Mercatus

BUILDING MOMENTUM

Annual Report
2019



We work to maximise occupancy and achieve stable rental returns across our retail and office properties.

In addition, we continue to explore growth opportunities in Singapore and beyond.

By doing what we do, we are building strength – for today and for the future.


04



05



03



02



06



01

CONTENTS

01 About Us
02 Business Strategy
02 Year in Review
04 Chairman's Statement
06 Financial Highlights
08 Our Portfolio
20 Our Impact
22 Sustainability
23 Social Impact
26 Our People
28 Board of Directors
30 Senior Management
32 Financial Statements

ABOUT US

Mercatus Co-operative Limited is the real estate subsidiary of NTUC Enterprise Co-operative Limited. Our vision is to own and manage a portfolio of commercial properties to provide NTUC social enterprises access to commercial space, and generate sustainable and long term returns for the Labour Movement.

01. AMK Hub
A conveniently located shopping mall in the heart of Ang Mo Kio town centre.

02. Jurong Point
The largest regional shopping mall in the west of Singapore.

03. Swing By @ Thomson Plaza
A suburban mall with a rich community heritage located along Upper Thomson Road.

04. One Marina Boulevard
A premium Grade A office building located in Singapore's Central Business District.

05. NEX
The biggest mall in the north-east region of Singapore.

06. 35 Retail Strata Assets
in HDB estates and shopping malls island-wide.

Business Strategy

01 INVESTMENT MANAGEMENT

02 ASSET AND PROPERTY MANAGEMENT

03 CAPITAL MANAGEMENT

01

Create value and deliver growth by

- Investing, developing and managing a diversified portfolio of strategically located commercial properties in Singapore
- Identifying and investing in overseas commercial properties, complementary to the existing portfolio

02

Strive for operational excellence and sustainability by

- Undertaking asset enhancement initiatives that will increase asset value
- Adopting a proactive leasing and tenant management approach, so as to achieve stable returns and maximise occupancy
- Continuing drive and implementation of energy efficiency and waste management initiatives

03

Deliver stable and sound returns by

- Adopting a proactive and prudent capital management framework
- Maintaining funding flexibility for future capital expenditures and acquisitions
- Establishing a standard platform to manage capital from investors

Year in Review

January 2019

- Issued $100 million 6-year fixed rate notes, at 3.28% per annum. This is Mercatus' third bond issuance
- Upgraded, standardised and strengthened Mercatus' IT infrastructure across the portfolio, improving scalability, resiliency and security, while enabling effective team collaboration

March 2019

- Appointed as the Investment Manager for NTUC Income's real estate portfolio
- Signed Memorandum of Understanding with Singapore Industrial and Services Employees' Union (SISEU) to reinforce ongoing efforts in building and improving employee relations
- Rolled out a green lease programme for tenancy fit-out to encourage tenants to increase energy efficiency, build healthier indoor spaces and reduce utility costs

April 2019

- Divested 204 Bedok North Street 1 for $13.8 million
- Introduced e-waste recycling bins to encourage shoppers and tenants to adopt e-waste recycling

May 2019

- Set up a Training Committee, a tripartite collaboration between the senior management, union and employee representatives

June 2019

- Refinanced $280 million of debt

July 2019

- Commenced asset enhancement works on Thomson Plaza
- Launched revamped M Malls app with new features and website to bring greater convenience and better experience to shoppers
- AMK Hub achieved BCA Green Mark Gold^{Plus}

August 2019

- Refinanced $200 million debt

September 2019

- Achieved ISO 14001:2015, an internationally recognised environmental management system for enhancement of organisation's environmental performance
- Achieved ISO 45001:2018 occupational health and safety management systems for safe and healthy workplaces

October 2019

- One Marina Boulevard achieved BCA Green Mark Gold^{Plus}
- Achieved BizSAFE STAR across the Group portfolio

December 2019

- Embarked on Cybersecurity Awareness Campaign to raise awareness and importance of cybersecurity

January 2020

- Issued the fourth bond amounting to $100 million fixed rate 10-year notes at 3.08% per annum on 23 January 2020
- Jurong Point achieved BCA Green Mark Platinum on 23 January 2020

$278.6M
Total Revenue

$93.6M
Net Surplus Before Contribution

Chairman's Statement

Dear Members,
The year 2019 saw us delivering another commendable performance against the backdrop of a challenging global environment and muted consumer spending in Singapore.

Our total revenue rose by 3.8% to $278.6 million from $268.4 million in 2018. We also recorded a net surplus before contribution of $93.6 million, up by 5.6% from $88.6 million in 2018. For the financial year ended 2019, in lieu of dividends, the Board of Directors has proposed the issuance of 30 bonus shares for every 1,000 shares held, amounting to a total of $55.0 million. This is subject to members' approval at the Annual General Meeting.

Notably, for a tough year like 2019, remaining focused on strengthening our capabilities and building upon growth momentum of 2018, had enabled us to stay on course to our vision of generating long-term sustainable returns for the Labour Movement.

ENHANCING OUR PORTFOLIO VALUE

Keeping up with the momentum of our asset enhancement initiatives, we embarked on the rejuvenation works for Thomson Plaza ("TP") in 2019. TP – one of the earliest suburban malls in Singapore – opened its doors in 1979 and has since been a landmark for the Thomson area and a popular spot for nearby residents. With the upcoming opening of Upper Thomson MRT station in 2020, it was an opportune time for us to refresh a section of TP's shopping ambience and offerings to cater to the modern lifestyles of shoppers and residents staying in the vicinity. Targeted for completion in 2020, this section will be rebranded as Swing By @ Thomson Plaza.

At our other malls, we continued to monitor market trends, understand our shoppers' needs and improve our tenant mix to enhance shoppers' shopping experience. During the year, we revamped our M Malls mobile app and mall websites to bring better online experience to our shoppers. For example, new features on our M Mall app were introduced to enable instant M points accumulation and redemption and online purchase of mall vouchers.

ENCOURAGING SUSTAINABILITY PRACTICES

As one of the largest mall owners by floor space in Singapore, we are cognisant of the impact our properties has on the environment and the community. We therefore actively monitor, evaluate and manage environmental, social and governance issues and considerations across our business operations.

I am pleased to share that all our commercial properties have now attained the BCA Green Mark certification. In 2019, AMK Hub and One Marina Boulevard achieved BCA Green Mark Gold^{Plus} rating while Jurong Point achieved BCA Green Mark Platinum rating in 2020.

During the year, we also introduced a green lease programme for tenancy fit-out to encourage tenants to reduce their carbon footprints through more energy efficient and healthier indoor space installations. Coupled with the implementation of Singapore Standard 577 Water Efficiency Management at Jurong Point, upgrade of One Marina Boulevard's lightings to energy efficient LED lights, and optimisation of chiller plant systems at AMK Hub and Jurong Point, the Group's water and energy consumption decreased by 1.8% and 4.1% respectively in 2019.

FORTIFYING OUR CAPABILITIES AND BUILDING A FUTURE READY WORKFORCE

On the resources front, we have put in place a stronger management bench in 2019, with the addition of experienced members from relevant industries in investments, asset management and retail management. We also continued to strengthen our corporate governance foundation with the setting up of new corporate functions – risk management and corporate governance, legal and compliance as well as corporate communications – and establishment of relevant policies and procedures.

An engaged workforce is pivotal to our continued growth. We entered into a Memorandum of Understanding with the Singapore Industrial & Services Employees' Union (SISEU) in March 2019 to bolster employee relations. As at December 2019, a heartening 73% of our workforce had already enrolled and are enjoying the benefits of a fully funded membership.

73%
of Our People are SISEU Members

In tandem with the Group's ambition to drive digital transformation and prepare our workforce for the future, a Training Committee – a tripartite collaboration between senior management, the union and employee representatives – was set up in May 2019. Since then, a training roadmap has been established for all levels of staff to drive capability building in areas of Adaptive, Technical, and Technological skills.

GIVING BACK TO THE COMMUNITY

In 2019, our commitment to make a positive social impact through various initiatives at corporate and asset level saw us contributing for the seventh consecutive year to the NTUC-U Care Fund. The NTUC-U Care Fund alleviates the financial burden of low-income families through assistance programmes such as U Stretch and U Care Back to School vouchers.

At the operational level, we also partnered various government agencies through venue sponsorships to promote healthier and more inclusive community spaces. The programmes that we supported during the year include Health Promotion Board's Healthy Workspaces Ecosystem, Central Narcotics Bureau's Drug Free Singapore, Ministry of Manpower's SGSecure, and Ministry of Culture, Community and Youth's Spark the Next: Youth Hangout.



GEARING FOR THE FUTURE

The economic outlook for 2020 continues to be challenging. This is further compounded by the recent COVID-19 outbreak which has impacted the retail industry and the Singapore economy. The recent revision of the Singapore economy outlook to between -4% and -1% reflected this market sentiment.

At Mercatus, we are committed to working closely with our tenants in riding out challenges arising from the COVID-19 pandemic. We recognise that the COVID-19 pandemic has not only accelerated the adoption rate for online shopping and e-commerce, but is also changing shopping behaviours and preferences. Therefore, even as we proactively engage our tenants in creating fresh experiential shopping experiences for shoppers, we are also mindful to stay agile in adapting to shifting preferences and behaviours brought about by the COVID-19 pandemic. We are optimistic that by doing so, we will emerge stronger and remain at the forefront of a challenging and changing retail landscape.

As we stand ready to overcome various challenges, I am pleased to announce that Tan Ser Joo will succeed David Poh as the new CEO with effect from 1 July 2020. I thank David for his leadership for the past three years. I also look forward to working with Ser Joo in her new role, and her leading the organisation forward.

ACKNOWLEDGEMENTS

Our many achievements in 2019 have been possible only because of the unwavering support of our members, Board of Directors, valued business partners, shoppers and tenants.

We thank them for their continued support.

Similarly, we recognise that the ceaseless dedication and commitment of our management and staff is central to keeping us on course to realising our vision. For that, I thank them for their hard work and dedication. Together, I am positive that we will be able to overcome any challenge and keep up with our growth momentum.

Ms. May Ng
Chairman

Financial Highlights

$278.6M
TOTAL REVENUE

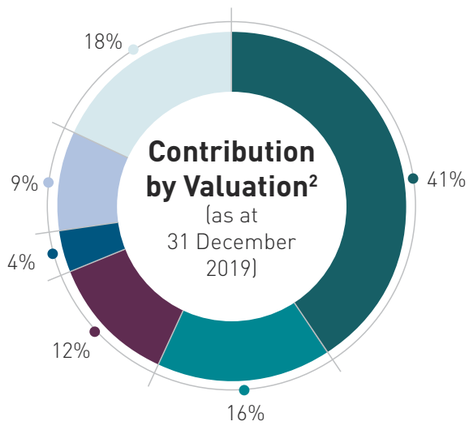
$93.6M
NET SURPLUS BEFORE CONTRIBUTION

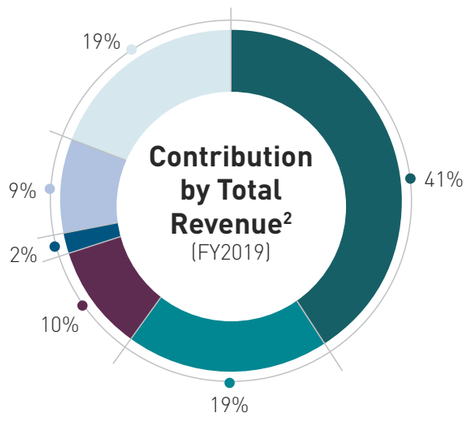
50.9%
LEVERAGE RATIO[1]

2.71
WEIGHTED AVERAGE DEBT MATURITY (YEARS)

2.84%
WEIGHTED AVERAGE COST OF DEBT (ALL-IN)

3.47X
INTEREST COVERAGE RATIO





- Jurong Point
- AMK Hub
- One Marina Boulevard
- Thomson Plaza
- Retail Strata Assets
- NEX

1] Includes Mercatus' proportionate share of its joint venture borrowings and asset value.

