.3 | (216.9) | (47.6) |

## 21. Pension Plans continued

The weighted average duration of the defined benefit obligations at 31st December 2019 was 7.6 years *(2018: 7.5 years)*.

Expected maturity analysis of undiscounted pension benefits at 31st December is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **US$m** | US$m |
| Within one year | **17.1** | 17.8 |
| Between one and two years | **18.8** | 18.4 |
| Between two and five years | **70.9** | 67.3 |
| Between five and ten years | **123.9** | 128.3 |
| Between ten and fifteen years | **116.7** | 116.1 |
| Between fifteen and twenty years | **89.2** | 96.1 |
| Beyond twenty years | **125.3** | 109.0 |
| | **561.9** | 553.0 |

The principal actuarial assumptions used for accounting purposes at 31st December are as follows:

| | **Hong Kong** | | **Indonesia** | | **Taiwan** | | **The Philippines** | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **%** | % | **%** | % | **%** | % | **%** | % |
| Discount rate | **3.0** | 3.3 | **7.0** | 8.3 | **0.8** | 1.2 | **5.2** | 7.3 |
| Salary growth rate | **4.8** | 4.8 | **5.7** | 4.0 | **1.8** | 1.8 | **4.9** | 4.4 |

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is as follows:

| | | **(Increase)/decrease on defined benefit obligations** | |
|---|---|---|---|
| | **Change in assumption** | **Increase in assumption** | **Decrease in assumption** |
| | **%** | **US$m** | **US$m** |
| Discount rate | **1** | **(14.9)** | **17.2** |
| Salary growth rate | **1** | **17.5** | **(15.3)** |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

## 21. Pension Plans continued

The analysis of the fair value of plan assets at 31st December is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **US$m** | US$m |
| Equity investments | | |
| Asia Pacific | **0.3** | 6.7 |
| Debt investments | | |
| Asia Pacific | **2.1** | 0.7 |
| Investment funds | | |
| Asia Pacific | **47.4** | 36.2 |
| Europe | **37.6** | 24.6 |
| North America | **71.1** | 53.8 |
| Global | **17.2** | 34.4 |
| | **173.3** | 149.0 |
| Total investments | **175.7** | 156.4 |
| Cash and cash equivalents | **11.4** | 18.9 |
| Benefits payable and other | **(3.9)** | (6.0) |
| | **183.2** | 169.3 |

At 31st December 2019, 100% of equity investments, 100% of debt investments and 94% of investment funds were quoted on active markets *(2018: 100%, 100% and 70%, respectively)*.

The strategic asset allocation is derived from the asset-liability modelling ('ALM') review, completed triennially to ensure the plans can meet future funding and solvency requirements. The last ALM review was completed in 2018, with the modified strategic asset allocation adopted in 2018. The next ALM review is scheduled for 2021.

At 31st December 2019, the Hong Kong plans had assets of US$171.5 million *(2018: US$161.1 million)*.

The Group maintains an active and regular contribution schedule across all the plans. The contributions to all its plans in 2019 were US$17.9 million and the estimated amounts of contributions expected to be paid to all its plans in 2020 are US$15.2 million.

## 22. Share Capital

| | 2019 US$m | 2018 US$m |
|---|---|---|
| **Authorised:** | | |
| 2,250,000,000 shares of US¢5 5/9 each | **125.0** | 125.0 |
| 500,000 shares of US$800 each | **400.0** | 400.0 |
| | **525.0** | 525.0 |

| | Ordinary shares in millions | | | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019 US$m** | 2018 US$m |
| **Issued and fully paid:** | | | | |
| Ordinary shares of US¢5 5/9 each | | | | |
| At 1st January | **1,352.7** | 1,352.5 | **75.1** | 75.1 |
| Issued under share-based long-term incentive plans | **–** | 0.2 | **–** | – |
| At 31st December | **1,352.7** | 1,352.7 | **75.1** | 75.1 |

## 23. Share-based Long-term Incentive Plans

Share-based long-term incentive plans ('LTIP') have been put in place to provide incentives for selected executives. Awards take the form of share options to purchase ordinary shares in the Company with exercise prices based on the then prevailing market prices, however, share awards which will vest free of payment may also be made. Awards normally vest on or after the third anniversary of the date of grant and may be subject to the achievement of performance conditions.

An LTIP was adopted by the Company on 5th March 2015. Under these awards, free shares are received by the participants to the extent the award vests. Conditions, if any, are at the discretion of the Directors. During 2019, no awards were granted, while conditional awards of 597,514 shares were first awarded in 2018. The fair value of the share awards granted in 2018 was US$4.5 million. The inputs into the discounted cash flow valuation model were share price of US$8.38 per share at the grant date, dividend yield of 2.52%, and annual risk-free interest rates ranged from 2.63% to 2.84%.

Prior to the adoption of the LTIP, The Dairy Farm International Share Option Plan 2005 provided selected executives with options to purchase ordinary shares in the Company. The exercise price of the granted options was based on the average market price for the five trading days immediately preceding the date of grant of the options. Options are vested over a period of up to three years and are exercisable for up to ten years following the date of grant. No options were granted in 2019 and 2018.

## 23. Share-based Long-term Incentive Plans continued

*Movements of the outstanding conditional awards during the year:*

| | Conditional awards in millions | |
|---|---|---|
| | **2019** | 2018 |
| At 1st January | **0.6** | – |
| Granted | **–** | 0.6 |
| At 31st December | **0.6** | 0.6 |

*Outstanding conditional awards at 31st December:*

| | Ordinary shares in millions | |
|---|---|---|
| **Awards vest date** | **2019** | 2018 |
| 2021 | **0.2** | 0.2 |
| 2022 | **0.2** | 0.2 |
| 2023 | **0.2** | 0.2 |
| Total outstanding | **0.6** | 0.6 |

*Movements of the outstanding options during the year:*

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Weighted average exercise price US$** | **Options in millions** | Weighted average exercise price US$ | Options in millions |
| At 1st January | **8.2155** | **2.7** | 8.0741 | 5.4 |
| Exercised | **7.7907** | **(0.1)** | 6.1906 | (0.8) |
| Lapsed | **7.7249** | **(0.9)** | 8.6230 | (1.9) |
| At 31st December | **8.5014** | **1.7** | 8.2155 | 2.7 |

The average share price during the year was US$7.36 *(2018: US$8.70)* per share.

## 23. Share-based Long-term Incentive Plans continued

*Outstanding options at 31st December:*

| Expiry date | Exercise price US$ | Options in millions 2019 | 2018 |
|---|---|---|---|
| 2023 | 12.1580 | **0.2** | 0.2 |
| 2025 | 9.6000 | **–** | 0.2 |
| 2026 | 5.9320 | **0.5** | 0.9 |
| 2027 | 8.9060 | **1.0** | 1.4 |
| Total outstanding | | **1.7** | 2.7 |
| of which exercisable | | **0.9** | 0.3 |

A new LTIP 2018-2022 was adopted by the Company on 5th December 2018. The scheme has been designed to align management's reward with shareholders' interests, over a five-year period, while also considering how management delivers earnings growth. This scheme is aimed at investing in new people capabilities as well as retaining high potential individuals for stronger succession planning. The scheme has been designed to appropriately compensate, attract and retain experienced senior management.

The scheme will be predominantly measured based on compound growth in underlying earnings per share. To ensure that the growth is delivered appropriately, another measure based on health of business (focused on areas such as quality of earnings and balance sheet strength) is also incorporated. Finally, a sustainability check will be applied after the end of the five-year period to ensure that the results are sustainable.

## 24. Share Premium and Capital Reserves

| | Share premium US$m | Capital reserves US$m | Total US$m |
|---|---|---|---|
| **2019** | | | |
| At 1st January | 33.9 | 24.4 | **58.3** |
| Share-based long-term incentive plans | | | |
| – value of employee services | – | 2.0 | **2.0** |
| – share options lapsed | – | (1.1) | **(1.1)** |
| Transfer | 0.2 | (0.2) | **–** |
| At 31st December | **34.1** | **25.1** | **59.2** |
| 2018 | | | |
| At 1st January | 33.1 | 24.8 | 57.9 |
| Share-based long-term incentive plans | | | |
| – value of employee services | – | 0.4 | 0.4 |
| Transfer | 0.8 | (0.8) | – |
| At 31st December | 33.9 | 24.4 | 58.3 |

Capital reserves comprise contributed surplus of US$20.1 million *(2018: US$20.1 million)* and other reserves of US$5.0 million *(2018: US$4.3 million)*, which represent the value of employee services under the Company's share-based long-term incentive plans. The contributed surplus principally arose from the conversion of convertible preference shares in 1989 and, under the Bye-laws of the Company, is distributable.

## 25. Dividends

| | 2019 US$m | 2018 US$m |
|---|---|---|
| Final dividend in respect of 2018 of US¢14.50 *(2017: US¢14.50)* per share | **196.1** | 196.1 |
| Interim dividend in respect of 2019 of US¢6.50 *(2018: US¢6.50)* per share | **87.9** | 87.9 |
| | **284.0** | 284.0 |

A final dividend in respect of 2019 of US¢14.50 *(2018: US¢14.50)* per share amounting to a total of US$196.1 million *(2018: US$196.1 million)* is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the 2020 Annual General Meeting. This amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2020.

## 26. Non-controlling Interests

**Summarised financial information on a subsidiary with material non-controlling interests**

The following is the summarised financial information, adjusted by the effect of adopting IFRS 16, for PT Hero Supermarket Tbk ('PT Hero'), a subsidiary with non-controlling interests that is material to the Group.

Summarised balance sheet at 31st December:

| | 2019 US$m | 2018 US$m |
|---|---|---|
| **Current** | | |
| Assets | **180.6** | 208.5 |
| Liabilities | **(155.8)** | (168.9) |
| Total current net assets | **24.8** | 39.6 |
| **Non-current** | | |
| Assets | **239.3** | 226.5 |
| Liabilities | **(47.7)** | (66.6) |
| Total non-current net assets | **191.6** | 159.9 |
| Net assets | **216.4** | 199.5 |
| Non-controlling interests | **(24.7)** | (28.7) |

## 26. Non-controlling Interests continued

**Summarised financial information on a subsidiary with material non-controlling interests** continued

Summarised statement of comprehensive income for the year ended 31st December:

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Sales | **868.2** | 909.1 |
| Profit/(loss) after tax from underlying business performance | **16.9** | (2.7) |
| Loss after tax from non-trading items | **(10.9)** | (109.9) |
| Profit/(loss) after tax | **6.0** | (112.6) |
| Other comprehensive income/(expense) | **9.9** | (18.9) |
| Total comprehensive income/(expense) | **15.9** | (131.5) |
| Total comprehensive income/(expense) allocated to non-controlling interests | **2.0** | (20.1) |
| Dividends paid to non-controlling interests | **–** | – |

Summarised cash flows for the year ended 31st December:

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Cash generated from operations | **36.4** | 62.0 |
| Interest received | **0.8** | 0.5 |
| Interest and other financing charges paid | **(5.5)** | (10.1) |
| Tax paid | **(5.9)** | (1.8) |
| Cash flows from operating activities | **25.8** | 50.6 |
| Cash flows from investing activities | **(33.7)** | (16.4) |
| Cash flows from financing activities | **(15.5)** | (15.1) |
| Net (decrease)/increase in cash and cash equivalents | **(23.4)** | 19.1 |
| Cash and cash equivalents at 1st January | **34.5** | 16.7 |
| Effect of exchange rate changes | **1.0** | (1.3) |
| Cash and cash equivalents at 31st December | **12.1** | 34.5 |

The information above is the amount before inter-company eliminations.