2] Reflects 50% share of NEX's valuation and total revenue. NEX's financial results are accounted for as "share of results of joint venture" in the Group's financial statements.

Operational Review

98.9%
OCCUPANCY
(as at 31 December 2019)

151.3M
SHOPPER TRAFFIC FOR 2019

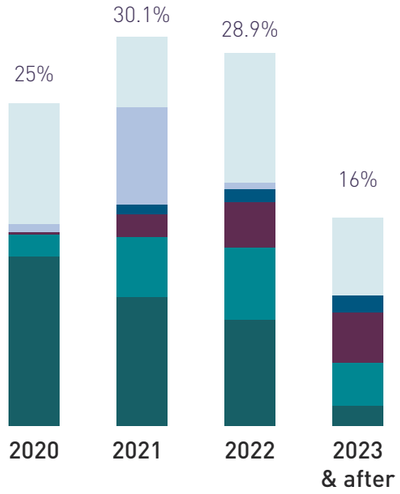
TOP 10 TENANTS CONTRIBUTION
For the month of December 2019

- NTUC Fairprice Co-operative Limited
- Allen & Gledhill LLP
- SkillsFuture Singapore Agency
- R E & S Enterprises Pte Ltd
- Cold Storage Singapore (1983) Pte Ltd
- Isetan (Singapore) Limited
- NTUC Club
- NTUC Foodfare Co-operative Limited
- BHG (Singapore) Pte Ltd
- Oversea-Chinese Banking Corporation Limited

25.8%
Gross Rent

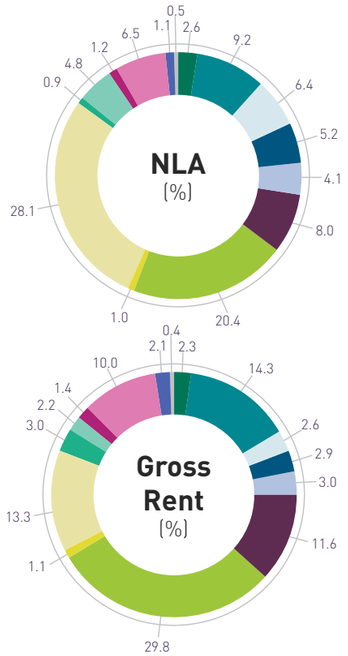
41.4%
Total NLA

LEASE EXPIRY PROFILE



- Jurong Point
- AMK Hub
- One Marina Boulevard
- Thomson Plaza
- Retail Strata Assets
- NEX

TENANT RETAIL TRADE CATEGORIES



- Arts & Crafts, Books & Stationery, Gifts & Souvenirs, Toys & Hobbies
- Beauty & Wellness
- CSFS, Education and Others
- Department Store
- Electronics & Technology, Information Technology
- Fashion & Accessories, Shoes & Bags, Kids
- Food & Beverages
- Home & Furnishings
- Hypermarket and Supermarket
- Jewellery & Watches
- Leisure & Entertainment, Music & Video
- Sporting Goods & Apparel
- Sundry & Services and Lifestyle
- Telecommunication
- Value Store & Specialty Mart

BUILDING MOMENTUM:

OUR PORTFOLIO



Jurong Point

5
Retail and Office Properties

35
Strata Assets in Housing Development Board Estates and Shopping Malls

Combined Valuation
$5.3B
as at
31 December 2019

A robust and diversified portfolio ensures our resilience and relevance. For that reason, we aim to grow our current portfolio, both locally and globally.

AMK HUB

$63.2 Million
Total Revenue
(FY2019)

$825.0 Million
Appraised Value
(as at 31 December 2019)

215
Tenants





Six-storey mall with over 200 tenants

Targeted at **fulfilling diverse lifestyle needs** of families

Conveniently located with **direct linkway to Ang Mo Kio MRT station and bus interchange**

Co-locates several **NTUC Social Enterprises** bringing convenience to residents in the vicinity: **NTUC Foodfare**; **Unity Denticare**; **NTUC Income**; **NTUC Club**; **FairPrice Xtra**

99.8%
Occupancy

99 Years
Lease Tenure
(from
24 August 2004)

320,000
Square Feet
Net Lettable Area





AMK HUB KEY HIGHLIGHTS

- Asset enhancement works fully completed in 2019
- Mall now features new-to-market and new-to-mall brands and concepts – A&W; Starbucks; Malaysia Boleh; CHICHA San Chen
- Refreshed basement and entrance of Cathay Cinema, improving shopper visibility and enhancing vibrancy of these areas





98.8%
Occupancy

94 Years
Lease Tenure
(JP1 – from 16 February 1998)

99 Years
Lease Tenure
(JP2 – from 21 June 2006)

385
Tenants

720,000
Square Feet
Net Lettable Area

PROPERTY PROFILE





Six-storey mall with over 400 retail and food and beverage outlets

Organised into thematic precincts such as Japan and Hong Kong streets

Direct connection to Boon Lay MRT station and bus interchange



$140.0 Million
Total Revenue
(FY2019)

$2,149.5 Million
Appraised Value
(as at
31 December 2019)

JURONGPOINT

JURONG POINT KEY HIGHLIGHTS

- Continued active tenant mix enhancements with introduction of, amongst others, new Japanese Street concept "&JOY", new local delights such as Tongue Tip Lanzhou beef noodles, new concept store for Guardian and new Cafe Amazon
- Crowd-pulling festive activities such as celebrating mid-autumn festival with Sanrio characters and Christmas with Doraemon. Shoppers were treated to dance shows, got up close and personal with Hello Kitty and Doraemon and Friends, and redeemed exclusive or limited edition premiums

SWING BY @ THOMSON PLAZA KEY HIGHLIGHTS

- Commencement of asset enhancement works in the second half of 2019
- Rebranded area as Swing By @ Thomson Plaza
- Some new and old tenants who have started operating from December 2019 are Daiso; Hajime Tonkatsu and Ramen (second outlet in Singapore); Whiskey Distillery; Astons; Eng's Wanton Noodle and Tingkat PeraMakan



$207.0 Million
Appraised Value
(as at 31 December 2019)



Suburban mall with a rich community heritage along Upper Thomson Road

Will be **connected to Upper Thomson MRT** when Thomson-East Coast Line becomes operational in 2020

49
Tenants

110,000 Square Feet
Net Lettable Area
(Strata owned)





Swing By
@ Thomson Plaza



99 Years
Lease Tenure
(from 15 October 1976)

$8.1 Million
Total Revenue (FY2019)









97.6%
Occupancy
(100% on committed basis)

94 Years
Lease Tenure
(from 1 April 2006)

$33.7 Million
Total Revenue
(FY2019)

$650.0 Million
Appraised Value
(as at 31 December 2019)

12
Tenants

430,000 Square Feet
Net Lettable Area

30-storey Grade A office building

Offers panoramic view of Marina Bay

Connected to Raffles Place MRT and Downtown MRT via an air-conditioned underground mall

ONE MARINA BOULEVARD KEY HIGHLIGHTS

- Singapore-based flexible workspace operator Arcc Spaces will open its flagship project at OMB in April 2020
- Co-locates several NTUC Social Enterprises to support the community needs in town – NTUC Members Hub; My Little Skool House; Unity Denticare; Wang Cafe
- Venue for conferences, seminars and concerts (managed by NTUC)

NEX KEY HIGHLIGHTS

- Continued focus on driving footfall and sales conversion
- My NexReward loyalty programmes successfully launched in August 2019
- Unique marketing activities curated throughout the year:
  - Marvel Studio's Spider-Man delighted shoppers in June with life-sized replicas and fun-filled activities such as games, lucky draws and premium redemptions
  - During August, shoppers were treated to back-to-back TANGS Mid-Autumn Fair and ISETAN's Momiji Matsuri with 28 delectable brands of mooncakes and autumn seasonal specialities from Japan respectively



Seven-storey, family-friendly mall located in Singapore's north-east region

Positioned as a vibrant, **social and recreational hub**

Accessible to Serangoon MRT station and bus interchange with direct connection

98.5%
Occupancy
(98.5% committed basis)

$1,953.0 Million
Appraised Value[1]
(100% – as at 31 December 2019)

322
Tenants

630,000 Square Feet
Net Lettable Area

$127.6 Million
Total Revenue[1]
(FY2019)

99 Years
Lease Tenure
(from 26 June 2008)

[1] Appraised value and total revenue reflects 100% of NEX's performance.



35 strata-titled units within shopping malls and HDB sites across Singapore



99.0%
Occupancy

$450.0 Million
Appraised Value



$31.1 Million
Total Revenue
(FY2019)

Range from 30-99 Years
Except Coronation Plaza
(freehold)

34
Tenants

BUILDING MOMENTUM:

OUR IMPACT

Our impact is manifold. While our unwavering support for our tenants has strengthened our business performance, our proactive engagement with stakeholders for various community outreach initiatives has reinforced our commitment to sustainability.

Achieved
BizSafe STAR
from Workplace Safety and Health Council

Contributed to
NTUC-U Care Fund
for seven consecutive years

Sustainability



At Mercatus, we recognise that our actions have far-reaching impact on our stakeholders. Hence, we take a holistic and collaborative approach towards advancing sustainability causes that are meaningful to the communities we operate in, our people and the environment.

Many of our initiatives and business activities support various United Nations (UN) Sustainable Development Goals (SDGs). We are committed to building upon this momentum to further sustainability – for our business, our people, our community and the environment.

SUPPORTING COMMUNITY INITIATIVES

The well-being of our community underpin ours. For that reason, we maintained our efforts in supporting various non-profit, community, charitable organisations and government agencies at our retail malls through venue sponsorships. Some partners we worked with in 2019 included Health Promotion Board, Central Narcotics Bureau, Ministry of Manpower, and Ministry of Culture, Community and Youth.

In addition, we contributed to NTUC-U Care Fund for the seventh consecutive year. As a subsidiary of NTUC Enterprise Co-operative Limited, we also kept up with our commitment to provide at least 25% of commercial space to NTUC Social Enterprises to facilitate their community outreach efforts.

FOSTERING A FAIR, SAFE AND INCLUSIVE WORKPLACE

The health and safety, and continued development of our people is our priority. Besides attaining BizSafe STAR from Workplace Safety and Health Council across the Group portfolio, we achieved ISO 14001 (Environmental, Health and Safety Management System) and ISO 45001 (Occupational, Health and Safety Management System). The setup of our Training Committee – a tripartite collaboration between senior management, the union and employee representatives – in May 2019 also paved the way for the implementation of our 2020 training roadmap.