## 27. Geographical Analysis of Non-current Assets

Set out below is an analysis of the Group's non-current assets, excluding financial instruments, non-current debtors and deferred tax assets, by geographical area:

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| North Asia | **4,344.2** | 4,478.1 |
| Southeast Asia | **2,353.4** | 2,311.3 |
| At 31st December | **6,697.6** | 6,789.4 |

## 28. Notes to Consolidated Cash Flow Statement

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| (a) Depreciation and amortisation | | |
| Food | **663.8** | 771.3 |
| – Grocery retail | **418.8** | 527.8 |
| – Convenience stores | **245.0** | 243.5 |
| Health and Beauty | **248.9** | 248.7 |
| Home Furnishings | **72.2** | 70.4 |
| Selling, general and administrative expenses | **17.3** | 10.9 |
| | **1,002.2** | 1,101.3 |
| (b) Other non-cash items | | |
| *By nature:* | | |
| Profit on sale of businesses | **–** | (178.3) |
| Loss on reclassification of joint ventures as subsidiaries | **13.9** | 60.5 |
| Loss/(profit) on sale of tangible and intangible assets | **5.1** | (12.7) |
| Fair value loss/(gain) on other investments | **0.7** | (0.5) |
| Adjustment to deferred consideration for acquisition of a subsidiary | **(3.6)** | – |
| Impairment of tangible and intangible assets | **11.9** | 309.8 |
| Impairment of right-of-use assets | **1.9** | 93.9 |
| Write down of stocks | **2.5** | 4.5 |
| Reversal of write down of stocks | **(6.3)** | (4.2) |
| Change in provisions | **(6.7)** | – |
| Gain on lease modification and termination | **(4.1)** | (6.2) |
| Share-based payment | **0.9** | 0.4 |
| Business correction provisions | **16.3** | 59.6 |
| Fair value loss/(gain) on fair value hedges | **0.7** | (0.1) |
| | **33.2** | 326.7 |
| (c) Increase in working capital | | |
| Decrease/(increase) in stocks | **30.7** | (16.9) |
| Decrease/(increase) in debtors | **52.1** | (37.8) |
| (Decrease)/increase in creditors | **(159.5)** | 34.2 |
| | **(76.7)** | (20.5) |

# Notes to the Financial Statements

## 28. Notes to Consolidated Cash Flow Statement continued

(d) Purchase of subsidiaries
Net cash outflow for purchase of a subsidiary in 2019 represented US$2.6 million for acquisition of the remaining 70% shareholding in Jutaria which operates mini-marts in Malaysia. Goodwill, amounting to US$4.4 million arising from the acquisition, was fully impaired after the fair value review *(note 8)*. The fair values of the identifiable assets and liabilities at the acquisition date are provisional and will be finalised within one year after the acquisition date.

Sales and loss after tax since acquisition in respect of the subsidiary acquired during the year amounted to US$2.4 million and US$0.2 million, respectively. Had the acquisition occurred on 1st January 2019, consolidated sales and profit after tax for the year ended 31st December 2019 would have been US$11,194.7 million and US$324.8 million, respectively.

Net cash outflow in 2018 represented US$54.6 million for the acquisition in December of the remaining 51% interest in Rose Pharmacy which operate a health and beauty stores chain in the Philippines. Following the acquisition, Rose Pharmacy became a wholly-owned subsidiary of the Group *(note 8)*.

The fair values of the identifiable assets and liabilities of the subsidiary acquired during 2018 were finalised in 2019 with the final fair values not materially different from that of the provisional amounts.

(e) Purchase of associates and joint ventures in 2019 mainly related to capital injection of US$3.8 million in the Group's business in Vietnam.

Purchases in 2018 mainly related to the acquisition of the 7.85% interest in Robinsons Retail at a total consideration of US$220.0 million *(note 12)* and a capital injection of US$3.1 million in the Group's business in Vietnam.

(f) Sale of subsidiaries
Sale of subsidiaries in 2018 related to the exchange of the Group's interest in RSCI with Robinsons Retail with no cash consideration received, while the disposed cash and cash equivalents of RSCI and the associated transaction costs leading to a net cash outflow of US$8.0 million. Together with the net cash inflow of US$6.4 million from the disposal of the Group's 100% interest in AISTC which operated a hypermarket in Vietnam, a total net cash outflow of US$1.6 million was recorded *(note 8)*.

(g) Sale of properties
Sale of properties in 2019 mainly related to disposal of a property in Singapore while the sale in 2018 included disposal of 14 properties in Singapore.

(h) Change in interests in subsidiaries
In 2019, the Group acquired an additional 2.75% interest in PT Hero for a total consideration of US$6.7 million. In 2018, an additional 1.29% interest was acquired for US$3.5 million.

## 28. Notes to Consolidated Cash Flow Statement continued

(i) Cash outflows for leases

| | **2019** **US$m** | 2018 US$m |
|---|---|---|
| Lease rentals paid | **(909.5)** | (948.6) |
| Additions to right-of-use assets | **(18.4)** | (0.3) |
| | **(927.9)** | (948.9) |
| The above cash outflows are included in | | |
| – operating activities | **(119.2)** | (133.9) |
| – investing activities | **(18.4)** | (0.3) |
| – financing activities | **(790.3)** | (814.7) |
| | **(927.9)** | (948.9) |

(j) Analysis of balances of cash and cash equivalents

| | **2019** **US$m** | 2018 US$m |
|---|---|---|
| Cash and bank balances *(note 16)* | **301.4** | 296.2 |
| Bank overdrafts *(note 18)* | **(13.1)** | (11.7) |
| | **288.3** | 284.5 |

## 29. Derivative Financial Instruments

The fair values of derivative financial instruments at 31st December are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Positive fair value US$m** | **Negative fair value US$m** | Positive fair value US$m | Negative fair value US$m |
| Designated as cash flow hedges | | | | |
| – forward foreign exchange contracts | **0.3** | **3.3** | 5.3 | 0.3 |
| – interest rate swaps | **–** | **–** | 0.9 | – |
| | **0.3** | **3.3** | 6.2 | 0.3 |
| Designated as fair value hedges | | | | |
| – forward foreign exchange contracts | **–** | **0.7** | 0.1 | – |
| | **–** | **0.7** | 0.1 | – |

## 29. Derivative Financial Instruments continued

### Forward foreign exchange contracts

The contract amounts of the outstanding forward foreign exchange contracts at 31st December 2019 were US$568.0 million *(2018: US$641.4 million)*.

### Interest rate swaps

There were no interest rate swaps at 31st December 2019. At 31st December 2018, the notional principal amounts of the outstanding interest rate swap contracts were US$200.0 million and the fixed interest rates relating to interest rate swaps varied from 0.9% to 1.0% per annum. The fair values of interest rate swaps were based on the estimated cash flows discounted at market rate of 2.8% per annum.

## 30. Commitments

| | **2019** **US$m** | 2018 US$m |
|---|---|---|
| **Capital commitments** | | |
| Authorised not contracted | **227.4** | 290.5 |
| Contracted not provided | **111.4** | 118.0 |
| | **338.8** | 408.5 |

Operating lease commitments for short-term and low-value asset leases which were due within one year amounted to US$1.3 million *(2018: US$3.7 million)*.

Total future sublease payments receivable amounted to US$16.3 million *(2018: US$25.1 million)*.

## 31. Contingent Liabilities

Various Group companies are involved in litigation arising in the ordinary course of their respective businesses.

The Group has tax litigation with the Hong Kong Inland Revenue Department relating to the tax treatment of intra-group royalties for the tax years from 2012/13 to 2014/15 and a dispute for the same subject matter from 2015/16 to 2019/20. The amount in dispute for the period from 2012/13 to 2019/20 is approximately US$100 million. The exposure, net of amounts provided, is estimated to be US$68 million. Having taken legal advice, the Directors are of the opinion that the Group has strong grounds to support its position.

Apart from the above, the Directors are of the opinion that adequate provisions have been made in the financial statements.

## 32. Related Party Transactions

The parent company of the Group is Jardine Strategic Holdings Limited and the ultimate parent company is Jardine Matheson Holdings Limited ('JMH'). Both companies are incorporated in Bermuda.

In the normal course of business the Group undertakes a variety of transactions with JMH and certain of its subsidiaries, associates and joint ventures. The more significant of such transactions are described below.

Under the terms of a Management Services Agreement, the Group paid a management fee of US$1.6 million *(2018: US$0.4 million)* to Jardine Matheson Limited ('JML'), a wholly-owned subsidiary of JMH, based on 0.5% of the Group's profit attributable to shareholders in consideration for certain management consultancy services provided by JML. The Group also paid directors' fees of US$0.5 million in 2019 *(2018: US$0.5 million)* to JML.

The Group rents properties from Hongkong Land Holdings Limited ('HKL'), a subsidiary of JMH. The annual lease payments paid by the Group to HKL in 2019 were US$3.3 million *(2018: US$3.4 million)*. The Group's 50%-owned associate, Maxim's, also paid annual lease payments of US$13.5 million *(2018: US$13.7 million)* to HKL in 2019.

The Group sources information technology infrastructure and related services from Jardine Technology Holdings Limited ('JTH'), a subsidiary of JMH. The total fees paid by the Group to JTH in 2019 amounted to US$11.4 million *(2018: US$10.5 million)*. Maxim's also paid total fees of US$8.3 million *(2018: US$6.4 million)* to JTH in 2019.

The Group also obtains repairs and maintenance services from Jardine Engineering Corporation ('JEC'), a subsidiary of JMH. The total fees paid by the Group to JEC in 2019 amounted to US$4.9 million *(2018: US$7.2 million)*.

Maxim's supplies ready-to-eat products at arm's length to certain subsidiaries of the Group. In 2019, these amounted to US$32.4 million *(2018: US$33.6 million)*.

Amounts of outstanding balances with associates and joint ventures are included in debtors and creditors, as appropriate.

Balances with group companies of JMH at 31st December 2019 and 2018 are immaterial, unsecured, and have no fixed terms of repayment.

Details of Director's remuneration (being key management personnel compensation) are shown on page 128 under the heading of Directors' Appointment, Retirement, Remuneration and Service Contracts.

## 33. Summarised Balance Sheet of the Company

Included below is certain summarised balance sheet information of the Company at 31st December disclosed in accordance with Bermuda law.

| | 2019 US$m | 2018 US$m |
|---|---|---|
| Subsidiaries, at cost less provision* | **462.7** | 658.3 |
| Current assets | **–** | 0.5 |
| Current liabilities | **(1.4)** | – |
| Net operating assets | **461.3** | 658.8 |
| Share capital *(note 22)* | **75.1** | 75.1 |
| Share premium and capital reserves *(note 24)* | **59.2** | 58.3 |
| Revenue and other reserves | **327.0** | 525.4 |
| Shareholders' funds | **461.3** | 658.8 |

* Included intercompany balances due from/(to) subsidiaries.

## 34. Principal Subsidiaries

The Group's principal subsidiaries at 31st December 2019 are set out below:

| | | | Attributable interests | | Proportion of ordinary shares and voting powers at 31st December 2019 held by | |
|---|---|---|---|---|---|---|
| Company name | Country of incorporation | Nature of business | 2019 % | 2018 % | the Group % | non-controlling interests % |
| Dairy Farm Management Limited† | Bermuda | Holding | **100** | 100 | **100** | **–** |
| Dairy Farm Management Services Limited† | Bermuda | Group management | **100** | 100 | **100** | **–** |
| DFI Treasury Limited† | British Virgin Islands | Treasury | **100** | 100 | **100** | **–** |
| DFI (China) Commercial Investment Holding Company Ltd | Mainland China | Investment holding | **100** | 100 | **100** | **–** |
| Guangdong Sai Yi Convenience Stores Limited | Mainland China | Convenience stores | **65** | 65 | **65** | **35** |
| Mannings Guangdong Retail Company Limited | Mainland China | Health and beauty stores | **100** | 100 | **100** | **–** |
| The Dairy Farm Company, Limited | Hong Kong | Investment holding, grocery retail, convenience, health and beauty and home furnishings stores | **100** | 100 | **100** | **–** |

## 34. Principal Subsidiaries continued

| Company name | Country of incorporation | Nature of business | Attributable interests 2019 % | Attributable interests 2018 % | Proportion of ordinary shares and voting powers at 31st December 2019 held by the Group % | Proportion of ordinary shares and voting powers at 31st December 2019 held by non-controlling interests % |
|---|---|---|---|---|---|---|
| Wellcome Company Limited | Hong Kong | Property and food processing | **100** | 100 | **100** | **–** |
| San Miu Supermarket Limited | Macau | Grocery retail | **100** | 100 | **100** | **–** |
| Wellcome Taiwan Company Limited | Taiwan | Grocery retail | **100** | 100 | **100** | **–** |
| DFI Home Furnishings Taiwan Limited | Taiwan | Home furnishings stores | **100** | 100 | **100** | **–** |
| GCH Retail (Malaysia) Sdn. Bhd. | Malaysia | Grocery retail | **85** | 85 | **70** | **30** |
| Guardian Health And Beauty Sdn. Bhd. | Malaysia | Health and beauty stores | **100** | 100 | **100** | **–** |
| PT Hero Supermarket Tbk | Indonesia | Grocery retail, health and beauty and home furnishings stores | **89** | 86 | **89** | **11** |
| Guardian Health And Beauty (B) Sdn. Bhd. | Brunei | Health and beauty stores | **100** | 100 | **100** | **–** |
| Cold Storage Singapore (1983) Pte Limited | Singapore | Grocery retail, convenience and health and beauty stores | **100** | 100 | **100** | **–** |
| DFI Lucky Private Limited | Cambodia | Grocery retail and health and beauty stores | **70** | 70 | **70** | **30** |
| Rose Pharmacy, Inc. | The Philippines | Health and beauty stores | **100** | 100 | **100** | **–** |

All subsidiaries are included in the consolidation.