Furthermore, as an employer that embraces inclusiveness and fair employment opportunities, we feature a diverse workforce in both our management (about one-third male: two-thirds female) and operations (about equal number of male and female). Of which, over 26% of our workforce is over 50 years old.

CONTRIBUTING TOWARDS ENVIRONMENTAL CAUSES

Being an active supporter of BCA green building standards, all Mercatus-owned buildings – AMK Hub, Jurong Point 1 and 2, and One Marina Boulevard achieved at least BCA Green Mark Gold^{Plus} certification.

During the year, we initiated several programmes to improve water and energy efficiency, as well as waste management at our properties. Amongst which, the introduction of a green lease programme for tenancy fit-outs saw us working with tenants to increase energy efficiency, create healthier indoor spaces, and reduce utility costs.

Other notable programmes are as listed below.

Water Efficiency

- Applied the Singapore Standard 577 (Water Efficiency Management Systems) at Jurong Point
- Implemented a chemical-free water treatment system in Jurong Point

Energy Efficiency

- Implemented energy management system to measure and verify chiller plant performance and automatic optimisation
- Optimised chiller plant system to reduce energy consumption
- Installed dynamic smart control system for air conditioners
- Upgraded lighting system to energy efficient LED lights

Waste Management

- Implemented waste monitoring and recycling programme across properties
- Reduced waste with the introduction of recycling and e-waste management solutions

Social Impact

MERCATUS

In support of NTUC-U Care Fund, $446,600 was donated towards various assistance programmes, including the U Stretch Vouchers and U Care Back-to-School Vouchers, to help 26,000 beneficiaries. We also donated $250,000 to NTUC Health & Money Owl, in support of Merdeka Generation activities.



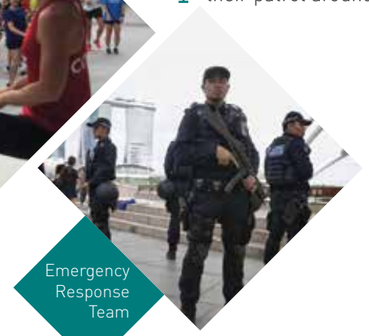
$446,600
donation to NTUC-U Care Fund

$250,000
donation towards Merdeka Generation Activities









OMB

OMB had an eventful year in 2019. As a venue sponsor, we supported Health Promotion Board in its Amazing Race at One Marina Boulevard in January, as well as weekly HIIT and Running Clinic sessions.

We also showed our support for Singapore Cancer Society's World Cancer Day and Central Narcotics Bureau's DrugFreeSG via NTUC logo lit-up on 4 February and 26 June respectively.

In addition, OMB provided the staging and rest areas for the Emergency Response Team from the Singapore Police Force for their patrol around the Marina Bay area.

Social Impact

AMK HUB

In 2019, AMK Hub collaborated with old and new partners for their event needs. We hosted SOSD's responsible dog adoption drive on 14 April; Singapore National Co-operative Federation's (SNCF) "Stretch Your Dollar" Pop-Art installation for the third time between 12 July and 4 August; and Eco-Fiesta 2019 – jointly organised by National Environment Agency and Central Singapore Community Development Council – on 14 September.



NEA and Central CDC's Eco-Fiesta 2019



SOSD's adoption drive



SNCF's Stretch Your Dollar campaign



Merdeka Generation Roadshow

JURONG POINT

During the year, Jurong Point was a venue supporter for roadshows organised by various government agencies. These included Merdeka Generation Roadshow on 3 August; the Stroke Awareness and Prevention Roadshow by Stroke Support Station on 19 October; and the CPF Retirement Planning Roadshow on 16 and 17 November. In addition, Jurong Point hosted the SGSecure Roadshow organised by the Singapore Police Force (from 18 to 20 October 2019) to increase awareness of potential terrorist attacks. Minister S. Iswaran graced the event as guest-of-honour.



Stroke Awareness and Prevention Roadshow



Spark The Next: Youth Hangout



CPF Retirement Planning Roadshow

NEX

In conjunction with NEX's initiative to go green, NEX shoppers participated in eco craft workshops and contributed clean, pre-loved clothes to The Salvation Army Donation Drive in March to help the less privileged and go green at the same time.

In May, NEX partnered Make-A-Wish Foundation Singapore to raise a total of $8,754.25, including $5,000 donation from NEX, for children suffering from life-threatening medical conditions.

$5,000
Make-A-Wish Foundation Singapore



Cheque presentation to Make-A-Wish Foundation



Eco Craft Workshops

BUILDING MOMENTUM:

OUR PEOPLE

Staff Strength of

>250

with equal representation

Provides Equal Opportunities for Career Advancement and New Skills Learning

Our people drive our growth through commitment and teamwork. That is why we believe in enabling our people to fulfil their potential and deepen their strengths. The result is a resilient team.



CULTIVATING GROWTH MINDSET, AGILITY AND COLLABORATIVE RELATIONS

- Conducted cross-functional events, bringing together cross-functional employees for experiential adventure learning
- Building Resilience & Growth Mindset programme to build key mindsets for improving team dynamics and equip individuals with strategies to build personal resilience and workplace excellence
- Developed comprehensive training roadmap that is aligned to the key competencies of Worker 4.0

Board of Directors



1. MS MAY NG
Chairman
Ms Ng is presently the Chief Executive Officer of Pan-United Corporation Ltd and sits on the boards of several subsidiaries of the Pan-United Group. She has been a Director of NTUC Enterprise Co-operative Limited since 2015 and was conferred the Meritorious Service Award in 2014 by NTUC for her continuous support, dedication and significant contribution to the Labour Movement.

2. MS ADELINE SUM
Deputy Chairman
Ms Sum is the Chief Executive Officer of Singapore Labour Foundation and Deputy Chief Executive Officer (Strategic Alignment) of NTUC Enterprise Co-operative Limited. She holds directorships in ComfortDelgro Corporation Limited and several other NTUC social enterprises.

3. MR WONG HENG TEW
Director and Audit & Risk Committee Chairman
Mr Wong is currently an Advisory Director of Temasek International Advisors. Prior to that, he was the Managing Director of Investments and Chief Representative of Temasek Holdings in Vietnam. Mr Wong is also an Independent Non-executive Director of Sabana Real Estate Investment Management Pte Ltd and holds several other directorships including in Azalea Asset Management and Temasek Foundation Innovates. Mr Wong was conferred the Friend of Labour Award in 2014 by NTUC for his continuous support, dedication and significant contribution to the Labour Movement.

4. MR SOONG HEE SANG
Director and MSIM Board Committee Chairman
Mr Soong is currently an Independent Non-executive Director of Keppel-Pacific Oak US REIT Management Pte Ltd. Prior to this, Mr Soong was with GIC Real Estate where he took on the roles of Managing Director (Deputy Head Asia) from 2006 to 2013, and Managing Director (London) from 2013 to 2016. Before he joined GIC Real Estate, Mr Soong was with the CapitaLand group where he held various appointments including the Chief Executive Officer (New Markets) of CapitaLand Residential Limited, Chief Executive Officer of CapitaCommercial Trust and Country Director and Managing Director for London.

5. MR NG ENG KIONG
Director
Mr Ng is presently the Honorary Advisor of the Singapore Green Building Council ("SGBC"). He was the founding Board Member of the SGBC when it was first incorporated in May 2009 and served as its 3rd President from 2013 to 2015. Mr Ng was with Squire Mech for 29 years, led the firm as Managing Director since 2000 and took on the role of Senior Director prior to his retirement from the company in 2019. Mr Ng is appointed a member of the Building Project Committee to oversee the revamp of the Singapore Art Museum. He was conferred the Friend of Labour Award in 2019 by NTUC for his continuous support, dedication and significant contribution to the Labour Movement.

6. MR WILLY SHEE
Director
Mr Shee is presently the Senior Advisor of CBRE Pte Ltd. He was the Chairman of CBRE, Asia, from 2005 to 2016 and has been with CBRE for more than 40 years. Before CBRE, Mr Shee was the Acting Deputy Chief Valuer at the Singapore Inland Revenue Authority. He holds several other directorships including Director of Bund Center Investments Ltd, Keppel Land Ltd and Sinarmas Land Ltd. Mr Shee is the Honorary Secretary and Committee Member of The Singapore Turf Club, a Fellow Member of the Singapore Institute of Directors and the Singapore Institute of Surveyors and Valuers. Mr Shee was conferred the Friend of Labour Award in 2009 by NTUC for his continuous support, dedication and significant contribution to the Labour Movement.

7. MR KEN NG
Director
Mr Ng is currently the Deputy Chief Executive Officer and Chief Investment Officer of NTUC Enterprise Co-operative Limited. Prior to joining NTUC Enterprise in 2019, he was the Chief Executive of NTUC Income Insurance Co-operative Limited. Before joining NTUC Income, Mr Ng held various senior leadership positions in leading multinational insurers in Asia and has worked in the UK, Hong Kong, China and Singapore.

8. MR TAN KIAN HUAY
Executive Director
Mr Tan is currently the Executive Director providing strategic advisory to Senior Management and oversees the execution of projects undertaken by Mercatus. Mr Tan has over 40 years of experience in the building and construction industry, including serving as the Managing Director of Obayashi Singapore Pte. Ltd. from 1989 to 2004. He was also previously a director of NTUC Choice Homes Co-operative Ltd, NTUC Fairprice Co-operative Ltd and Jurong Health Services Pte Ltd. Mr Tan, a former President of the Singapore Institute of Building, is currently a fellow and was a former 2nd Vice President of the Society of Project Managers. Mr Tan was conferred the Friend of Labour Award in 2013 by NTUC for his continuous support, dedication and significant contribution to the Labour Movement.

AUDIT & RISK COMMITTEE
Wong Heng Tew (Chairman)
Ng Eng Kiong
Willy Shee
(with effect from 1 November 2019)
Yeo Chun Fing
(retired on 27 May 2019)
Lim Kok Guan
(retired on 1 November 2019)

INVESTMENT COMMITTEE
May Ng (Chairman)
Soong Hee Sang
Adeline Sum
(with effect from 2 January 2019)
Wong Heng Tew
(with effect from 1 November 2019)
Lim Kok Guan
(retired on 1 November 2019)

ESTABLISHMENT COMMITTEE
May Ng (Chairman)
Adeline Sum
Willy Shee

MERCATUS STRATEGIC INVESTMENT MANAGEMENT BOARD COMMITTEE (MSIM)
Soong Hee Sang (Chairman)
Wong Heng Tew
David Poh Tze Keong
Ken Ng (with effect from 1 November 2019)

CUSTOMER EXPERIENCE COMMITTEE
(Completed its term on 1 November 2019)
Willy Shee (Chairman)
Lim Kok Guan



Senior Management



1. MR DAVID POH

Chief Executive Officer

Mr Poh was appointed as Chief Executive Officer of Mercatus in 2017. He leads the senior leadership team in Mercatus to achieve its long term and sustainable growth objectives. Prior to the appointment, Mr Poh served on the Mercatus Board and has played a key role in the setup of Mercatus since 2011. Mr Poh also holds the appointment of Deputy Chief Executive Officer and Chief Financial Officer in Singapore Labour Foundation (SLF), and sits on several boards including Mercatus and SLF.