Attributable interests represent the proportional holdings of the Company, held directly or through its subsidiaries, in the issued share capitals of the respective companies, after the deduction of any shares held by the trustees of the employee share option schemes of any such company and any shares in any such company owned by its wholly-owned subsidiaries.

† Directly held by the Company.

## 35. Principal Accounting Policies

### Basis of consolidation

(i) The consolidated financial statements include the financial statements of the Company, its subsidiaries, and the Group's interests in associates and joint ventures.

(ii) A subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition includes the fair value at the acquisition date of any contingent consideration. The Group recognises the non-controlling interest's proportionate share of the recognised identifiable net assets of the acquired subsidiary. In a business combination achieved in stages, the Group remeasures its previously held interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in profit and loss. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions. When control over a previous subsidiary is lost, any remaining interest in the entity is remeasured at fair value and the resulting gain or loss is recognised in profit and loss.

All material intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

(iii) An associate is an entity, not being a subsidiary or a joint venture, over which the Group exercises significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Associates and joint ventures are included on the equity basis of accounting.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates and joint ventures are recognised in the consolidated financial statements only to the extent of unrelated investor's interests in the associates and joint ventures.

(iv) Non-controlling interests represent the proportion of the results and net assets of subsidiaries and their associates and joint ventures not attributable to the Group.

(v) The results of subsidiaries, associates and joint ventures are included or excluded from their effective dates of acquisition or disposal, respectively. The results of entities other than subsidiaries, associates and joint ventures are included to the extent of dividends received when the right to receive such dividend is established.

## 35. Principal Accounting Policies continued

### Foreign currencies

Transactions in foreign currencies are accounted for at the exchange rates ruling at the transaction dates.

Assets and liabilities of subsidiaries, associates and joint ventures, together with all other monetary assets and liabilities expressed in foreign currencies, are translated into United States dollars at the rates of exchange ruling at the year end. Results expressed in foreign currencies are translated into United States dollars at the average rates of exchange ruling during the year, which approximate the exchange rates at the dates of the transactions.

Exchange differences arising from the retranslation of the net investment in foreign subsidiaries, associates and joint ventures, and of financial instruments which are designated as hedges of such investments, are recognised in other comprehensive income and accumulated in equity under exchange reserves. On the disposal of these investments, such exchange differences are recognised in profit and loss. All other exchange differences are recognised in profit and loss.

Goodwill and fair value adjustments arising on acquisition of a foreign entity after 1st January 2003 are treated as assets and liabilities of the foreign entity and translated into United States dollars at the rate of exchange ruling at the year end.

### Impairment of non-financial assets

Assets that have indefinite useful lives are not subject to amortisation and are tested for impairment annually and whenever there is an indication that the assets may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is a separately identifiable cash flow. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the units may be impaired. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment annually.

### Intangible assets

(i) Goodwill represents the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the acquisition-date fair value of any previously held equity interest in the acquiree over the acquisition-date fair value of the Group's share of the net identifiable assets acquired. Non-controlling interests are measured at their proportionate share of the net identifiable assets at the acquisition date. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in profit and loss. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in investment in associates and joint ventures. Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing and is carried at cost less accumulated impairment loss.

    The profit or loss on disposal of subsidiaries, associates and joint ventures is stated after deducting the carrying amount of goodwill relating to the entity sold.

## 35. Principal Accounting Policies continued

### Intangible assets continued

(ii) Other intangible assets, consisting of trademarks and computer software, are stated at cost less accumulated amortisation. Amortisation is calculated on the straight-line basis to allocate the cost of intangible assets over their estimated useful lives. Trademarks with indefinite useful lives are not subject to amortisation.

### Tangible fixed assets and depreciation

Freehold properties comprised land and buildings. Freehold land is stated at cost less any impairment. No depreciation is provided on freehold land as it is deemed to have an indefinite life. Buildings on freehold and leasehold land are stated at cost less any accumulated depreciation and impairment. Grants related to tangible assets are deducted in arriving at the carrying amount of the assets. Other tangible fixed assets are stated at cost less amounts provided for depreciation and impairment.

Depreciation of tangible fixed assets is calculated on the straight-line basis to allocate the cost of each asset to its residual value over its estimated useful life. The residual values and useful lives are reviewed at each balance sheet date. The estimated useful lives are as follows:

| | |
|---|---|
| Freehold buildings | 25 to 40 years |
| Buildings on leasehold land | Shorter of the lease term or useful life |
| Leasehold improvements | Shorter of unexpired lease term or useful life |
| Plant and machinery | 3 to 15 years |
| Furniture, equipment and motor vehicles | 3 to 7 years |

Where the carrying amount of a tangible fixed asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The profit or loss on disposal of tangible fixed assets is recognised by reference to their carrying amount.

### Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease contracts may contain lease and non-lease components. The Group allocates the consideration in the contract to lease and non-lease component based on their relative stand-alone prices. For property leases where the Group is a lessee, it has elected not to separate lease and immaterial non-lease components and accounts for these items as a single lease component.

## 35. Principal Accounting Policies continued

### Leases continued

As a lessee, the Group enters into property leases for use as retail stores, distribution centres and offices. The Group recognises right-of-use assets and lease liabilities at the lease commencement dates, that is the dates the underlying assets are available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment, and adjusted for any remeasurement of lease liabilities. The cost of the right-of-use assets includes amounts of the initial measurement of lease liabilities recognised, lease payments made at or before the commencement dates less any lease incentives received, initial direct costs incurred and restoration costs. Right-of-use assets are depreciated using the straight-line method over the shorter of their estimated useful lives and the lease terms.

The Group also has interests in leasehold land for use in its operations. Lump sum payments are made upfront to acquire these land interests from their previous registered owners or governments in the jurisdictions where the land is located. There are no ongoing payments to be made under the term of the land leases, other than insignificant lease renewal costs or payments based on rateable value set by the relevant government authorities. These payments are stated at cost and are amortised over the term of the lease which includes the renewal period if the lease can be renewed by the Group without significant cost.

Lease liabilities are measured at the present value of lease payments to be made over the lease terms. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects the Group exercising that option. The variable lease payments that do not depend on an index or a rate are recognised as expenses in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Lease liabilities are measured at amortised cost using the effective interest rate method. After the commencement date, the amount of lease liabilities is increased by the interest costs on the lease liabilities and decreased by lease payments made.

The carrying amount of lease liabilities is remeasured when there is a change in the lease term, or there is a change in future lease payments arising from a change in an index or a rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise an extension or a termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of right-of-use asset has been reduced to zero.

## 35. Principal Accounting Policies continued

### Leases continued

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (i.e. US$5,000 or less) and short-term leases. Low-value assets comprised IT equipment and small items of office furniture. Short-term leases are leases with a lease term of 12 months or less. Lease payments associated with these leases are recognised on a straight-line basis as an expense in profit and loss over the lease term.

Lease liabilities are classified as non-current liabilities unless payments are within 12 months from the balance sheet date.

### Investments

The Group's investments are measured at fair value through profit and loss. The classification is based on the management's business model and their contractual cash flow characteristics.

Equity investments are measured at fair value with fair value gains and losses recognised in profit and loss. Transaction costs of financial assets carried at fair value through profit and loss are expensed in profit and loss.

Investments are classified as non-current assets. All purchases and sale of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the investments.

### Stocks

Stocks, which principally comprise goods held for resale, are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and comprises purchase price less rebates. A stock provision is recognised when the net realisable value from sale of the stock is estimated to be lower than the carrying value.

### Debtors

Trade and other debtors, excluding derivative financial instruments, are measured at amortised cost except where the effect of discounting would be immaterial. Provision for impairment is established by considering potential financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in arriving at operating profit. When a debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amount previously written off are credited to profit and loss.

Debtors with maturities greater than 12 months after the balance sheet date are classified under non-current assets.

### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks, and cash and bank balances, net of bank overdrafts. In the balance sheet, bank overdrafts are included in current borrowings.

## 35. Principal Accounting Policies continued

### Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligations can be made. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features to those affected by it.

### Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate method. All borrowing costs are expensed as incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Provision for deferred tax is made on the revaluation of certain non-current assets and, in relation to acquisitions, on the difference between the fair value of the net assets acquired and their tax base. Deferred tax is provided on temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

## 35. Principal Accounting Policies continued

### Employee benefits

**(i) Pension obligations**

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in trustee administered funds.

Pension accounting costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the costs of providing pensions are charged to profit and loss spreading the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who carry out a full valuation of major plans every year. The pension obligations are measured as the present value of the estimated future cash outflows by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liability. Plan assets are measured at fair value.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the year in which they occur.

Past service costs are recognised immediately in profit and loss.

The Group's total contributions relating to the defined contribution plans are charged to profit and loss in the year to which they relate.

**(ii) Share-based compensation**

The Company operates a number of equity-settled employee share option schemes. The fair value of the employee services received in exchange for the grant of the share options or the share awards in respect of options or awards granted after 7th November 2002 is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options or share awards granted as determined on the grant date. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to become exercisable and the number of share awards which will be vested free of payment. The impact of the revision of original estimates, if any, is recognised in profit and loss.

### Non-current assets and disposal group held for sale

Non-current assets and disposal group are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amounts are expected to be recovered principally through a sale transaction rather than through continuing use. Once classified as held for sale, the assets are no longer amortised or depreciated.

### Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures and not as speculative investments. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as a hedge of the fair value of a recognised asset or liability ('fair value hedge'), or a hedge of a forecasted transaction or of the foreign currency risk on a firm commitment ('cash flow hedge').

## 35. Principal Accounting Policies continued

### Derivative financial instruments continued

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Changes in the fair value of derivatives that are designated and qualified as fair value hedges and that are highly effective, are recognised in profit and loss, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit and loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit and loss over the residual period to maturity.

Changes in the fair value of derivatives that are designated and qualified as cash flow hedges and that are highly effective, are recognised in other comprehensive income and accumulated in equity under hedging reserves. Changes in the fair value relating to the ineffective portion are recognised immediately in profit and loss. Where the hedged item results in the recognition of a non-financial asset or of a non-financial liability, the deferred gains and losses are included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in profit and loss as the hedged item affects profit and loss. Otherwise, amounts deferred in hedging reserves are transferred to profit and loss in the same periods during which the hedged firm commitment or forecasted transaction affects profit and loss. The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit and loss within finance cost at the same time as the interest expense on the hedged borrowings. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in hedging reserves at that time remains in the hedging reserves and is recognised in profit and loss when the committed or forecasted transaction occurs. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserves is immediately transferred to profit and loss.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IFRS 9. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IFRS 9 are recognised immediately in profit and loss.

The fair value of derivatives which are designated and qualified as effective hedges are classified as non-current assets or liabilities if the remaining maturities of the hedged assets or liabilities are greater than 12 months after the balance sheet date.

### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 35. Principal Accounting Policies continued

### Non-trading items

Non-trading items are separately identified to provide greater understanding of the Group's underlying business performance. Items classified as non-trading items include fair value gains and losses on equity investments which are measured at fair value through profit and loss; gains and losses arising from the sale of businesses, investments and properties; impairment of non-depreciable intangible assets and other investments; provisions for the closure of businesses; acquisition-related costs in business combinations; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

### Earnings per share

Basic earnings per share are calculated on profit attributable to shareholders and on the weighted average number of shares in issue during the year. The weighted average number excludes the shares held by the Trustee under the Share-based Long-term Incentive Plans. For the purpose of calculating diluted earnings per share, profit attributable to shareholders is adjusted for the effects of the conversion of dilutive potential ordinary shares, and the weighted average number of shares is adjusted for the number of shares which are deemed to be issued for no consideration under the share-based long-term incentive plans based on the average share price during the year.

### Dividends

Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

### Sales recognition

Sales consist of the fair value of goods sold to customers, net of returns, discounts and sales related taxes. This does not include sales generated by associates and joint ventures. Sale of goods is recognised at the point of sale, when the control of the asset is transferred to customers, is recorded at the net amount received from customers.

### Buying income

Supplier incentives, rebates and discounts are collectively referred to as buying income. Buying income is recognised when earned by the Group, which occurs when all obligations conditional for earning income have been discharged, and the income can be measured reliably based on the terms of the contract.

The income is recognised as a credit within cost of sales. Where the income earned relates to stocks which are held by the Group at period ends, the income is included within the cost of those stocks, and recognised in cost of sales upon sale of those stocks. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset.

The key types of buying income which the Group receives include:
– Discounts and incentives relating to individual unit sales.
– Sales volume-based incentives based on achieving certain purchases on promotion for an event or a period.
– Conditional incentives subject to satisfaction of certain conditions by the Group.
– Fixed amounts agreed with suppliers for supporting in-store activity.

## 35. Principal Accounting Policies continued

### Other operating income

Other operating income primarily comprises income from concessions, service income and rental income. Concessions and service income are based on the Group's contractual commission. Rental income is accounted for as earned.

### Pre-operating costs

Pre-operating costs are expensed as incurred.

## 36. Standards and Amendments Issued But Not Yet Effective

'Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7' (effective 1st January 2020) was issued in September 2019. The Group has elected to early adopt the amendments in 2019 *(note 1)*.

## 37. Financial Risk Management

### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group's treasury function co-ordinates financial risk management policies and their implementation on a group-wide basis. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates and to minimise the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps, forward foreign exchange contracts and foreign currency options as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. The effective portion of the change in the fair value of the hedging instrument is deferred into the cash flow hedge reserve through other comprehensive income and will be recognised in profit and loss when the hedged item affects profit and loss. In general, the volatility in profit or loss can be reduced by applying hedge accounting.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group assesses whether the derivative designated in each hedging relationship has been and expected to be effective in offsetting changes in cash flow of the hedged item using the hypothetical derivative method.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

## 37. Financial Risk Management continued

### Financial risk factors continued

**(i) Market risk**

*Foreign exchange risk*

Entities within the Group are exposed to foreign exchange risk arising from future commercial transactions, net investments in foreign operations and net monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The Group uses forward foreign exchange contracts and foreign currency options in a consistent manner to hedge firm and anticipated foreign exchange commitments and manage foreign exchange risk arising from future commercial transactions. The purpose of these hedges is to mitigate the impact of movements in foreign exchange rates on assets and liabilities and the profit and loss account of the Group.

Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency. There are no significant monetary balances held by Group companies at 31st December 2019 that are denominated in a non-functional currency. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

*Interest rate risk*

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing assets and liabilities. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of derivative financial instruments including interest rate swaps. The Group monitors interest rate exposure on a regular basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain 40% to 60% of its long-term non-working capital gross borrowings in fixed rate instruments. At 31st December 2019, the Group had no outstanding fixed rate borrowings. At 31st December 2018, the Group's fixed rate borrowings were 19% on total borrowings, with an average tenor of 0.2 year. The interest rate profile of the Group's borrowings after taking into account hedging transactions is set out in note 18.

Cash flow interest rate risk is the risk that changes in market interest rates will impact cash flows arising from variable rate financial instruments. Borrowings at floating rates therefore expose the Group to cash flow interest rate risk. The Group manages this risk by entering into interest rate swaps for a maturity of up to five years. Interest rate swaps have the economic effect of converting borrowings from floating rate to fixed rate.

## 37. Financial Risk Management continued

### Financial risk factors continued

#### (i) Market risk continued

*Interest rate risk* continued

At 31st December 2019, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US$9.2 million *(2018: US$6.5 million)* higher/lower, and hedging reserves would have had no change *(2018: no change)*, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the Hong Kong, United States and Malaysian rates, over the period until the next annual balance sheet date. In the case of effective fair value hedges, changes in the fair value of the hedged items caused by interest rate movements balance out in the profit and loss account against changes in the fair value of the hedging instruments. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

#### (ii) Credit risk

The Group's credit risk is primarily attributable to deposits with banks and credit exposures to derivative financial instruments with a positive fair value. The Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group manages its deposits with banks and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, and limiting the aggregate risk to any individual counterparty. The utilisation of credit limits is regularly monitored. Similarly, transactions involving derivative financial instruments are with banks with sound credit ratings and capital adequacy ratios. In developing countries it may be necessary to deposit money with banks that have a lower credit rating, however the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grade. Management does not expect any counterparty to fail to meet its obligations.

Sales to customers are made in cash or by major credit cards. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

#### (iii) Liquidity risk

Prudent liquidity risk management includes managing the profile of debt maturities and funding sources, maintaining sufficient cash and ensuring the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group's ability to fund its existing and prospective debt requirements is managed by maintaining diversified funding sources with adequate committed funding lines from high quality lenders, and by monitoring rolling short-term forecasts of the Group's cash and gross debt on the basis of expected cash flows. Long-term cash flows are projected to assist with the Group's long-term debt financing plans. In addition, the Group has implemented a global liquidity cash pooling scheme, which enables the Group to manage and optimise its working capital funding requirement on a daily basis.

## 37. Financial Risk Management continued

### Financial risk factors continued

**(iii) Liquidity risk** continued

At 31st December 2019, total available borrowing facilities amounted to US$2,344.0 million *(2018: US$2,340.8 million)*, of which US$1,452.8 million *(2018: US$1,371.4 million)* were committed facilities. A total of US$1,122.2 million *(2018: US$1,040.2 million)* from both committed and uncommitted facilities was drawn down. Undrawn committed facilities, in the form of revolving credit facilities, totalled US$462.2 million *(2018: US$596.6 million)*.

The following table analyses the Group's non-derivative financial liabilities, net-settled derivative financial liabilities and gross-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Within one year US$m | Between one and two years US$m | Between two and three years US$m | Between three and four years US$m | Between four and five years US$m | Beyond five years US$m | Total undiscounted cash flows US$m |
|---|---|---|---|---|---|---|---|
| **At 31st December 2019** | | | | | | | |
| Creditors | 2,174.5 | 8.9 | 1.3 | 0.2 | 0.2 | 2.6 | **2,187.7** |
| Borrowings | 956.6 | 176.2 | 0.2 | 0.1 | 9.1 | – | **1,142.2** |
| Lease liabilities | 869.5 | 713.7 | 537.4 | 399.8 | 291.9 | 1,231.9 | **4,044.2** |
| Net-settled derivative financial instruments | – | – | – | – | – | – | **–** |
| Gross-settled derivative financial instruments | | | | | | | |
| – inflow | 423.5 | – | – | – | – | – | **423.5** |
| – outflow | 425.1 | – | – | – | – | – | **425.1** |
| At 31st December 2018 | | | | | | | |
| Creditors | 2,227.6 | 35.0 | 1.2 | 0.2 | 0.3 | 3.0 | 2,267.3 |
| Borrowings | 1,038.1 | 15.9 | 0.1 | – | – | – | 1,054.1 |
| Lease liabilities | 847.5 | 706.4 | 560.0 | 422.2 | 312.2 | 1,266.9 | 4,115.2 |
| Net-settled derivative financial instruments | – | – | – | – | – | – | – |
| Gross-settled derivative financial instruments | | | | | | | |
| – inflow | 455.9 | 50.0 | – | – | – | – | 505.9 |
| – outflow | 451.4 | 49.6 | – | – | – | – | 501.0 |

## 37. Financial Risk Management continued

### Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst seeking to maximise benefits to shareholders and other stakeholders. Capital is equity as shown in the consolidated balance sheet plus net debt.

The Group actively and regularly reviews its capital structure to ensure optimal capital structure and shareholder returns, by taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, repurchase Company shares, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover before taking into account the impact of IFRS 16. The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and bank balances. Interest cover is calculated as underlying operating profit, before the deduction of depreciation of right-of-use assets, net of actual lease payments, and share of results of associates and joint ventures, divided by net financing charges excluding interest on leases liabilities. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2019 and 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Gearing ratio (%) | **51** | 50 |
| Interest cover (times) | **12** | 17 |

### Fair value estimation

**(i) Financial instruments that are measured at fair value**

For financial instruments that are measured at fair value in the balance sheet, the corresponding fair value measurements are disclosed by level of the following fair value measurement hierarchy:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities ('quoted prices in active markets')
The fair values of listed securities are based on quoted prices in active markets at the balance sheet date.

(b) Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly ('observable current market transactions')
The fair values of derivative financial instruments are determined using rates quoted by the Group's bankers at the balance sheet date. The rates for interest rate swaps and forward foreign exchange contracts are calculated by reference to market interest rates and foreign exchange rates.

The fair values of unlisted equity investments, mainly include club debentures, are determined using prices quoted by brokers at the balance sheet date.

## 37. Financial Risk Management continued

### Fair value estimation continued

**(i) Financial instruments that are measured at fair value** continued

(c) Inputs for assets or liabilities that are not based on observable market data ('unobservable inputs')
The fair values of other unlisted equity investments are determined using valuation techniques by reference to observable current market transactions or the market prices of the underlying investments with certain degree of entity specific estimates or discounted cash flow by projecting the cash inflow from these investments.

There were no changes in valuation techniques during the year.

The table below analyses financial instruments carried at fair value measured by observable current market transactions.

| | **2019 US$m** | 2018 US$m |
|---|---|---|
| Assets | | |
| Other investments | | |
| – equity investments *(note 13)* | **6.8** | 7.4 |
| Derivatives designated at fair value *(note 29)* | | |
| – through other comprehensive income | **0.3** | 6.2 |
| – through profit and loss | **–** | 0.1 |
| | **7.1** | 13.7 |
| Liabilities | | |
| Derivatives designated at fair value *(note 29)* | | |
| – through other comprehensive income | **(3.3)** | (0.3) |
| – through profit and loss | **(0.7)** | – |
| | **(4.0)** | (0.3) |

**(ii) Financial instruments that are not measured at fair value**

The fair values of current debtors, cash and bank balances, current creditors, current borrowings and current lease liabilities are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings and non-current lease liabilities are based on market prices or are estimated using the expected future payments discounted at market interest rates.

## 37. Financial Risk Management continued

### Fair value estimation continued

**Financial instruments by category**

The carrying amounts of financial assets and financial liabilities at 31st December 2019 and 2018 are as follows:

| | Fair value of hedging instruments US$m | Fair value through profit and loss US$m | Financial assets at amortised cost US$m | Other financial liabilities US$m | Total carrying amounts US$m |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Financial assets measured at fair value | | | | | |
| Other investments | | | | | |
| – equity investments | – | 6.8 | – | – | **6.8** |
| Derivative financial instruments | 0.3 | – | – | – | **0.3** |
| | **0.3** | **6.8** | **–** | **–** | **7.1** |
| Financial assets not measured at fair value | | | | | |
| Debtors | – | – | 103.4 | – | **103.4** |
| Cash and bank balances | – | – | 301.4 | – | **301.4** |
| | **–** | **–** | **404.8** | **–** | **404.8** |
| Financial liabilities measured at fair value | | | | | |
| Derivative financial instruments | (3.3) | (0.7) | – | – | **(4.0)** |
| | **(3.3)** | **(0.7)** | **–** | **–** | **(4.0)** |
| Financial liabilities not measured at fair value | | | | | |
| Borrowings | – | – | – | (1,122.2) | **(1,122.2)** |
| Lease liabilities | – | – | – | (3,305.8) | **(3,305.8)** |
| Trade and other payables excluding non-financial liabilities | – | – | – | (2,187.7) | **(2,187.7)** |
| | **–** | **–** | **–** | **(6,615.7)** | **(6,615.7)** |
| 2018 | | | | | |
| Financial assets measured at fair value | | | | | |
| Other investments | | | | | |
| – equity investments | – | 7.4 | – | – | 7.4 |
| Derivative financial instruments | 6.2 | 0.1 | – | – | 6.3 |
| | 6.2 | 7.5 | – | – | 13.7 |
| Financial assets not measured at fair value | | | | | |
| Debtors | – | – | 153.4 | – | 153.4 |
| Cash and bank balances | – | – | 296.2 | – | 296.2 |
| | – | – | 449.6 | – | 449.6 |
| Financial liabilities measured at fair value | | | | | |
| Derivative financial instruments | (0.3) | – | – | – | (0.3) |
| | (0.3) | – | – | – | (0.3) |
| Financial liabilities not measured at fair value | | | | | |
| Borrowings | – | – | – | (1,040.2) | (1,040.2) |
| Lease liabilities | – | – | – | (3,552.6) | (3,552.6) |
| Trade and other payables excluding non-financial liabilities | – | – | – | (2,267.3) | (2,267.3) |
| | – | – | – | (6,860.1) | (6,860.1) |

The fair values of financial assets and financial liabilities approximate their carrying amounts.