2. MS TAN SER JOO

Managing Director, Commercial

Ms Tan is the Managing Director, Commercial. She oversees the Group's asset strategy and is responsible for the growth and performance of the retail and office portfolio. Ms Tan has over 25 years of real estate experience, including property investment, asset management, property development, property management, leasing, marketing and property taxation and valuation. Apart from rich working experience in Singapore and China, Ms Tan has held various senior positions, including Chief Executive Officer of APM Property Management Pte Ltd, Executive Director and Head of Investment & Asset Management of the trustee-manager of Perennial China Retail Trust and the Senior Vice President, Investment & Asset Management of Perennial Real Estate Pte Ltd. Prior to these, she was the Head of Investment & Asset Management and Senior Vice President of CapitaMalls Asia Limited and the Investment Manager of CapitaMall Trust Management Limited.







3. MS LOKE HUEY TENG

Managing Director, Finance & Strategic Development / CFO

Ms Loke is the Managing Director, Finance & Strategic Development and the Chief Financial Officer. She has responsibility for the strategic planning, managing and running of core corporate functions, including financial reporting, treasury, risk management, legal and compliance. Ms Loke has over 20 years of experience in business development, investment, capital markets, corporate finance and accounting. Before Mercatus, Huey Teng was the Chief Financial Officer of Mapletree Commercial Trust Management. She had served in different roles within the Mapletree Group since she joined in May 2004 and was responsible for the public listing of two other Mapletree REITs. Prior to Mapletree, Huey Teng was with the PSA Corporation, and involved in international business development.

4. MR RAJAT MITTAL

Managing Director, Digital & Technology

Mr Mittal is the Managing Director, Digital & Technology. He is responsible for leading the organisation's digital strategy and technology development. Mr Mittal has over two decades of experience delivering digital outcomes for organisations across advanced markets and emerging economies. In his previous role as the Digital Transformation Director at Cisco Systems, he worked with government bodies, infrastructure operators, and private sector organisations in developing new digital platforms, business models and industry ecosystems. Prior to his eight-year stint at Cisco Systems, Rajat led consulting in areas of Product Strategy and Business Development for Wipro Technologies.



5. MR TEO YUNG FUNG

Managing Director, Investment

Mr Teo is the Managing Director, Investment. He is responsible for overseeing the investment function and managing the performance and growth of the investment portfolio. Mr Teo has close to 25 years of investment experience. During which, he oversaw the private equity and real estate investment portfolios at NTUC Income for more than 10 years, leading the respective investment teams in executing and managing various investment strategies. Prior to joining NTUC Income, he was with Temasek Holdings, holding responsibilities in private equity fund investments. He was also with Rothschild Group, raising and managing various private equity investment funds. Yung Fung is a CFA® charterholder.

6. MS ELLINA CHIA

Director, Asset Management

Ms Chia is the Director, Asset Management. She is responsible for preserving and improving the long term performance of properties through developing asset business plans and asset enhancement works for the retail and office portfolio. Ms Chia has accumulated more than 23 years of real estate experience in lease administration, investment and asset management. Prior to joining Mercatus, Ellina was the Vice President of Asset Management with CapitaLand where she was responsible for the overall asset performance, and development of One-North Star Vista project. During her tenure with CapitaLand, she held various positions, including planning and managing of REIT and non-REIT Singapore assets. She was also stationed in Japan for three years to manage a private retail fund, including a secondment to Lendlease Japan for 18 months to work on the acquisition of non-performing loans.

7. MS FRANCES SEETOH

Director, Finance

Ms Seetoh is the Director, Finance. She is responsible for financial and management accounting, consolidation, reporting and analysis for Mercatus Group of companies, joint ventures and third-party real estate portfolio. She has over 20 years of financial management experience, including financial and treasury operation management, reporting and analysis and strategic business planning. During her career, she has led business setups, transformations and integrations. Prior to joining Mercatus, Ms Seetoh was the Vice President, Business Planning and Analysis of Singapore Stock Exchange Limited.

8. MS JUNE ANG

Director, Retail Management

Ms Ang is the Director, Retail Management. She is responsible for the operational efficiency of the retail portfolio, which include overseeing the leasing, marketing communications and facilities management functions as well as the malls' management team. Ms Ang has over 15 years of experience in real estate management with CapitaLand. She was seconded to China and India for two and a half years to set up new structure and processes for operating teams. In the last three years, she led the teams at Plaza Singapura and Atrium@Orchard in her role as the Vice President to complete asset enhancement and project development works.

9. MS SYNNETTE NG

Director, Human Resources

Ms Ng is the Director, Human Resources. She is responsible for human capital management and leadership development for the workforce. Ms Ng has over 15 years of Human Resources (HR) experience in talent management, change leadership, organisation effectiveness, leadership development, and workforce engagement. Prior to Mercatus, Ms Ng was on the Asia Pacific leadership team of Diageo Global Travel Retail and led the HR strategies for both Asia commercial teams and global functions. During her earlier tenure at FedEx Express, she was the business partner to Singapore, Malaysia, and Indonesia markets. She also held the position of Asia Pacific Senior Industrial Psychologist, and was responsible for the development and delivery of organisational development outcomes.



FINANCIAL STATEMENTS

33 Directors' Statement
35 Independent Auditors' Report
40 Statements of Financial Position
41 Statements of Comprehensive Income
42 Consolidated Statement of Changes In Equity
44 Statement of Changes In Equity
46 Consolidated Statement of Cash Flows
48 Notes to the Financial Statements

Directors' Statement

Year ended 31 December 2019

The Directors present this annual report to the members together with the audited financial statements of the Co-operative for the financial year ended 31 December 2019.

(a) the financial statements set out on pages 40 to 107 are drawn up in accordance with the provisions of the Co-operative Societies Act, Chapter 62 (the "Act") and Singapore Financial Reporting Standards, so as to give a true and fair view of the financial position of the Group and of the Co-operative as at 31 December 2019, and of the financial performance, changes in equity and cash flows of the Group and of the results and changes in equity of the Co-operative for the year ended 31 December 2019;

(b) at the date of this statement, there are reasonable grounds to believe that the Co-operative will be able to pay its debts as and when they fall due; and

(c) the receipt, expenditure, investment of moneys and acquisition and disposal of assets by the Co-operative during the year ended 31 December 2019 have been made in accordance with the By-Laws of the Co-operative and the provisions of the Act and the Rules (made under section 95 of the Act).

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

(A) DIRECTORS

The Directors of the Co-operative in office at the date of this statement are as follows:

May Ng Bee Bee	Chairman
Adeline Sum Wai Fun	Deputy Chairman
Tan Kian Huay	Executive Director
Wong Heng Tew	Director
Willy Shee Ping Yah	Director
Ng Eng Kiong	Director
Soong Hee Sang	Director
Ken Ng Wai Kin	Director (Appointed on 22 July 2019)

(B) ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial year was the Co-operative a party to any arrangement whose object is to enable the Directors of the Co-operative to acquire benefits by means of the acquisition of shares in or debentures of the Co-operative or any other body corporate.

Directors' Statement
Year ended 31 December 2019

(C) DIRECTORS' INTERESTS

The Directors of the Co-operative held office at the end of the financial year with interests in the shares of the Co-operative and its related corporations as recorded in the register of Directors' shareholdings kept by the Co-operative are as follows:

	Shareholdings registered in the name of Directors (including those held by their spouses and/or children)	
	At beginning of the financial year	At end of the financial year
Name of Directors and Co-operative in which interests are held		
NTUC Fairprice Co-operative Limited		
Adeline Sum Wai Fun	20	20
Willy Shee Ping Yah	1,259	1,259
Wong Heng Tew	52	52

(D) SHARE OPTIONS

There were no share options granted by the Co-operative during the financial year.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Co-operative.

There were no unissued shares of the Co-operative under options as at the end of the financial year.

(E) AUDITORS

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

May Ng Bee Bee
Chairman

Wong Heng Tew
Director

Singapore
15 April 2020

Independent Auditors' Report
Year ended 31 December 2019

Members of the Co-operative
Mercatus Co-operative Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Mercatus Co-operative Limited ('the Co-operative') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Co-operative as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and statement of comprehensive income and statement of changes in equity of the Co-operative for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 40 to 107.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position, statement of comprehensive income and statement of changes in equity of the Co-operative are properly drawn up in accordance with the provisions of the Co-operative Societies Act, Chapter 62 ('the Act') and Financial Reporting Standards in Singapore ('FRSs') so as to give a true and fair view of the state of affairs of the Group and the Co-operative as at 31 December 2019 and of the results, changes in equity and cash flows of the Group and of the results and changes in equity of the Co-operative for the year ended on that date.

BASIS FOR OPINION

We conducted our audit in accordance with Singapore Standards on Auditing ('SSAs'). Our responsibilities under those standards are further described in the *'Auditors' responsibilities for the audit of the financial statements'* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ('ACRA Code') together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

IMPAIRMENT ASSESSMENT OF INVESTMENT PROPERTIES ($3,835 MILLION AS AT 31 DECEMBER 2019) (REFER TO NOTE 5 TO THE FINANCIAL STATEMENTS)

The key audit matter	How the matter was addressed in our audit
The Group owns a portfolio of investment properties comprising retail and office units, constituting 78% of the total assets as at 31 December 2019. These properties are carried at cost less accumulated depreciation and impairment loss, and are subject to an annual review to assess whether or not they may be impaired. The Group engages external valuers to appraise the valuations of these properties, and uses such valuation reports to determine whether the properties are at risk of being impaired i.e. an indication of impairment is noted when the external valuation of the property is lower than the property's carrying amount. The properties at risk are then subject to a detailed impairment review whereby their recoverable amounts are estimated. The Group uses a combination of internal and external valuations in estimating the recoverable amount of its properties, which is determined to be the higher of the fair value less costs to sell and value-in-use of these properties. The fair values of the properties are determined based on the independent professional valuations undertaken using the direct comparison method, capitalisation approach and discounted cash flow approach, whereas the value-in-use estimates of the properties are derived from discounted cash flow forecasts prepared by management. The estimation of the recoverable amount of the properties involves the determination of valuation methodologies, and the use of estimates and assumptions. Changes to the estimates and assumptions may have a significant impact to the recoverable amounts.	Where independent professional valuers are engaged to appraise the valuations of the Group's properties, we have assessed the appropriateness of the valuation methodologies and accompanying assumptions used by the valuers, taking into consideration available industry data and prevailing market conditions. For properties with indicators of impairment noted, we evaluated the methodologies and assumptions applied in the estimation of the properties' recoverable amount. These include comparing the key assumptions supporting management's value-in-use calculations, particularly the forecasted cash flows, discount rates, terminal growth rates, and average revenue growth to available market data. Findings: We found that the methodologies used by the external valuers were consistent with market practices and the assumptions applied were comparable to market data. The key assumptions supporting management's value-in-use calculations were also in line with the historical trends achieved on the properties, the Group's plans for the properties and available market data.

Independent Auditors' Report
Year ended 31 December 2019

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

OTHER INFORMATION

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion 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, 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 in this regard.