## 38. Critical Accounting Estimates and Judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Actual results may differ from these accounting estimates. The estimates and assumptions that have a significant effect on the reported amounts of assets and liabilities, and income and expenses are discussed below.

### Acquisition of subsidiaries, associates and joint ventures

The initial accounting on the acquisition of subsidiaries, associates and joint ventures involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. The fair values of tangible assets and right-of-use assets are determined by independent valuers by reference to market prices or present value of expected net cash flows from the assets. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entity will impact the carrying amount of these assets and liabilities.

On initial acquisition or acquisition of further interests in an entity, an assessment of the level of control or influence exercised by the Group is required. For entities where the Group has a shareholding of less than 50%, an assessment of the Group's level of voting rights, board representation and other indicators of influence is performed to consider whether the Group has de facto control, requiring consolidation of that entity, or significant influence, requiring classification as an associate, or joint control, requiring classification as a joint venture.

### Leases

Liabilities and the corresponding right-of-use assets arising from leases are initially measured at the present value of the lease payments at the commencement date, discounted using the interest rates implicit in the leases, or if that rate cannot be readily determinable, the Group uses the incremental borrowing rate. The Group generally uses the incremental borrowing rate as the discount rate.

The Group applies the incremental borrowing rate with reference to the rate of interest that the Group would have to pay to borrow, over a similar term as that of the lease, the funds necessary to obtain an asset of a similar value to the right-of-use asset in the country where it is located.

Lease payments to be made during the lease term will be included in the measurement of a lease liability. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, the Group considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew. The assessment of whether the Group is reasonably certain to exercise the options impacts the lease terms, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

## 38. Critical Accounting Estimates and Judgements continued

### Impairment of assets

The Group tests annually whether goodwill and other assets that have indefinite useful lives suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on the higher of its fair value less costs to sell and its value in use, calculated on the basis of management's assumptions and estimates. Changing the key assumptions, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the value-in-use calculations.

### Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Provision of deferred tax follows the way management expects to recover or settle the carrying amount of the related assets or liabilities, which the management may expect to recover through use, sale or combination of both. Accordingly, deferred tax will be calculated at income tax rate, capital gains tax rate or combination of both.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

### Buying income

The Group receives buying income, including supplier incentives, rebates and discounts, which are deducted from cost of sales on an accrual basis. Management is required to make estimates in determining the expected entitlement which has been earned up to the balance sheet date for each relevant supplier contract and the timing of recognition.

There is limited estimation involved in recognising income for fixed amounts agreed with suppliers.

# Independent Auditors' Report

To the members of Dairy Farm International Holdings Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Dairy Farm International Holdings Limited's Group ('the Group') financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 31st December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'); and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated Balance Sheet as at 31st December 2019; the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include the Principal Accounting Policies.

Certain required disclosures have been presented in the Corporate Governance section on page 128, rather than in the notes to the financial statements. These disclosures are cross-referenced from the financial statements and are identified as audited.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the Financial Reporting Council's ('FRC's') Ethical Standard as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## Our audit approach

**Overview**

*Materiality*

- Overall Group materiality: US$19.6 million *(2018: US$26 million)*
- Based on 5% of underlying profit before tax

*Audit scope*

- A full scope audit was performed on seven entities including six subsidiaries and one associate, Maxim's. These entities, together with procedures performed on central functions and at the Group level, accounted for 89% of the Group's revenue, 81% of the Group's profit before tax, and 81% of the Group's underlying profit before tax.

*Key audit matters*

- Impairment of goodwill in subsidiaries
- Buying income
- Right-of-use assets and lease liabilities
- IT environment

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

**Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

# Independent Auditors' Report

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment of goodwill in subsidiaries*** | |
| Refer to note 38 (Critical Accounting Estimates and Judgements) and note 9 (Intangible Assets) to the financial statements.<br><br>As at 31st December 2019, goodwill held in subsidiaries totalled US$444.6 million.<br><br>Management undertook impairment assessments, as required by accounting standards, noting certain cash generating units ('CGUs') that were underperforming or loss-making.<br><br>Impairment charges of US$4.4 million were recognised against goodwill held in subsidiaries during the year ended 31st December 2019 where the recoverable amount was less than the carrying value.<br><br>The determination of the recoverable amount of CGUs requires significant judgements by management in preparing their value-in-use models, particularly management's view on key internal inputs and external market conditions which impact future cash flows, the discount rates and long-term growth rates. | We have reviewed and understood management's impairment assessment process, including what indicators of impairment had been noted and the appropriateness of the valuation models used. We assessed management's determination of CGUs. Where we identified a risk of impairment we performed the following procedures.<br><br>We benchmarked and challenged key assumptions in management's valuation models used to determine recoverable amounts, including assumptions of projected profits of businesses, long-term growth rates and discount rates appropriate for the CGUs under review, using our knowledge and experience.<br><br>We tested the discounted cash flow models used by management in their assessments, checked the accuracy of the calculations, compared historical budgeted performance to actual results and agreed the financial information used to the detailed management approved budgets to assess the reasonableness of the cash flows used in the model.<br><br>Our challenge focused particularly on the discount rates and long-term growth rates used. With the support of our valuations specialists, we compared the discount rates used to the range of typical discount rates used in similar businesses and, considered whether management had incorporated all relevant macro-economic and country-specific factors, as well as those specific to those CGUs, in determining their discount rates.<br><br>For the growth rate we assessed whether management had considered macro-economic and country-specific factors specific to the relevant businesses. We also compared the rate used to the range of growth rates used by similar businesses.<br><br>We tested management's historical estimation accuracy by comparing previous projected growth rates to the actual growth achieved. Where differences were noted we understood management's rationale and the evidence, such as actual recent performance, to support management's estimates.<br><br>We evaluated the sensitivity analysis performed by management and performed our own independent sensitivity analysis on the key assumptions above and considered a range of alternative outcomes to determine the sensitivity of the valuation models to changes in assumptions.<br><br>Where the recoverable amount was lower than the carrying amount of the CGU, we checked the calculation of the impairment charge recognised.<br><br>Based on the work performed, we found that the judgements made by management to determine the discount rate, long-term growth rates and valuation models were reasonable. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Buying income*** | |
| Refer to note 35 (Principal Accounting Policies) and note 38 (Critical Accounting Estimates and Judgements) to the financial statements.<br><br>The Group has arrangements with suppliers whereby volume-based discounts and incentives, promotional and marketing incentives and various other rebates and discounts are earned in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a net deduction from cost of sales as a result of amounts receivable from suppliers.<br><br>The individual supplier arrangements in place across the Group vary in nature. The majority of buying income is driven by volume-based measures or event-driven schemes, with the remainder being ad-hoc and promotional buying income.<br><br>Given the varied types of buying income arrangements as well as various performance criteria which differ by suppliers, and given the fact that buying income is material to the financial statements, we identified buying income as a key audit matter.<br><br>The level of judgement in each category of buying income is noted below:<br><br>***Volume-based income***<br>Volume-based rebates are generally driven by achieving purchase volume targets set with individual suppliers for specific products over a pre-set period of time. In instances where the rebate agreement does not fully coincide with the period-end, the key judgement that we focused on was the estimate of expected purchase volumes in the period covered by the rebate agreement.<br><br>***Ad-hoc and promotional income***<br>The remainder of the Group's buying income is associated with ad-hoc and promotional income. The nature of this income and the manner in which it is recognised varies depending on the nature of the agreement reached with the individual supplier. The income is earned as the relevant performance criteria are met. Due to the significant number of transactions, individual agreements and potential for manual calculations associated with this type of buying income, we focused a significant amount of effort on assessing the appropriateness of amounts recognised. Our focus is on the underlying agreements associated with the income earned, and assessing whether the income recorded is in accordance with those agreements. | We gained an understanding of and evaluated the key controls in place within the buying income process and tested those controls in certain components of the business. We performed detailed analytical review of buying income by type and location to identify whether any unusual trends were present.<br><br>On a sample basis, we traced the reconciliation of supplier deductions or payments recognised in the income statement to cash receipts or supplier contracts.<br><br>We selected, on a sample basis, amounts recognised in debtors and creditors and agreed the amounts to supporting documentation. Where amounts were offset we assessed whether there is a right to offset, based on the contractual terms with suppliers.<br><br>On a sample basis, we assessed whether the performance criteria of the items selected had been met and where buying income amounts were estimated, that there was appropriate supporting evidence in determining those estimates.<br><br>We assessed, on a sample basis, the appropriateness of manual journal entries and adjustments associated with buying income by tracing them to supporting documentation.<br><br>Supplier dispute logs and management's supplier statement reconciliations were assessed, on a sample basis, to determine whether material disputes or disagreements with suppliers existed. Where significant disputes or disagreements existed, we understood the nature of these disputes through discussions with management and obtained documentation to assess whether the amounts recognised by management were reasonable. |

# Independent Auditors' Report

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Right-of-use assets and lease liabilities*** | |
| Refer to note 35 (Principal Accounting Policies), note 11 (Right-of-use Assets) and note 19 (Lease Liabilities) to the financial statements.<br><br>The Group adopted IFRS 16 'Leases' on 1st January 2019 using the retrospective approach and restated the 2018 comparative financial information. The Group has right-of-use assets of US$3,186.3 million and lease liabilities of US$3,305.8 million as at 31st December 2019.<br><br>Determining the value of right-of-use assets and lease liabilities requires management to make judgements over key estimates and assumptions, including the certainty of lease term renewals and determination of appropriate discount rates to be applied.<br><br>The Group has a significant number of leases with varying lease terms. IFRS 16 requires management to assess the underlying terms of each lease and to make assumptions to determine the appropriate lease term and discount rates which are applied in the lease calculation. | We assessed the completeness of the population of leases by determining the number and types of leases in each of the Group's significant businesses and comparing these against those leases recorded in the Group's lease management system.<br><br>On a sample basis, we agreed the completeness and accuracy of lease data that would impact right-of-use assets and lease liabilities valuations, to underlying lease contracts and from lease payments.<br><br>For a sample of leases, we independently recalculated the right-of-use assets and lease liabilities and compared our results with management's calculations.<br><br>With the support of our valuations specialists, we assessed the discount rates used to calculate the lease liabilities and considered whether management had incorporated relevant duration and country-specific factors in determining their discount rates.<br><br>We challenged the key judgements and assumptions used by management. In particular, we evaluated whether management was reasonably certain to undertake renewal options and had appropriately accounted for the measurement of lease liabilities for renewal terms. We evaluated whether the assumptions on the lease terms were appropriate based on the evidence available.<br><br>Based on the work performed, we considered the key assumptions used, and calculations undertaken by management to determine right-of-use assets and lease liabilities as defined by IFRS 16 to be appropriate based on available evidence. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***IT environment*** | |
| Refer to page 134 (Principal Risks and Uncertainties) of the Annual Report.<br><br>The Group is heavily reliant on its IT infrastructure and systems for the daily operations of its business.<br><br>The IT systems across the Group are complex and there are varying levels of standardisation and integration between new and legacy IT systems. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process. | We updated our understanding of the IT environment through discussions with management and walked-through the key financial processes to understand the relevant IT systems which were integral to the Group's controls over financial reporting. These procedures allowed us to determine which IT systems, processes and controls to rely upon.<br><br>We tested key controls over user access to programmes and data; programme development; programme changes made to IT systems; and IT operations.<br><br>The key automated controls operating within IT systems that we rely on were also tested.<br><br>Where we noted deficiencies which affected IT systems or controls on which we planned to place reliance, we tested mitigating controls or extended the scope of our substantive audit procedures. |

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which it operates.

The Group's accounting processes are structured around finance functions, which are responsible for their own accounting records and controls, which in turn report financial information to the Group's finance function in Hong Kong to enable them to prepare consolidated financial statements.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by members of the Group engagement team or by component auditors from within the PwC Network operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. The Group engagement team was involved in the significant reporting entities in scope for Group reporting during the audit cycle through a combination of meetings, visits and conference calls. The lead Group audit partner and other senior Group team members undertook multiple visits to Hong Kong during the audit and were involved throughout the year in regular conference calls and other forms of communication to direct and oversee the audit. Other senior team members visited a number of countries, including Malaysia, Singapore, Indonesia and mainland China during the audit to review the work of component teams with regular communication throughout the year.