RESPONSIBILITIES OF MANAGEMENT AND DIRECTORS FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for such internal controls as management determines 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, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

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 SSAs 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.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINION

In our opinion:

(a) the receipt, expenditure, investment of moneys and the acquisition and disposal of assets by the Co-operative during the year are, in all material respects, in accordance with the By-laws of the Co-operative and the provisions of the Act and the Rules (made under section 95 of the Act); and

(b) proper accounting and other records have been kept by the Co-operative.

Independent Auditors' Report
Year ended 31 December 2019

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (CONT'D)

BASIS FOR OPINION

We conducted our audit in accordance with SSAs. Our responsibilities under those standards are further described in the *'Auditors' responsibilities for the compliance audit'* section of our report. We are independent of the Group in accordance with the ACRA Code together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on management's compliance.

MANAGEMENT'S RESPONSIBILITY FOR COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

Management is responsible for ensuring that the receipt, expenditure, investment of moneys and the acquisition and disposal of assets, are in accordance with the By-laws of the Co-operative and the provisions of the Act and the Rules (made under section 95 of the Act). This responsibility includes monitoring related compliance requirements relevant to the Co-operative, and implementing internal controls as management determines are necessary to enable compliance with the By-laws of the Co-operative and the provisions of the Act and the Rules (made under section 95 of the Act).

AUDITORS' RESPONSIBILITY FOR THE COMPLIANCE AUDIT

Our responsibility is to express an opinion on management's compliance based on our audit of the financial statements. We planned and performed the compliance audit to obtain reasonable assurance about whether the receipt, expenditure, investment of moneys and the acquisition and disposal of assets, are in accordance with the By-laws of the Co-operative and the provisions of the Act and the Rules (made under section 95 of the Act).

Our compliance audit includes obtaining an understanding of the internal control relevant to the receipt, expenditure, investment of moneys and the acquisition and disposal of assets; and assessing the risks of material misstatement of the financial statements from non-compliance, if any, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Because of the inherent limitations in any internal control system, non-compliances may nevertheless occur and not be detected.

The engagement partner on the audit resulting in this independent auditors' report is Lo Mun Wai.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
15 April 2020

Statements of Financial Position

As at 31 December 2019

	Note	Group		Co-operative	
		2019	2018	2019	2018
		$'000	$'000	$'000	$'000
Non-current assets					
Property, plant and equipment	4	3,636	3,108	1,741	338
Investment properties	5	3,835,009	3,889,020	–	–
Investment in subsidiaries	6	–	–	752,853	751,554
Investment in an associate	7	–	–	–	–
Investment in a joint venture	8	334,592	353,836	–	–
Other investments	9	455,000	195,000	–	–
		4,628,237	4,440,964	754,594	751,892
Current assets					
Other investments	9	–	260,000	–	–
Trade and other receivables	10	27,236	13,424	3,798,245	3,862,822
Cash and cash equivalents	11	212,511	216,484	165,562	170,960
		239,747	489,908	3,963,807	4,033,782
Assets held for sale	12	34,954	47,491	–	–
		274,701	537,399	3,963,807	4,033,782
Total assets		4,902,938	4,978,363	4,718,401	4,785,674
Non-current liabilities					
Rental deposits		35,879	38,210	–	–
Loans and borrowings	13	1,855,186	1,974,844	1,855,186	1,974,844
Trade and other payables, including derivatives	14	6,677	3,327	6,677	1,875
		1,897,742	2,016,381	1,861,863	1,976,719
Current liabilities					
Rental deposits		20,658	14,807	–	–
Loans and borrowings	13	419,888	454,970	419,888	279,970
Trade and other payables	14	67,335	65,135	130,948	280,891
		507,881	534,912	550,836	560,861
Total liabilities		2,405,623	2,551,293	2,412,699	2,537,580
Net assets		2,497,315	2,427,070	2,305,702	2,248,094
Equity					
Membership shares	15	1,856,976	1,803,627	1,856,976	1,803,627
Accumulated profits		98,245	81,613	71,007	61,521
Other reserves	16	396,692	398,268	377,719	382,946
Equity attributable to members of the Co-operative		2,351,913	2,283,508	2,305,702	2,248,094
Non-controlling interests	6	145,402	143,562	–	–
Total equity		2,497,315	2,427,070	2,305,702	2,248,094

The accompanying notes form an integral part of these financial statements.

Statements of Comprehensive Income

As at 31 December 2019

	Note	Group		Co-operative	
		2019	2018	2019	2018
		$'000	$'000	$'000	$'000
Revenue	17	259,723	255,238	–	–
Other income	18	18,926	13,176	32,729	27,697
Depreciation expense		(63,900)	(63,688)	(313)	(253)
Property tax		(23,554)	(22,434)	–	–
Staff costs		(23,498)	(19,878)	(8,968)	(6,097)
Maintenance fee expense		(14,222)	(13,865)	–	–
Other expenses		(27,184)	(27,022)	(5,448)	(5,028)
Finance income	20	12,665	9,821	124,960	113,446
Finance costs	20	(64,864)	(61,880)	(64,451)	(56,037)
Share of results of:					
- Joint venture		19,506	19,024	–	–
- Associate		–	104	–	–
Profit before tax and contributions	19	93,598	88,596	78,509	73,728
Tax expense	21	(19)	(9)	–	–
Profit before contributions		93,579	88,587	78,509	73,728
Contributions to:					
- Central Co-operative Fund	22	(104)	(115)	(25)	(25)
- Singapore Labour Foundation	22	(16,616)	(16,060)	(15,649)	(14,739)
Profit for the year		76,859	72,412	62,835	58,964
Other comprehensive income					
Item that are or may be reclassified subsequently to profit or loss:					
Effective portion of changes in fair value of cash flow hedge		(5,227)	(1,837)	(5,227)	(1,837)
Total comprehensive income for the year		71,632	70,575	57,608	57,127
Profit attributable to:					
Members of the Co-operative		74,826	71,177	62,835	58,964
Non-controlling interests		2,033	1,235	–	–
		76,859	72,412	62,835	58,964
Total comprehensive income attributable to:					
Members of the Co-operative		69,599	69,340	57,608	57,127
Non-controlling interests	6	2,033	1,235	–	–
Total comprehensive income for the year		71,632	70,575	57,608	57,127

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Note	Attributable to members of the Co-operative				Non-controlling interests $'000	Total equity $'000
		Membership shares $'000	Accumulated profits $'000	Other reserves (Note 16) $'000	Total $'000		
Group							
At 1 January 2018		1,713,857	52,429	390,218	2,156,504	201,685	2,358,189
Total comprehensive income for the year							
Profit for the year		–	71,177	–	71,177	1,235	72,412
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedge		–	–	(1,837)	(1,837)	–	(1,837)
Total other comprehensive income		–	–	(1,837)	(1,837)	–	(1,837)
Total comprehensive income for the year		–	71,177	(1,837)	69,340	1,235	70,575
Transactions with members, recognised directly in equity							
Contributions by and distributions to members							
Issuance of bonus shares	15	50,831	(50,831)	–	–	–	–
Dividends paid		–	–	–	–	(1,694)	(1,694)
Total contributions by and distributions to members		50,831	(50,831)	–	–	(1,694)	(1,694)
Change in ownership interest in subsidiaries							
Acquisition of non-controlling interests without a change in control	6	38,939	–	19,918	58,857	(58,857)	–
Total change in ownership interest in subsidiaries		38,939	–	19,918	58,857	(58,857)	–
Total transactions with members		89,770	(50,831)	19,918	58,857	(60,551)	(1,694)
Transfers	16	–	8,838	(10,031)	(1,193)	1,193	–
At 31 December 2018		1,803,627	81,613	398,268	2,283,508	143,562	2,427,070

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity (Cont'd)

Year ended 31 December 2019

	Note	Attributable to members of the Co-operative				Non-controlling interests $'000	Total equity $'000
		Membership shares $'000	Accumulated profits $'000	Other reserves (Note 16) $'000	Total $'000		
Group							
At 1 January 2019		1,803,627	81,613	398,268	2,283,508	143,562	2,427,070
Total comprehensive income for the year							
Profit for the year		–	74,826	–	74,826	2,033	76,859
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedge		–	–	(5,227)	(5,227)	–	(5,227)
Total other comprehensive income		–	–	(5,227)	(5,227)	–	(5,227)
Total comprehensive income for the year		–	74,826	(5,227)	69,599	2,033	71,632
Transactions with members, recognised directly in equity							
Contributions by and distributions to members							
Issuance of bonus shares	15	53,349	(53,349)	–	–	–	–
Dividends paid		–	–	–	–	(1,458)	(1,458)
Total contributions by and distributions to members		53,349	(53,349)	–	–	(1,458)	(1,458)
Change in ownership interest in subsidiaries							
Capital contribution from non-controlling interest		–	–	–	–	71	71
Total change in ownership interest in subsidiaries		–	–	–	–	71	71
Total transactions with members		53,349	(53,349)	–	–	(1,387)	(1,387)
Transfers	16	–	(4,845)	3,651	(1,194)	1,194	–
At 31 December 2019		1,856,976	98,245	396,692	2,351,913	145,402	2,497,315

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2019

	Note	Membership shares $'000	Accumulated profits $'000	Capital reserve $'000	Hedging reserve $'000	Total equity $'000
Co-operative						
At 1 January 2018		1,713,857	53,388	365,139	(38)	2,132,346
Total comprehensive income for the year						
Profit for the year		–	58,964	–	–	58,964
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedge		–	–	–	(1,837)	(1,837)
Total other comprehensive income		–	–	–	(1,837)	(1,837)
Total comprehensive income for the year		–	58,964	–	(1,837)	57,127
Transactions with members, recognised directly in equity						
Contributions by and distributions to members						
Issuance of bonus shares	15	50,831	(50,831)	–	–	–
Total contributions by and distributions to members		50,831	(50,831)	–	–	–
Change in ownership interest in subsidiaries						
Acquisition of non-controlling interests without a change in control	6	38,939	–	19,682	–	58,621
Total change in ownership interest in subsidiaries		38,939	–	19,682	–	58,621
Total transactions with members		89,770	(50,831)	19,682	–	58,621
At 31 December 2018		1,803,627	61,521	384,821	(1,875)	2,248,094

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity (Cont'd)

Year ended 31 December 2019

	Note	Membership shares $'000	Accumulated profits $'000	Capital reserve $'000	Hedging reserve $'000	Total equity $'000
Co-operative						
At 1 January 2019		1,803,627	61,521	384,821	(1,875)	2,248,094
Total comprehensive income for the year						
Profit for the year		–	62,835	–	–	62,835
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedge		–	–	–	(5,227)	(5,227)
Total other comprehensive income		–	–	–	(5,227)	(5,227)
Total comprehensive income for the year		–	62,835	–	(5,227)	57,608
Transactions with members, recognised directly in equity						
Contributions by and distributions to members						
Issuance of bonus shares	15	53,349	(53,349)	–	–	–
Total contributions by and distributions to members		53,349	(53,349)	–	–	–
Total transactions with members		53,349	(53,349)	–	–	–
At 31 December 2019		1,856,976	71,007	384,821	(7,102)	2,305,702