A full scope audit was performed on seven entities including six subsidiaries and one associate, Maxim's. These entities, together with procedures performed on central functions and at the Group level (on the consolidation and other areas of significant judgement), accounted for 89% of the Group's revenue, 81% of the Group's profit before tax, and 81% of the Group's underlying profit before tax. This gave us the evidence we needed for our opinion on the financial statements as a whole.

# Independent Auditors' Report

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overall Group materiality | US$19.6 million *(2018: US$26 million)* |
| How we determined it | 5% of underlying profit before tax |
| Rationale for benchmark applied | Profit before tax is a primary measure used in assessing the performance of the Group which has been adjusted by deducting non-trading items of US$0.5 million incurred in 2019. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of overall materiality allocated across components was US$5.0 million to US$19.5 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$1.0 million *(2018: US$1.3 million)* as well as misstatements below that amount that in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

ISAs (UK) require us to report to you when the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue. We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union or the outcome of ongoing US and China trade relationships, are not clear, and it is therefore difficult to evaluate all of the potential implications.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## Responsibilities for the financial statements and the audit

### Responsibilities of the Directors for the financial statements

As explained more fully in the Responsibility Statement set out on page 125 and in the Corporate Governance section set out on page 129, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this independent auditors' report is John Baker.

**PricewaterhouseCoopers LLP**
Chartered Accountants
London
5th March 2020

a. The maintenance and integrity of the Dairy Farm International Holdings Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b. Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Five Year Summary

| | **2019** | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| | **US$m** | US$m restated | US$m | US$m | US$m |
| **Profit and Loss** * | | | | | |
| Sales | **11,192.3** | 11,749.3 | 11,288.7 | 11,200.7 | 11,137.3 |
| Sales including associates and joint ventures | **27,665.0** | 21,957.2 | 21,827.0 | 20,423.6 | 17,907.0 |
| Profit attributable to shareholders | **323.8** | 84.8 | 402.4 | 469.0 | 424.4 |
| Underlying profit attributable to shareholders | **320.9** | 358.2 | 402.6 | 460.2 | 428.1 |
| Underlying earnings per share *(US¢)* | **23.72** | 26.48 | 29.77 | 34.03 | 31.66 |
| Basic earnings per share *(US¢)* | **23.93** | 6.27 | 29.75 | 34.69 | 31.39 |
| Dividends per share *(US¢)* | **21.00** | 21.00 | 21.00 | 21.00 | 20.00 |
| **Balance Sheet** * | | | | | |
| Total assets | **8,369.9** | 8,533.0 | 5,467.2 | 5,128.9 | 4,820.9 |
| Total liabilities | **(7,130.4)** | (7,371.1) | (3,711.5) | (3,549.5) | (3,365.7) |
| Net operating assets | **1,239.5** | 1,161.9 | 1,755.7 | 1,579.4 | 1,455.2 |
| Shareholders' funds | **1,209.2** | 1,126.4 | 1,690.0 | 1,505.3 | 1,375.8 |
| Non-controlling interests | **30.3** | 35.5 | 65.7 | 74.1 | 79.4 |
| Total equity | **1,239.5** | 1,161.9 | 1,755.7 | 1,579.4 | 1,455.2 |
| Net debt | **(820.8)** | (744.0) | (599.1) | (640.8) | (481.7) |
| Net asset value per share *(US¢)* | **89.39** | 83.27 | 124.95 | 111.32 | 101.75 |
| **Cash Flow** * | | | | | |
| Cash flows from operating activities | **1,288.1** | 1,458.1 | 671.3 | 542.9 | 699.8 |
| Cash flows from investing activities | **(283.0)** | (500.9) | (280.6) | (428.0) | (1,365.4) |
| Cash flows before financing activities | **1,005.1** | 957.2 | 390.7 | 114.9 | (665.6) |
| Cash flow per share from operating activities *(US¢)* | **95.22** | 107.80 | 49.64 | 40.15 | 51.76 |

* Figures in 2018 have been restated due to the change in accounting policy upon adoption of IFRS 16 'Leases'. Figures in 2017 have been restated due to changes in accounting policies upon adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. Figures prior to 2017 have not been restated.

# Responsibility Statement

The Directors of the Company confirm to the best of their knowledge that:

a. the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations adopted by the International Accounting Standards Board; and

b. the sections of this Report, including the Chairman's Statement, Group Chief Executive's Review, Business Review and the Principal Risks and Uncertainties, which constitute the management report, include a fair review of all information required to be disclosed by the Disclosure Guidance and Transparency Rules 4.1.8 to 4.1.11 issued by the Financial Conduct Authority in the United Kingdom.

For and on behalf of the Board

**Ian McLeod**
**Clem Constantine**
Directors

5th March 2020

# Corporate Governance

Dairy Farm International Holdings Limited (the 'Company') is incorporated in Bermuda. The retailing interests of the Dairy Farm Group (Dairy Farm International Holdings Limited and its subsidiaries together known as the 'Group') are entirely in Asia. The Company's equity shares have a standard listing on the Main Market of the London Stock Exchange, and secondary listings in Bermuda and Singapore. The Disclosure Guidance and Transparency Rules (the 'DTRs') issued by the Financial Conduct Authority in the United Kingdom (the 'FCA') require that this Report address all relevant information about the corporate governance practices applied beyond the requirements under Bermuda law.

The Company attaches importance to the corporate stability and opportunities that result from it being part of the Jardine Matheson Holdings Limited ('Jardine Matheson') group, which is considered to be fundamental to the Company's ability to pursue a long-term strategy in Asian markets. By coordinating objectives, establishing common values and standards, and sharing experience, contacts and business relationships, the Jardine Matheson group companies aim to optimise their opportunities across the Asian countries where they operate.

The Dairy Farm Group is committed to high standards of governance. The system of governance it has adopted is based on a well-tried approach to oversight and management that has been developed over many years by the members of the Jardine Matheson group. It enables the Company to benefit from Jardine Matheson's strategic guidance and professional expertise, while at the same time ensuring that the independence of the Board is respected and clear operational accountability rests with the Company's executive management teams.

## The Management of the Group

The Company has a dedicated executive management team led by the Group Chief Executive. The Memorandum of Association of the Company, however, provides for the chairman of Jardine Matheson to be, or to appoint, the Managing Director of the Company. Reflecting this, and the Jardine Matheson group's 78% interest in the Company's share capital, the Group Chief Executive and the Managing Director meet regularly. Similarly, the board of the Hong Kong-based Group management company, Dairy Farm Management Services Limited ('DFMS'), and its finance committee are chaired by the Managing Director and include Dairy Farm Group executives as well as Jardine Matheson's deputy managing director, group finance director, group strategy director and group general counsel.

The presence of Jardine Matheson representatives on the Board of the Company and on the board of DFMS, as well as on its audit and finance committees, provides an added element of stability to the Company's financial planning and supervision, enhancing its ability to raise finance and take a long-term view of business development. It also strengthens the ability of management to work effectively together in exploiting the full range of the Jardine Matheson group's commercial strengths.

The Directors of the Company retain full power to manage the business affairs of the Company, other than matters reserved to be exercised by the Company in general meeting under Bermuda legislation or the Company's Bye-laws. Among the matters on which the Board decides are the Group's business strategy, its annual budget, dividends and major corporate activities.

## The Board

As at 5th March 2020, the Company has a Board of 13 Directors. Their names and brief biographies appear on pages 39 and 40 of this Report. The Chairman has been appointed in accordance with the provisions of the Bye-laws of the Company, which provide that the chairman of Jardine Matheson, or any Director nominated by him, shall be the Chairman of the Company. The Board composition and operation helps to provide the Company with the necessary stability as it seeks to grow its business.

## The Board continued

The role of the Chairman is to lead the Board as it oversees the Group's strategic and financial direction, while the principal role of the Managing Director is to act as chairman of DFMS and of its finance committee. Ben Keswick is currently appointed to both positions. As announced on 5th March 2020, with effect from 15th June 2020 Ben Keswick will step down as Managing Director and John Witt will take on the role of Managing Director. He will also become chairman of DFMS and of its finance committee. The responsibility for running the Group's business and all the executive matters affecting the Group rests with the Group Chief Executive, Ian McLeod. The implementation of the Group's strategy is delegated to the Company's executive management, with decision-making authority within designated financial parameters delegated to the DFMS finance committee.

The Board is scheduled to hold four meetings in 2020 and ad hoc procedures are adopted to deal with urgent matters which arise between scheduled meetings. In 2019 one meeting was held in Bermuda and three were held in Asia. The Board receives high quality, up to date information for each of its meetings. In addition, certain Directors of the Company who do not serve on the board of DFMS and who are based outside Asia regularly visit Asia and Bermuda to discuss the Group's business, as well as to participate in the four strategic reviews that precede the regular Board meetings. These Directors are not directly involved in the operational management of the Group's business activities, but their knowledge and close oversight of the Group's affairs, as well as their knowledge and experience of the wider Jardine Matheson group, reinforces the process by which business is reviewed before consideration at Board meetings.

## Directors' Appointment, Retirement, Remuneration and Service Contracts

Candidates for appointment as executive Directors of the Company, as executive directors of DFMS or as senior executives elsewhere in the Group may be sourced internally, or from the wider Jardine Matheson group or externally, including by using the services of specialist executive search firms. The aim is to appoint individuals who combine international best practice with familiarity with, or adaptability to, Asian markets. When appointing non-executive Directors, the Board pays particular attention to the Asian business experience and relationships that they can bring.

Each new Director is appointed by the Board and, in accordance with the Company's Bye-laws, each new Director so appointed is subject to retirement and re-appointment at the first annual general meeting after appointment. Thereafter, Directors are subject to retirement by rotation under the Bye-laws whereby one-third of the Directors retire at the annual general meeting each year. These provisions apply to both executive and non-executive Directors, but the requirement to retire by rotation does not extend to the Chairman or Managing Director.

Michael Kok stepped down from the Board at the Annual General Meeting held on 8th May 2019. Clem Constantine was appointed as Chief Financial Officer of the Company with effect from 11th November 2019. Simon Keswick retired from the Board with effect from 1st January 2020. On 20th January 2020, it was announced that Lord Sassoon will retire from the Board on 9th April 2020. Clive Schlee will join the Board with effect from 6th May 2020.

In accordance with Bye-law 85, Y.K. Pang, Jeremy Parr and John Witt retire by rotation at this year's Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with Bye-law 92, Clem Constantine will also retire and, being eligible, offers himself for re-election. Clem Constantine has a service contract with a subsidiary of the Company that has a notice period of six months. None of the other Directors proposed for re-election has a service contract with the Company or its subsidiaries.

The Company's policy is to offer competitive remuneration packages to its senior executives. It is recognised that, due to the nature of the Group and its diverse geographic base, a number of its senior executives are required to be offered international terms and the nature of the remuneration packages is designed to reflect this. Executive Directors joining from outside the Group may be offered an initial fixed-term service contract to reflect any requirement for them to relocate.

## Directors' Appointment, Retirement, Remuneration and Service Contracts continued

Recommendations and decisions on remuneration and other benefits payable or made available to executive Directors result from consultations between the Chairman and other Directors as he considers appropriate. Directors' fees, which are payable to all Directors other than the Group Chief Executive and the Chief Financial Officer, are decided upon by shareholders in general meeting as provided for by the Company's Bye-laws.

For the year ended 31st December 2019, the Directors received from the Group US$8.5 million *(2018: US$6.9 million)* in Directors' fees and employee benefits, being US$0.8 million *(2018: US$0.9 million)* in Directors' fees, US$6.3 million *(2018: US$4.9 million)* in short-term employee benefits including salary, bonuses, accommodation and deemed benefits in kind, US$0.1 million *(2018: US$0.1 million)* in post-employment benefits and US$1.3 million *(2018: US$1.0 million)* in share-based payments. The information set out in this paragraph forms part of the audited financial statements.

Share-based long-term incentive plans have also been established to provide incentives for executive Directors and senior managers. Share options are granted by the scheme trustee after consultation between the Chairman and the Group Chief Executive as well as other Directors as they consider appropriate. In December 2018 a new cash-based long-term incentive plan was implemented for senior management, in order to align their remuneration with shareholders' interests by rewarding the delivery of strong EPS growth over the next five years. Payouts under the plan will also be dependent on the achievement of appropriate targets linked to the health of the business and the sustainability of earnings growth.