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Note	Group 2019 $'000	Group 2018 $'000
Cash flows from operating activities			
Profit before tax and contributions		93,598	88,596
Adjustments for:			
Depreciation of property, plant and equipment	4	954	1,077
Depreciation of investment property	5	62,946	62,611
Loss on disposal of investment in an associate		–	2
Gain on disposal of asset held for sale, net	18	(1,139)	–
Property, plant and equipment written off	19	409	–
Share of results of:			
- Joint venture		(19,506)	(19,024)
- Associate		–	(104)
Finance income	20	(12,665)	(9,821)
Finance costs	20	64,864	61,880
Operating cash flows before changes in working capital		189,461	185,217
Changes in working capital:			
Trade and other receivables		(12,575)	637
Trade and other payables and rental deposits		(17,195)	(9,210)
Cash generated from operating activities		159,691	176,644
Tax paid		(12)	(9)
Net cash flows from operating activities		159,679	176,635
Cash flows from investing activities			
Purchase of investment properties		(9,176)	(17,780)
Purchase of property, plant and equipment		(2,639)	(937)
Proceeds from disposal of asset held for sale		14,440	–
Grant received for property, plant and equipment		288	286
Proceeds from disposal of investment in an associate	7	–	1,749
Interest received		11,426	9,343
Dividend received from joint venture		38,750	28,100
Dividend received from associate		–	40
Dividend paid to non-controlling interests		–	(1,694)
Net cash flows from investing activities		53,089	19,107
Cash flows from financing activities			
Contribution from non-controlling interests		11	–
Dividend paid to non-controlling interests		(1,458)	–
Interest paid		(60,294)	(61,199)
Proceeds from loans and borrowings		100,000	150,000
Repayments of loans and borrowings		(255,000)	(225,000)
Net cash flows used in financing activities		(216,741)	(136,199)
Net (decrease)/increase in cash and cash equivalents		(3,973)	59,543
Cash and cash equivalents at beginning of the year		216,484	156,941
Cash and cash equivalents as at end of the year	11	212,511	216,484

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows (Cont'd)

Year ended 31 December 2019

SIGNIFICANT NON-CASH TRANSACTIONS

In 2019, there was the following significant non-cash transaction:

- 53 million membership shares were issued under the bonus issue where 30 membership shares were issued for every 1,000 membership shares (note 15).

In 2018, there were the following significant non-cash transactions:

- 39 million membership shares were issued at the par value of $1 each as satisfaction of the consideration of $59 million payable on the acquisition of additional interest in a subsidiary, NTUC Choice Homes Co-operative Ltd ("NCH") (notes 6 and 15); and
- 51 million membership shares were issued under the bonus issue where 33 membership shares were issued for every 1,000 membership shares (note 15).

The accompanying notes form an integral part of these financial statements.

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 15 April 2020.

1 DOMICILE AND ACTIVITIES

Mercatus Co-operative Limited (the "Co-operative") is incorporated in Singapore and constituted under the Co-operative Societies Act (Chapter 62). The address of the Co-operative's registered office is No.1 Marina Boulevard, #15-01 One Marina Boulevard, Singapore 018989.

The Co-operative is a subsidiary of NTUC Enterprise Co-operative Limited ("NE"), which is also the holding co-operative.

The principal activity of the Co-operative is that of a property owner. The principal activities of the subsidiaries are set out in note 6 to the financial statements.

The financial statements of the Group as at and for the year ended 31 December 2019 comprise the Co-operative and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in a joint venture.

2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the provisions of the Co-operative Societies Act, Chapter 62 (the "Act") and Singapore Financial Reporting Standards ("FRSs").

This is the first set of the Group's annual financial statements in which FRS 116 *Leases* has been applied. The related changes to significant accounting policies are described in note 2.6.

2.2 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except as otherwise described below.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying transactions, events and conditions relevant to that entity (the "functional currency").

These financial statements are presented in Singapore Dollars, which is the Co-operative's functional currency. All financial information presented in Singapore Dollars has been rounded to the nearest thousand, unless otherwise stated.

Notes to The Financial Statements
Year ended 31 December 2019

2 BASIS OF PREPARATION (CONT'D)

2.4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is described in note 5 – Impairment assessment of investment properties.

2.5 MEASUREMENT OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 5 Investment property
Note 25 Financial instruments

2 BASIS OF PREPARATION (CONT'D)

2.6 CHANGES IN ACCOUNTING POLICIES

The Group applied various FRSs and amendments to FRSs which are effective for the annual period beginning on 1 January 2019. Details of the accounting policies under FRS 116 *Leases* are described in note 3.13.

In addition, the Group has early adopted *Interest Rate Benchmark Reform* (Amendments to FRS 109, FRS 39 and FRS 107). Details of the accounting policies are set out in note 3.4 and related disclosures about risks and hedge accounting are set out in note 25.

The adoption of these standards and amendments to standards did not have a material effect on the Group's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

The accounting policies have been applied consistently by Group entities.

3.1 BASIS OF CONSOLIDATION

(i) Business combinations

Business combinations are accounted for using the acquisition method in accordance with FRS 103 *Business Combinations* as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date and included in the consideration transferred. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 BASIS OF CONSOLIDATION (CONT'D)

(i) Business combinations (cont'd)

Non-controlling interests ("NCI") that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other non-controlling interests are measured at acquisition-date fair value, unless another measurement basis is required by FRSs.

Costs related to the acquisition, other than those associated with the issue of debt or equity investments, that the Group incurs in connection with a business combination are expensed as incurred.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to NCI arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Investments in associate and joint venture (equity-accounted investee)

Associate is an entity in which of the Group has significant influence, but not control or joint control, over the financial and operating policies of the entity. Significant influence is presumed to exist when Group holds 20% or more of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 BASIS OF CONSOLIDATION (CONT'D)

(iv) Investments in associate and joint venture (equity-accounted investee) (cont'd)

Investment in an associate and a joint venture are accounted for using the equity method and are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, together with any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Accounting for subsidiaries, associate and joint venture by the Co-operative

Investments in subsidiaries, associate and joint venture are stated in the Co-operative's statement of financial position at cost less any accumulated impairment losses.

3.2 PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Construction work-in-progress are stated at cost less any accumulated impairment losses. Other items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset and includes the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(ii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset.

No depreciation is charged for construction work-in-progress. Depreciation on other property, plant and equipment is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years are as follows:

Furniture, fittings and equipment	3 to 10 years
Building improvements and renovation	5 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Disposals

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income or other expenses in profit or loss on the date of disposal.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 INVESTMENT PROPERTIES

Investment properties are held either to earn rental income or capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties. The cost of self-constructed investment properties includes the cost of materials and direct labour, and any other costs directly attributable to bringing the investment properties to a working condition for their intended use and capitalised borrowing costs.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives at each component of investment properties. No depreciation is charged for investment properties under construction.

The estimated useful lives for the current and comparative years are as follows:

Leasehold land	over remaining period of the lease of 99 years
Leasehold buildings and premises	50 years
Freehold buildings and premises	50 years

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss as incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

3.4 FINANCIAL INSTRUMENTS

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables and debt investments issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 FINANCIAL INSTRUMENTS (CONT'D)

(ii) Classification and subsequent measurement

Non-derivative financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) – debt investment or FVOCI – equity investment or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt investments at FVOCI

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments at FVOCI

On initial recognition of an equity investment that is not held-for-trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial assets at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 FINANCIAL INSTRUMENTS (CONT'D)

(ii) Classification and subsequent measurement (cont'd)

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 FINANCIAL INSTRUMENTS (CONT'D)

(ii) Classification and subsequent measurement (cont'd)

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest (cont'd)

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Non-derivative financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income (OCI). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 FINANCIAL INSTRUMENTS (CONT'D)

(ii) Classification and subsequent measurement (cont'd)

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 FINANCIAL INSTRUMENTS (CONT'D)

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

(vi) Derivative financial instruments and hedge accounting

The Group early adopted the amendments to recognition and measurement principles of FRS 109 and FRS 107 issued by the Accounting Standards Council in December 2019 in relation to the project on interest rate benchmark (IBOR) reform. The related disclosures for the comparative period are made under FRS 109 and FRS 107 before the amendments. The Group applied IBOR reform amendments retrospectively to hedging relationships that existed at 1 January 2019 or were designated thereafter and that are directly affected by IBOR reform. These amendments also apply to the gain or loss recognised in other comprehensive income that existed at 1 January 2019.

Specific policies applicable from 1 January 2019 for hedges directly affected by IBOR reform

On initial designation of the hedging relationship, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated. For the purpose of evaluating whether the hedging relationship is expected to be highly effective (i.e. prospective effectiveness assessment), the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform.

The Group will cease to apply the amendments to its prospective effectiveness assessment of the hedging relationship when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued.

Policies specific to cash flow hedges

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark interest rate will not be not altered as a result of IBOR reform for the purpose of asserting that the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. The Group will no longer apply the amendments to its highly probable assessment of the hedged item when the uncertainty arising from interest rate benchmark reform with respect to the timing and amount of the interest rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 FINANCIAL INSTRUMENTS (CONT'D)

(vi) Derivative financial instruments and hedge accounting (cont'd)

Policies specific to cash flow hedges (cont'd)

To determine whether the designated forecast transaction is no longer expected to occur, the Group assumes that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of interest rate benchmark reform.

Policies applicable for all hedging relationships

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value and any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein recognised in profit or loss.

The Group designates certain derivative financial instruments as hedging instruments in qualifying hedging relationships.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in interest rates.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 FINANCIAL INSTRUMENTS (CONT'D)

(vi) Derivative financial instruments and hedge accounting (cont'd)

Cash flow hedges (cont'd)

For all other hedged forecast transactions, the amount accumulated in the hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

3.5 IMPAIRMENT OF FINANCIAL ASSETS

(i) Non-derivative financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

Simplified approach

The Group applies the simplified approach to provide for ECLs for all trade receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

General approach

The Group applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 IMPAIRMENT OF FINANCIAL ASSETS (CONT'D)

(i) Non-derivative financial assets (cont'd)

General approach (cont'd)

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Group considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 IMPAIRMENT OF FINANCIAL ASSETS (CONT'D)

(i) Non-derivative financial assets (cont'd)

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of these assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Associates and joint venture

An impairment loss in respect of an associate or joint venture is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with the requirements for non-financial assets. An impairment loss is recognised in profit or loss. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

3.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

Calculation of recoverable amount

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a *pro rata* basis.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 IMPAIRMENT OF NON-FINANCIAL ASSETS (CONT'D)

Reversals of impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.7 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets that are highly probable to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets classified as held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell.

3.8 EMPLOYEE BENEFITS

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3.9 PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.9 PROVISIONS (CONT'D)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.10 MEMBERSHIP SHARES

Membership shares are classified as equity. Incremental costs directly attributable to the issue of membership shares are recognised as a deduction from equity.

3.11 GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. For grants relating to acquisition of long-term assets, the grant received is off-set against the cost of the long-term assets and reduces future depreciation or amortisation expenses.

3.12 REVENUE

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

3.13 LEASES

The Group applied FRS 116 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in accumulated profits at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under FRS 17 *Leases* and INT FRS 104 *Determining whether an Arrangement contains a Lease.*

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under INT FRS 104. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in FRS 116.

On transition to FRS 116, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied FRS 116 only to contracts that were previously identified as leases. Contracts that were not identified as leases under FRS 17 and INT FRS 104 were not reassessed for whether there is a lease under FRS 116.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.13 LEASES (CONT'D)

Policy applicable from 1 January 2019

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. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in FRS 116. This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.13 LEASES (CONT'D)

Policy applicable from 1 January 2019 (cont'd)

As a lessee (cont'd)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, 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 the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies FRS 115 *Revenue from Contracts* with Customers to allocate the consideration in the contract.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.13 LEASES (CONT'D)

Policy applicable from 1 January 2019 (cont'd)

As a lessor (cont'd)

The Group applies the derecognition and impairment requirements in FRS 109 *Financial Instruments* to the net investment in the lease (see note 3.5). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received from investment property under operating leases as income on a straight-line basis over the lease term as part of 'rental income'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from FRS 116.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether such an arrangement was or contained a lease based on the assessment of whether:

- the fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement contained a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, the Group classified leases as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Rental income from investment property and sub-leased property are recognised as 'revenue' on a straight-line basis over the term of the lease.

Notes to The Financial Statements
Year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on cash balances, investments in debt instruments and loans to subsidiaries. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on lease liabilities, borrowings and amortisation of borrowing costs. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

3.15 TAX

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.15 TAX (CONT'D)

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3.16 NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements. Based on a preliminary assessment, the adoption of these new accounting standards and interpretations are not expected to have a material impact on the Group's financial statements.

Notes to The Financial Statements
Year ended 31 December 2019

4 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fittings and equipment $'000	Building improvements and renovation $'000	Construction in progress $'000	Total $'000
Group				
Cost				
At 1 January 2018	4,873	2,776	184	7,833
Additions	584	68	276	928
Disposals/written-off	(1)	–	–	(1)
Government grant received	(286)	–	–	(286)
At 31 December 2018	5,170	2,844	460	8,474
Additions	1,741	549	349	2,639
Disposals/written-off	(892)	(1,081)	–	(1,973)
Transfer	248	(248)	–	–
Reclassification to investment properties (see note 5)	–	–	(460)	(460)
Government grant received	(288)	–	–	(288)
At 31 December 2019	5,979	2,064	349	8,392
Accumulated depreciation				
At 1 January 2018	2,883	1,407	–	4,290
Depreciation for the year	694	383	–	1,077
Disposals/written-off	(1)	–	–	(1)
At 31 December 2018	3,576	1,790	–	5,366
Depreciation for the year	682	272	–	954
Disposals/written-off	(804)	(760)	–	(1,564)
Transfer	73	(73)	–	–
At 31 December 2019	3,527	1,229	–	4,756
Carrying amounts				
At 1 January 2018	1,990	1,369	184	3,543
At 31 December 2018	1,594	1,054	460	3,108
At 31 December 2019	2,452	835	349	3,636

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Furniture, fittings and equipment $'000	Building improvements and renovation $'000	Construction in progress $'000	Total $'000
Co-operative				
Cost				
At 1 January 2018	734	–	–	734
Additions	171	–	–	171
Disposals	(1)	–	–	(1)
At 31 December 2018	904	–	–	904
Additions	1,008	456	299	1,763
Disposals	(717)	–	–	(717)
At 31 December 2019	1,195	456	299	1,950
Accumulated depreciation				
At 1 January 2018	315	–	–	315
Depreciation for the year	252	–	–	252
Disposals	(1)	–	–	(1)
At 31 December 2018	566	–	–	566
Depreciation for the year	248	65	–	313
Disposals	(670)	–	–	(670)
At 31 December 2019	144	65	–	209
Carrying amounts				
At 1 January 2018	419	–	–	419
At 31 December 2018	338	–	–	338
At 31 December 2019	1,051	391	299	1,741

5 INVESTMENT PROPERTIES

	Leasehold land $'000	Leasehold buildings and premises $'000	Freehold buildings and premises $'000	Total $'000
Group				
Cost				
At 1 January 2018	2,674,632	1,375,527	19,300	4,069,459
Addition	–	28,806	–	28,806
Reclassification to assets held for sale (see note 12)	–	(49,470)	–	(49,470)
At 31 December 2018	2,674,632	1,354,863	19,300	4,048,795
Addition	–	9,176	–	9,176
Transfer	–	460	–	460
Adjustment	–	(701)	–	(701)
At 31 December 2019	2,674,632	1,363,798	19,300	4,057,730
Accumulated depreciation				
At 1 January 2018	45,582	53,175	386	99,143
Depreciation for the year	32,006	30,219	386	62,611
Reclassification to assets held for sale (see note 12)	–	(1,979)	–	(1,979)
At 31 December 2018	77,588	81,415	772	159,775
Depreciation for the year	32,747	29,813	386	62,946
At 31 December 2019	110,335	111,228	1,158	222,721
Carrying amounts				
At 1 January 2018	2,629,050	1,322,352	18,914	3,970,316
At 31 December 2018	2,597,044	1,273,448	18,528	3,889,020
At 31 December 2019	2,564,297	1,252,570	18,142	3,835,009

Investment properties comprise a number of commercial properties that are leased to related parties and external customers. Each of the leases contains an initial non-cancellable period of between 1 to 9 years (2018: 1 to 5 years). Subsequent renewals are negotiated with the lessee. During the year, contingent rent of $6.6 million (2018: $6.8 million) was charged and recognised as rental income in profit or loss.

The following amounts relating to the investment properties are recognised in the statement of comprehensive income:

	Group	
	2019 $'000	2018 $'000
Rental income	248,240	244,459
Operating expenses	128,650	127,368

5 INVESTMENT PROPERTIES (CONT'D)

SECURITY

At 31 December 2018, investment properties of the Group with a carrying amount of $575 million were pledged as security to secure bank loans (see note 13). At 31 December 2019, no investment property was pledged as security.

IMPAIRMENT ASSESSMENT

Management performed an annual review of the carrying amounts of investment properties for indicators of impairment. In 2019, an indicator of impairment was noted for one of the Group's investment properties. The recoverable amount of the investment property (determined to be the higher of fair value less costs to sell and value-in-use) was estimated using the value-in-use approach and was derived from discounted cash flow forecasts prepared by management. As at 31 December 2019, the recoverable amount of the investment property was determined to be higher than its carrying amount and no impairment of the property was required.

The same impairment assessment was performed on the investment property in 2018, with no impairment of the property required as at 31 December 2018.

DETERMINATION OF FAIR VALUE FOR DISCLOSURE

The Group adopts the cost model to measure the investment properties, and discloses their fair values. External and independent valuation companies, having appropriate recognised professional qualifications and recent experience in the locations and category of properties being valued, value the Group's investment properties.

The fair value of investment properties for the Group as at 31 December 2019 is $4,281 million (2018: $4,277 million). The valuations are carried out by Jones Lang LaSalle Property Consultants Pte Ltd and Savills Valuation and Professional Services (S) Pte Ltd (2018: Jones Lang LaSalle Property Consultants Pte Ltd and Savills Valuation and Professional Services (S) Pte Ltd), which are firms of independent professional valuers.

The valuers have considered valuation techniques including the direct comparison method, the capitalisation approach, and the discounted cash flow approach in arriving at the fair value as at the reporting date. The direct comparison method involves the analysis of comparable sales of similar properties and adjusting the sales prices to that reflective of the investment properties. The capitalisation approach capitalises an income stream into a present value using revenue multipliers or single-year capitalisation rates. The discounted cash flow approach involves the estimation and the projection of an income stream over a period and discounting the income stream with an approximate rate of return.

The valuation techniques involve certain estimates. The key assumptions used to determine the fair value of investment properties include price per square, foot capitalisation yield, terminal yield, discount rate and average rental growth rate.

The fair values of the investment properties are categorised as Level 3 fair value.

Notes to The Financial Statements
Year ended 31 December 2019

6 INVESTMENT IN SUBSIDIARIES

	Co-operative	
	2019	2018
	$'000	$'000
Investment in subsidiaries	752,853	751,554

During the financial year ended 31 December 2019, the Co-operative incorporated 2 subsidiaries with a share capital of $200,000 each. The Co-operative also registered 2 limited liability partnerships with contributions of $1 million and $1.1 million, respectively.

During the financial year ended 31 December 2018, the Co-operative acquired additional shares in its subsidiary, NTUC Choice Homes Co-operative Ltd ("NCH"), from a non-controlling shareholder, NTUC Fairprice Co-operative Limited ("FP") for a consideration of $59 million. The consideration was satisfied through the issuance of approximately 39 million shares to FP (note 15). As a result of the acquisition, the Co-operative's effective equity interest in the subsidiary increased from 56.9% to 69.6%, while retaining control.

The share acquisition resulted in:
- an increase in capital reserve of the Group and Co-operative of $20 million; and
- a decrease in non-controlling interests of the Group of $59 million.

Details of the Co-operative's subsidiaries are as follows:

Name	Place of incorporation and business	Principal activities	Effective equity interest	
			2019	2018
			%	%
Subsidiaries of the Co-operative				
Mercatus Holdings Pte. Ltd. [1]	Singapore	Investment holding	100	100
Mercatus Alpha Co-operative Limited [1]	Singapore	Property owner	100[7]	100[7]
Mercatus Beta Co-operative Limited [1]	Singapore	Property owner	100[7]	100[7]
Mercatus Delta Co-operative Limited [1]	Singapore	Property owner	100[7]	100[7]
Mercatus Gamma Co-operative Limited [1]	Singapore	Property owner	100[7]	100[7]
Mercatus Epsilon Co-operative Limited [1]	Singapore	Property owner	100[7]	100[7]
Mercatus Zeta Co-operative Limited [1]	Singapore	Dormant	50	50

6 INVESTMENT IN SUBSIDIARIES (CONT'D)

Name	Place of incorporation and business	Principal activities	Effective equity interest	
			2019 %	2018 %
Subsidiaries of the Co-operative (cont'd)				
NTUC Choice Homes Co-operative Ltd [1]	Singapore	Investment holding	69.6	69.6
Mercatus Strategic Advisors LLP [6]	Singapore	Investment and real estate management	99	–
Mercatus Property Services Pte. Ltd. [3]	Singapore	Real estate management	100	–
Subsidiary of Mercatus Beta Co-operative Limited				
Thomson Plaza Pte. Ltd. [2]	Singapore	Dormant	100	100
Subsidiary of Mercatus Epsilon Co-operative Limited				
SMCP Pte. Ltd. [1]	Singapore	Carpark management and operation services	100	100
Subsidiaries of Mercatus Holdings Pte. Ltd.				
Mercatus Uno Pte. Ltd. [2]	Singapore	Dormant	100	100
Mercatus Dos Pte. Ltd. [2]	Singapore	Dormant	100	100
Subsidiary of NTUC Choice Homes Co-operative Ltd				
ChoiceHomes Investments Pte. Ltd. [1]	Singapore	Investment holding	69.6	69.6

6 INVESTMENT IN SUBSIDIARIES (CONT'D)

Name	Place of incorporation and business	Principal activities	Effective equity interest	
			2019 %	2018 %
Subsidiaries of ChoiceHomes Investments Pte. Ltd.				
Punggol Field EC Pte. Ltd. [1] [4] [5]	Singapore	Property development	41.8	41.8
Pasir Ris EC Pte. Ltd. [1] [4]	Singapore	Property development	41.8	41.8
Subsidiary of Mercatus Strategic Advisors LLP				
Mercatus Strategic Investment Management LLP [6]	Singapore	Investment and real estate management	99	–
Subsidiary of Mercatus Property Services Pte. Ltd.				
MPSL Pte. Ltd. [3]	Singapore	Real estate management	100	–

[1] Audited by KPMG LLP Singapore
[2] Not required to be audited under the laws of country of incorporation
[3] Incorporated in September 2019. No audit requirement for the current year.
[4] Although the Group owns less than 50% of Punggol Field EC Pte. Ltd. and Pasir Ris EC Pte. Ltd., management has determined that the Group has control through the Board of Directors of these entities.
[5] The Company was liquidated on 31 January 2020.
[6] Incorporated in January 2019. Not required to be audited under the laws of country of incorporation.
[7] Each co-operative has 2 institutional members. The other member is NE which owns 10,000 shares.