The Company purchases insurance to cover its Directors against their costs in defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings. To the extent permitted by law, the Company also indemnifies its Directors. Neither the insurance nor the indemnity provides cover where the Director has acted fraudulently or dishonestly.

## Audit Committee

The Board has established within DFMS an audit committee (the 'Audit Committee'), the current members of which are Y.K. Pang, Mark Greenberg, Jeremy Parr and John Witt; they have extensive knowledge of the Group while at the same time not being directly involved in operational management. The chairman, group chief executive and chief financial officer of DFMS, together with representatives of the internal and external auditors, also attend the Audit Committee meetings by invitation. The Audit Committee meets and reports to the Board semi-annually.

Prior to completion and announcement of the half-year and year-end results, a review of the financial information and of any issues raised in connection with the preparation of the results, including the adoption of new accounting policies, is undertaken by the Audit Committee with the executive management and a report is received from the external auditors. The external auditors also have access to the full Board when necessary, in addition to the Group Chief Executive, Chief Financial Officer and other senior executives.

The Audit Committee keeps under review the nature, scope and results of the audits conducted by the internal audit function and the findings of the various Group audit committees. The Audit Committee's responsibilities extend to reviewing the effectiveness of both the internal and external audit functions; considering the independence and objectivity of the external auditors; and reviewing and approving the level and nature of non-audit work performed by the external auditors.

The terms of reference of the Audit Committee can be found on the Company's website at www.dairyfarmgroup.com.

## Risk Management and Internal Control

The Board has overall responsibility for the Group's systems of risk management and internal control. The Board has delegated to the Audit Committee responsibility for providing oversight in respect of risk management activities. The Audit Committee considers the Group's principal risks and uncertainties and potential changes to the risk profile and reviews the operation and effectiveness of the Group's systems of internal control and the procedures by which these risks are monitored and mitigated. The Audit Committee considers the systems and procedures on a regular basis, and reports to the Board semi-annually. The systems of internal control are designed to manage, rather than eliminate, business risk; to help safeguard the Group's assets against fraud and other irregularities; and to give reasonable, but not absolute, assurance against material financial misstatement or loss.

Executive management is responsible for the implementation of the systems of internal control throughout the Group, and a series of audit committees at an operational level and the internal audit function monitor the effectiveness of the systems. The internal audit function also monitors the approach taken by the business units to risk. The internal audit function is independent of the operating businesses and reports its findings, and recommendations for any corrective action required, to the Audit Committee.

The Group has in place an organisational structure with defined lines of responsibility and delegation of authority. There are established policies and procedures for financial planning and budgeting; for information and reporting systems; for assessment of risk; and for monitoring the Group's operations and performance. The information systems in place are designed to ensure that the financial information reported is reliable and up to date.

The Company's policy on commercial conduct underpins the Group's internal control process, particularly in the area of compliance. The policy is set out in the Group's Code of Conduct, which is a set of guidelines to which every employee must adhere and is reinforced and monitored by an annual compliance certification process.

The Audit Committee has also been given the responsibility to oversee the effectiveness of the formal procedures for employees to raise any matters of serious concern, and is required to review any reports made under those procedures that are referred to it by the internal audit function.

The Group's 50% associate, Maxim's Caterers Limited ('MCL'), has a separate board, audit committee, risk management and internal audit structure. The Group is represented on the board of MCL, at which reviews of strategy, operations, budgets and major investments are undertaken. The MCL board has delegated to the MCL group's audit and risk management committees and its audit department responsibility for reviewing areas of major risk and the effectiveness of the internal control procedures.

The principal risks and uncertainties facing the Company are set out on pages 133 and 134.

## Directors' Responsibilities in respect of the Financial Statements

The Directors are required under the Bermuda Companies Act to prepare financial statements for each financial year and to present them annually to the Company's shareholders at the annual general meeting. The financial statements are required to present fairly, in accordance with International Financial Reporting Standards ('IFRS'), the financial position of the Group at the end of the year and the results of its operations and its cash flows for the year then ended. The Directors consider that applicable accounting policies under IFRS, applied on a consistent basis and supported by prudent and reasonable judgements and estimates, have been followed in preparing the financial statements. The financial statements have been prepared on a going concern basis.

## Code of Conduct

The Group conducts business in a professional, ethical and even-handed manner. Its ethical standards are clearly set out in its Code of Conduct, which is modelled on the Jardine Matheson group's code of conduct. The Code of Conduct requires that all Group companies comply with all laws of general application, all rules and regulations that are industry specific and proper standards of business conduct. The Code of Conduct prohibits the giving or receiving of illicit payments and requires that all managers must be fully aware of their obligations under the Code of Conduct and establish procedures to ensure compliance at all levels within their organisations.

The Code of Conduct also encourages inclusion and diversity, and requires all employees to be treated fairly, impartially and with dignity and respect. As a multinational Group with a broad range of businesses operating across Asia, the Group believes in promoting equal opportunities in recruiting, developing and rewarding its people regardless of race, gender, nationality, religion, sexual orientation, disability, age or background. The scale and breadth of the Group's businesses necessitate that they seek the best people from the communities in which they operate most suited to their needs.

The Group has in place procedures by which employees can raise, in confidence, matters of serious concern in areas such as financial reporting or compliance.

## Directors' Share Interests

The Directors of the Company in office on 5th March 2020 had interests (within the meaning of the EU Market Abuse Regulation ('MAR'), which applies to the Company as it is listed on the London Stock Exchange) as set out below in the ordinary share capital of the Company. These interests include those notified to the Company in respect of the Directors' closely associated persons (as that term is used under MAR).

| | |
|---|---|
| George J. Ho | 1,818,804 |
| Anthony Nightingale | 34,183 |
| Percy Weatherall | 200,000 |

In addition, Ian McLeod held deferred share awards in respect of 597,514 ordinary shares issued pursuant to the Company's share-based long-term incentive plans.

## Substantial Shareholders

As a non-UK issuer, the Company is subject to the DTRs pursuant to which a person must in certain circumstances notify the Company of the percentage of voting rights attaching to the share capital of the Company that person holds. The obligation to notify arises if that person acquires or disposes of shares in the Company which results in the percentage of voting rights which the person holds reaching, exceeding, or falling below, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

The Company has been informed of the holding of voting rights of 5% or more attaching to the Company's issued ordinary share capital by Jardine Strategic Holdings Limited ('Jardine Strategic') and its subsidiary undertakings, which are directly and indirectly interested in 1,049,589,171 ordinary shares carrying 77.59% of the voting rights. By virtue of its interest in Jardine Strategic, Jardine Matheson is also interested in the same ordinary shares. Apart from this shareholding, the Company is not aware of any holders of voting rights of 5% or more attaching to the issued ordinary share capital of the Company as at 5th March 2020.

There were no contracts of significance with corporate substantial shareholders during the year under review.

## Governance Principles

The Company's primary listing on the London Stock Exchange is a standard listing on the Main Market. Under a standard listing, the Company is subject to the UK Listing Rules (other than those which apply only to companies with a premium listing), the DTRs, the UK Prospectus Regulation Rules and MAR. The Company, therefore, is bound by the rules in relation to continuous disclosure, periodic financial reporting, disclosure of interests in shares and market abuse, including the rules governing insider dealing, market manipulation and the disclosure of inside information. The Company is also subject to regulatory oversight from the FCA, as the Company's principal securities regulator, and is required to comply with the Admission and Disclosure Standards of the Main Market of the London Stock Exchange.

When shareholders approved the Company's move to a standard listing from a premium listing in 2014, the Company stated that it intended to maintain certain governance principles on the same basis as was then applicable to the Company's premium listing, as follows:

1. When assessing a significant transaction, being a larger transaction which would be classified as a class 1 transaction under the provisions of the UK Listing Rules, the Company will engage an independent financial adviser to provide a fairness opinion on the terms of the transaction.

2. In the event of a related party transaction, being a transaction with a related party which would require a sponsor to provide a fair and reasonable opinion under the provisions of the UK Listing Rules, the Company will engage an independent financial adviser to confirm that the terms of the transaction are fair and reasonable as far as the shareholders of the Company are concerned.

3. Further, as soon as the terms of a significant transaction or a related party transaction are agreed, an announcement will be issued by the Company providing such details of the transaction as are necessary for investors to evaluate the effect of the transaction on the Company.

4. At each annual general meeting, the Company will seek shareholder approval to issue new shares on a non-pre-emptive basis for up to 33% of the Company's issued share capital, of which up to 5% can be issued for cash consideration.

5. The Company will continue to adhere to its Securities Dealing Rules. These rules, which were based on the UK Model Code, have since been revised to follow the provisions of MAR with respect to market abuse and disclosure of interests in shares.

6. The Company will continue its policies and practices in respect of risk management and internal controls.

## Related Party Transactions

Details of transactions with related parties entered into by the Company during the course of the year are included in note 32 to the financial statements on page 95.

## Securities Purchase Arrangements

The Directors have the power under the Bermuda Companies Act and the Company's Memorandum of Association to purchase the Company's shares. Any shares so purchased shall be treated as cancelled and, therefore, reduce the issued share capital of the Company. When the Board reviews the possibility for share repurchases, it will take into consideration the potential for the enhancement of earnings or asset values per share. When purchasing such shares, the Company is subject to the provisions of MAR.

## Takeover Code

The Company is subject to a Takeover Code, based on London's City Code on Takeovers and Mergers. The Takeover Code provides an orderly framework within which takeovers can be conducted and the interests of shareholders protected. The Takeover Code has statutory backing, being established under the Acts of incorporation of the Company in Bermuda.

## Annual General Meeting

The 2020 Annual General Meeting will be held on 6th May 2020. The full text of the resolutions and explanatory notes in respect of the meeting are contained in the Notice of Meeting which accompanies this Report. A corporate website is maintained containing a wide range of information of interest to investors at www.dairyfarmgroup.com.

## Power to Amend Bye-laws

The Bye-laws of the Company can be amended by the shareholders by way of a special resolution at a general meeting of the Company.

# Principal Risks and Uncertainties

The Board has overall responsibility for risk management and internal control. The process by which the Group identifies and manages risk is set out in more detail on page 129 of the Corporate Governance section of this Report. The following are the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the Disclosure Guidance and Transparency Rules issued by the Financial Conduct Authority in the United Kingdom and are in addition to the matters referred to in the Chairman's Statement, the Group Chief Executive's Review and other parts of this Report.

## Economic Risk

Most of the Group's businesses are exposed to the risk of negative developments in global and regional economies and financial markets, either directly or through the impact such developments might have on the Group's joint venture partners, associates, franchisors, bankers, suppliers or customers. These developments could include recession, inflation, deflation, currency fluctuations, restrictions in the availability of credit, business failures, or increases in financing costs, oil prices, the cost of raw materials or finished products. Such developments might increase operating costs, reduce revenues, lower asset values or result in some or all of the Group's businesses being unable to meet their strategic objectives.

## Commercial Risk and Financial Risk

Risks are an integral part of normal commercial activities, and where practicable steps are taken to mitigate them. Risks can be more pronounced when businesses are operating in volatile markets. While the Group's regional diversification does help to mitigate some risks, a significant portion of the Group revenues and profits continue to be derived from our operations in Hong Kong.

A number of the Group's businesses make significant investment decisions in respect of developments or projects and these are subject to market risks. This is especially the case where projects are longer-term in nature and take more time to deliver returns.

The Group's businesses operate in areas that are highly competitive, and failure to compete effectively, whether in terms of price, product specification, technology, property site or levels of service or to adapt to changing consumer behaviours, including new shopping channels and formats, can have an adverse effect on earnings. Significant competitive pressure may also lead to reduced margins.

It is essential for the products and services provided by the Group's businesses to meet appropriate quality and safety standards and there is an associated risk if they do not, including the risk of damage to brand equity or reputation, which might adversely impact the ability to achieve acceptable revenues and profit margins.

While social media presents significant opportunities for the Group's businesses to connect with customers and the public, it also creates a whole new set of potential risks for companies to monitor, including damage to brand equity or reputation, which could affect the Group's profitability.

The steps taken by the Group to manage its exposure to financial risk are set out in the Financial Review on page 38 and note 37 to the financial statements on pages 107 to 113.

## Concessions, Franchises and Key Contracts

A number of the Group's businesses and projects are reliant on concessions, franchises, management or other key contracts. Cancellation, expiry or termination, or the renegotiation of any such concessions, franchises, management or other key contracts, could have an adverse effect on the financial condition and results of operations of certain subsidiaries, associates and joint ventures of the Group.

# Principal Risks and Uncertainties

## Regulatory and Political Risk

The Group's businesses are subject to a number of regulatory regimes in the territories in which they operate. Changes in such regimes, in relation to matters such as foreign ownership of assets and businesses, exchange controls, licensing, imports, planning controls, emission regulations, tax rules and employment legislation, could have the potential to impact the operations and profitability of the Group's businesses.

Changes in the political environment, including political or social unrest, in the territories where the Group operates could adversely affect the Group's businesses.

## Terrorism, Pandemic and Natural Disasters

The Group's operations are vulnerable to the effects of terrorism, either directly through the impact of an act of terrorism or indirectly through the effect on the Group's businesses of generally reduced economic activity in response to the threat, or an actual act, of terrorism.

The Group businesses could be impacted by a global or regional pandemic which seriously affects economic activity or the ability of businesses to operate smoothly. In addition, many of the territories in which the Group operates can experience from time to time natural disasters such as earthquakes, volcanoes and typhoons.

## Technology Risk

The Group has invested significantly in and is heavily reliant on its IT infrastructure and systems for the daily operation of its business. Any major disruption to the Group's IT systems could have a significant impact on operations. The ability to anticipate and adapt to technology advancements or threats is an additional risk that may also have an impact on the business.

# Shareholder Information

## Financial Calendar

| | |
|---|---|
| 2019 full-year results announced | 5th March 2020 |
| Shares quoted ex-dividend | 19th March 2020 |
| Share registers closed | 23rd to 27th March 2020 |
| Annual General Meeting to be held | 6th May 2020 |
| 2019 final dividend payable | 13th May 2020 |
| 2020 half-year results to be announced | 29th July 2020* |
| Shares quoted ex-dividend | 20th August 2020* |
| Share registers to be closed | 24th to 28th August 2020* |
| 2020 interim dividend payable | 14th October 2020* |

* Subject to change

## Dividends

Shareholders will receive their cash dividends in United States Dollars, unless they are registered on the Jersey branch register, in which case they will have the option to elect for their dividends to be paid in Sterling. These shareholders may make new currency elections for the 2019 final dividend by notifying the United Kingdom transfer agent in writing by 24th April 2020. The Sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 29th April 2020. Shareholders holding their shares through CREST in the United Kingdom will receive their cash dividends in Sterling only. Shareholders holding their shares through The Central Depository (Pte) Limited ('CDP') in Singapore will receive their cash dividends in United States Dollars unless they elect, through CDP, to receive Singapore Dollars.

## Registrars and Transfer Agent

Shareholders should address all correspondence with regard to their shareholdings or dividends to the appropriate registrar or transfer agent.

**Principal Registrar**
Jardine Matheson International Services Limited
P.O. Box HM 1068
Hamilton HM EX
Bermuda

**Jersey Branch Registrar**
Link Market Services (Jersey) Limited
12 Castle Street
St Helier, Jersey JE2 3RT
Channel Islands

**Singapore Branch Registrar**
M & C Services Private Limited
112 Robinson Road #05-01
Singapore 068902

**United Kingdom Transfer Agent**
Link Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU
United Kingdom

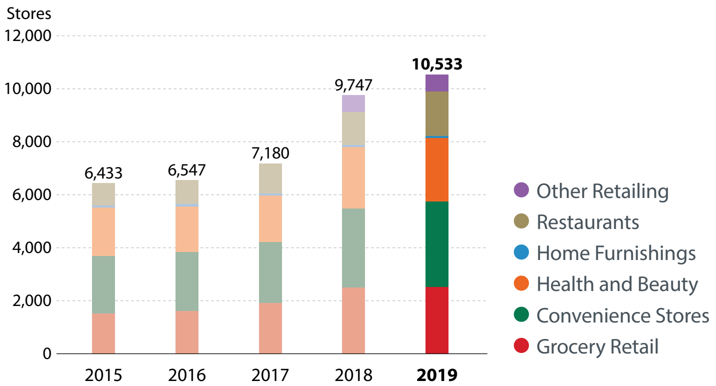
Press releases and other financial information can be accessed through the internet at www.dairyfarmgroup.com.

# Retail Outlets Summary

| **2019** | **Food** | | **Health and Beauty** | **Home Furnishings** | **Restaurants** | **Other Retailing** | **Total** | **Net addition** |
|---|---|---|---|---|---|---|---|---|
| | **Grocery Retail** | **Convenience Stores** | | | | | | |
| Hong Kong | 328 | 962 | 374 | 4 | 822 | – | **2,490** | 22 |
| Macau | 20 | 51 | 19 | – | 22 | – | **112** | 5 |
| Mainland China | 1,351 | 1,281 | 198 | – | 261 | – | **3,091** | 282 |
| Singapore | 103 | 411 | 115 | – | 157 | – | **786** | 19 |
| Indonesia | 122 | – | 293 | 2 | – | – | **417** | (28) |
| Malaysia | 84 | – | 458 | – | 1 | – | **543** | (19) |
| Brunei | – | – | 23 | – | – | – | **23** | – |
| Taiwan | 229 | – | – | 6 | – | – | **235** | (11) |
| The Philippines | 258 | 509 | 809 | – | – | 634 | **2,210** | 70 |
| Vietnam | – | – | 102 | – | 62 | – | **164** | 35 |
| Cambodia | 23 | – | 11 | – | 20 | – | **54** | 12 |
| Thailand | – | – | – | – | 408 | – | **408** | 399 |
| Total | **2,518** | **3,214** | **2,402** | **12** | **1,753** | **634** | **10,533** | 786 |
| Net change over 2018 | 17 | 241 | 80 | 2 | 455 | (9) | 786 | |

| 2018 | Food | | Health and Beauty | Home Furnishings | Restaurants | Other Retailing | Total | Net addition |
|---|---|---|---|---|---|---|---|---|
| | Grocery Retail | Convenience Stores | | | | | | |
| Hong Kong | 325 | 959 | 362 | 4 | 818 | – | 2,468 | 68 |
| Macau | 19 | 51 | 20 | – | 17 | – | 107 | 9 |
| Mainland China | 1,250 | 1,074 | 238 | – | 247 | – | 2,809 | 640 |
| Singapore | 112 | 393 | 117 | – | 145 | – | 767 | 1 |
| Indonesia | 174 | – | 270 | 1 | – | – | 445 | (4) |
| Malaysia | 122 | – | 439 | – | 1 | – | 562 | (4) |
| Brunei | 1 | – | 22 | – | – | – | 23 | 1 |
| Taiwan | 241 | – | – | 5 | – | – | 246 | (12) |
| The Philippines | 240 | 496 | 761 | – | – | 643 | 2,140 | 1,816 |
| Vietnam | – | – | 83 | – | 46 | – | 129 | 36 |
| Cambodia | 17 | – | 10 | – | 15 | – | 42 | 15 |
| Thailand | – | – | – | – | 9 | – | 9 | 1 |
| Total | 2,501 | 2,973 | 2,322 | 10 | 1,298 | 643 | 9,747 | 2,567 |
| Net change over 2017 | 585 | 673 | 578 | – | 88 | 643 | 2,567 | |

### Store Network




Note: Includes associates and joint ventures and excludes discontinued operations.

# Management and Offices

## Leadership Team

| | |
|---|---|
| Ian McLeod | Group Chief Executive |
| Chris Bush | Chief Executive Officer – South East Asia Food |
| Choo Peng Chee | Chief Executive Officer – North Asia & Group Convenience |
| Clem Constantine | Chief Financial Officer |
| Edward Hunter | Group Supply Chain Director |
| Sam Kim | Chief Executive Officer – Health & Beauty and Chief Marketing & Business Development Officer |
| Martin Lindström | Group Director – IKEA |
| Judith Nelson | Group Human Resources Director |
| Marcus Spurrell | Chief Digital Officer |
| Charlie Wood | Group Counsel |

## Corporate Office

11/F Devon House, Taikoo Place
979 King's Road, Quarry Bay
Hong Kong
P.O. Box 286, G.P.O.
Tel : (852) 2299 1888
Fax : (852) 2299 4888
Website : www.dairyfarmgroup.com

## Brunei

***Guardian Health And Beauty (B) Sdn Bhd***
Giant Hypermarket Tasik Rimba
Lot 58865 Kampong Rimba
Mukim Gadong
Bandar Seri Begawan
BE 3119
Negara Brunei Darussalam
Tel : (673) 246 0820
Fax : (673) 246 0821

## Cambodia

***DFI Lucky Private Limited***
#01, Street 55P
Sangkat Tuek Thla
Khan Sen Sok
Phnom Penh
Tel : (855 23) 885 722
Website : www.dfilucky.com

## Hong Kong and Macau

***The Dairy Farm Company, Ltd***
5/F Devon House
Taikoo Place
979 King's Road
Quarry Bay
Tel : (852) 2299 3888
Fax : (852) 2299 2888

***Maxim's Caterers Ltd****
18/F Maxim's Centre
17 Cheung Shun Stree
Cheung Sha Wan
Kowloon
Tel : (852) 2523 4107
Fax : (852) 2216 7883
Website : www.maxims.com.hk

## Indonesia

***PT Hero Supermarket Tbk***
Graha Hero
KO. Komersial CBD Bintaro
Sektor VII B.7/A.7, Pondok Jaya
Pondok Aren, Tangerang Selatan
Banten 15224
Tel : (62 21) 8378 8000
Website : www.hero.co.id

## Mainland China

***Guangdong Sai Yi Convenience Stores Ltd***
3/F Guangdong Mechanical
Sub-Building
185 Yue Hua Road
Yue Xiu District
Guangzhou 510030
Tel : (86 20) 8364 7118
Fax : (86 20) 8364 7436
Website : www.7-11.cn

***Mannings Guangdong Retail Company Ltd***
2/F Guangdong Mechanical
Main-Building
185 Yue Hua Road
Yue Xiu District
Guangzhou 510030
Tel : (86 20) 8318 1388
Fax : (86 20) 8318 2388
Website : www.mannings.com.cn

***Yonghui Superstores Co., Ltd****
120 Hutou Street
Fuzhou 350002
Tel : (86 591) 8376 2200
Fax : (86 591) 8378 7308
Website : www.yonghui.com.cn

## Malaysia

***GCH Retail (Malaysia) Sdn Bhd***
Mezzanine Floor
Giant Hypermarket Shah Alam
Stadium
Lot 2, Persiaran Sukan, Seksyen 13
40100 Shah Alam
Selangor Darul Ehsan
Tel : (603) 5544 8888
Fax : (603) 5511 0164
Website : www.giant.com.my

***Guardian Health And Beauty Sdn Bhd***
Mezzanine Floor
Giant Hypermarket Shah Alam
Stadium
Lot 2, Persiaran Sukan, Seksyen 13
40100 Shah Alam
Selangor Darul Ehsan
Tel : (603) 5544 8400
Fax : (603) 5518 1131
Website : www.guardian.com.my

## The Philippines

***Rose Pharmacy, Inc.***
3/F FLC Centre
888 Hernan Cortes Street
Subangdaku
Mandaue City 6014
Tel : (63 32) 230 5000
Fax : (63 32) 416 5882
Website : www.rosepharmacy.com

***Robinsons Retail Holdings, Inc.****
43F Robinsons Equitable Tower
ADB Avenue cor Poveda St.
Ortigas Center, Pasig City
Metro Manila
Tel : (63 2) 635 0751 to 64
Website : www.robinsonsretail holdings.com.ph

## Singapore

***Cold Storage Singapore (1983) Pte Ltd***
21 Tampines North Drive 2
#03-01
Singapore 528765
Tel : (65) 6891 8000
Fax : (65) 6784 3623

## Taiwan

***Wellcome Taiwan Company Ltd***
2/F 175 Hua Ling Street
Shi Lin
Taipei
Tel : (886 2) 2883 9489
Fax : (886 2) 2881 7050
Website : www.wellcome.com.tw

***DFI Home Furnishings Taiwan Ltd***
4/F 1 Zhong Zheng Road
XinZhuang District
New Taipei City 24243
Tel : (886 2) 8069 9005
Fax : (886 2) 2276 0698
Website : www.ikea.com.tw

## Vietnam

***Pan Asia Trading And Investment One Member Company Limited****
L2-VP-01, 346 Ben Van Don
Ward 1, District 4
Ho Chi Minh City
Tel : (84 28) 3832 8272
Fax : (84 28) 3832 8448
Website : www.guardian.com.vn

* Associates or joint ventures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