NON-CONTROLLING INTERESTS

The following subsidiary has non-controlling interests (NCI) that are material to the Group.

Name	Country of incorporation	Ownership interests held by NCI	
		2019 %	2018 %
NTUC Choice Homes Co-operative Limited ("NCH")	Singapore	30.4	30.4

6 INVESTMENT IN SUBSIDIARIES (CONT'D)

NON-CONTROLLING INTERESTS (CONT'D)

The following summarised financial information for the above subsidiary is prepared in accordance with FRS and the Group's accounting policies.

Group	NTUC Choice Homes Co-operative Limited $'000
2019	
Profit, representing total comprehensive income	6,341
Attributable to NCI:	
- Profit, representing total comprehensive income	2,033
Non-current assets	455,000
Current assets	16,097
Current liabilities	(1,542)
Net assets	469,555
Net assets attributable to NCI	145,402
Cash flow used in operating activities	(4,297)
Cash flow from investing activities	9,054
Cash flow used in financing activities	(4,190)
Net increase in cash and cash equivalents	567
2018	
Profit, representing total comprehensive income	4,067
Attributable to NCI:	
- Profit, representing total comprehensive income	1,235
Non-current assets	195,000
Current assets	274,386
Current liabilities	(1,982)
Net assets	467,404
Net assets attributable to NCI	143,562
Cash flow used in operating activities	(4,212)
Cash flow from investing activities	9,991
Cash flow used in financing activities	(1,693)
Net increase in cash and cash equivalents	4,086

Notes to The Financial Statements
Year ended 31 December 2019

7 INVESTMENT IN AN ASSOCIATE

DISPOSAL OF INVESTMENT IN ASSOCIATE IN 2018

In July 2018, the Group entered into a share purchase agreement to dispose of its 20% equity interest in One Marina Property Services Pte Ltd and its subsidiary, One Marina Integrated Solutions Pte Ltd, for a total consideration of $2.3 million. The principal activities of the associate is the provision of facility management, project management, leasing services and accounting services.

As at 31 December 2018, the Group has received $1.7 million of the consideration in cash. The remaining purchase consideration receivable of $0.6 million was included in the Group's other receivables. The disposal resulted in a loss of $2,105, which was recognised as 'Other expenses' in the Group's consolidated statement of comprehensive income.

The associate was immaterial to the Group and was equity accounted for. The summarised financial information of the associate, not adjusted for the percentage of ownership held by the Group, was as follows:

	2018 $'000
Combined Assets and Liabilities	
Total assets	–
Total liabilities	–
Combined Results	
Revenue	11,349
Expenses	(10,830)
Profit for the year	519

8 INVESTMENT IN A JOINT VENTURE

	Group	
	2019 $'000	2018 $'000
Investment in a joint venture	334,592	353,836

The Group has 50% (2018: 50%) interest in the ownership and voting rights in a joint venture, Gold Ridge Pte Ltd, that is held through a subsidiary. This joint venture is incorporated in Singapore and is a strategic venture in retail property investment. The Group jointly controls the venture with partners under a contractual agreement which requires unanimous consent for all major decisions over the relevant activities.

8 INVESTMENT IN A JOINT VENTURE (CONT'D)

The following summarises the financial information of Gold Ridge Pte Ltd based on its financial statements prepared in accordance with FRS, and the Group's accounting policies.

	Gold Ridge Pte Ltd	
	2019	**2018**
	$'000	**$'000**
Revenue	127,636	125,219
Profit from continuing operations and total comprehensive income for the year	39,012	38,048
Profit from continuing operations include:		
– Interest income	632	436
– Depreciation and amortisation	(21,508)	(21,484)
– Interest expense	(24,342)	(23,022)
– Income tax expense	(12,962)	(12,677)
Non-current assets	1,490,885	1,510,346
Current assets	56,942	57,780
Non-current liabilities	(840,451)	(838,052)
Current liabilities	(38,192)	(22,402)
Net assets	669,184	707,672
– Cash and cash equivalents	55,184	55,398
– Non-current financial liabilities (excluding deferred tax liabilities)	(830,021)	(827,574)
Group's interest in net assets of joint venture at beginning of the year	353,836	362,912
Dividends received during the year	(38,750)	(28,100)
Share of total comprehensive income	19,506	19,024
Carrying amount of interest in joint venture at end of the year	334,592	353,836

The joint venture leases out investment properties in Singapore under operating leases. The following table sets out the maturity analysis of the Group's share of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

Notes to The Financial Statements
Year ended 31 December 2019

8 INVESTMENT IN A JOINT VENTURE (CONT'D)

	Group
	$'000
2019 – Operating leases under FRS 116	
Less than one year	43,028
One to two years	26,942
Two to three years	14,400
Three to four years	4,195
Four to five years	887
Total	89,452
2018 – Operating leases under FRS 17	
Less than one year	46,808
Between one and five years	6,819
Total	53,627

9 OTHER INVESTMENTS

	Group	
	2019	**2018**
	$'000	**$'000**
Non-current		
Debt investments – at amortised cost	455,000	195,000
Current		
Debt investments – at amortised cost	–	260,000
Total	455,000	455,000

Included in the debt investments classified as at amortised cost are the Group's investments in unquoted bonds issued by the holding co-operative, NE. The terms and conditions of the outstanding debt investments classified as at amortised cost are as follows:

			Group	
Nominal interest rate (%)	**Interest payments**	**Year of maturity**	**2019**	**2018**
			$'000	**$'000**
(i) 1.73%	Annually	2019	–	260,000
(ii) 2.25%	Annually	2021	100,000	100,000
(iii) 2.40%	Annually	2021	75,000	75,000
(iv) 2.30%	Annually	2021	20,000	20,000
(v) 2.30%	Annually	2022	260,000	–
			455,000	455,000

Information about the Group's exposure to credit and market risks, and fair value measurement, is included in note 25.

10 TRADE AND OTHER RECEIVABLES

	Group		Co-operative	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade receivables	4,125	1,624	44	–
Accrued revenue	12,603	3,490	–	–
Interest receivable	5,931	4,694	207	84
Loans to subsidiaries:				
- Measured at amortised cost	–	–	294,000	302,000
- Measured at FVTPL	–	–	3,503,479	3,525,479
Amounts due from subsidiaries (non-trade)	–	–	–	35,201
Other receivables	4,063	3,539	150	58
	26,722	13,347	3,797,880	3,862,822
Prepayments	514	77	365	–
	27,236	13,424	3,798,245	3,862,822

Trade receivables consist of mainly rental receivable from tenants of the investment properties. Interest may be charged at commercial rates where the terms of repayment exceed 14 days after billing. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Loans to subsidiaries are unsecured, repayable on demand and comprise the following:

(a) $294 million (2018: $302 million) with a weighted average interest of 2.78% (2018: 2.74%) per annum during the year; and

(b) $3,503 million (2018: $3,525 million) with the interest calculated based on (i) 6.5% (2018: 6.5%) of the shareholders' loan amount or (ii) 99% of the subsidiaries' net surplus (2018: 99% of the subsidiaries' net surplus) of each financial year, whichever amount is lower.

Amounts due from subsidiaries are non-trade related, unsecured, interest-free and repayable on demand.

11 CASH AND CASH EQUIVALENTS

	Group		Co-operative	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Cash on hand	–	2	–	–
Cash at bank	47,181	56,690	24,562	12,800
Fixed deposits	165,330	159,792	141,000	158,160
	212,511	216,484	165,562	170,960

Notes to The Financial Statements
Year ended 31 December 2019

12 ASSETS HELD FOR SALE

In 2018, the Group reclassified two of its investment properties to assets held for sale as:

(a) In May 2018, the Group received a notice of compulsory acquisition from Singapore Land Authority (SLA) for one of its leasehold investment properties. The carrying value of the investment property at 31 December 2019 was $35 million (2018: $35 million). In March 2020, the compulsory acquisition was completed and the Group recognised a gain of $16 million.

(b) In December 2018, the Group entered into a sale and purchase agreement with an external party to sell one of its leasehold investment properties at $14 million. The sale was completed in April 2019 and the Group recognised a net gain of $1 million from the completion of the sale in 2019.

13 LOANS AND BORROWINGS

	Group		Co-operative	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Non-current				
Unsecured bank loans	1,406,473	1,626,084	1,406,473	1,626,084
Unsecured fixed rate notes	448,713	348,760	448,713	348,760
	1,855,186	1,974,844	1,855,186	1,974,844
Current				
Unsecured bank loans	419,888	279,970	419,888	279,970
Secured bank loans	–	175,000	–	–
	419,888	454,970	419,888	279,970

13 LOANS AND BORROWINGS (CONT'D)

Terms and conditions of outstanding loans and borrowings are as follows:

	Nominal interest rate %	Year of maturity	Face value $'000	Carrying amount $'000
Group				
2019				
Unsecured bank loans	SOR[1]+Margin	2020-2025	1,278,000	1,276,592
Unsecured bank loans	COF[2]+Margin	2020-2023	100,000	99,969
Unsecured bank loans	2.38% - 2.64%	2021-2022	450,000	449,800
Unsecured fixed rate notes	2.80% - 3.28%	2024-2028	450,000	448,713
			2,278,000	2,275,074
2018				
Unsecured bank loans	SOR[1]+Margin	2019-2022	1,378,000	1,376,354
Unsecured bank loans	COF[2]+Margin	2019	80,000	80,000
Unsecured bank loans	2.38% - 2.64%	2021-2022	450,000	449,700
Secured bank loans	3.19%	2019	175,000	175,000
Unsecured fixed rate notes	2.80% - 3.10%	2024-2028	350,000	348,760
			2,433,000	2,429,814
Co-operative				
2019				
Unsecured bank loans	SOR[1]+Margin	2020-2025	1,278,000	1,276,592
Unsecured bank loans	COF[2]+Margin	2020-2023	100,000	99,969
Unsecured bank loans	2.38% - 2.64%	2021-2022	450,000	449,800
Unsecured fixed rate notes	2.80% - 3.28%	2024-2028	450,000	448,713
			2,278,000	2,275,074
2018				
Unsecured bank loans	SOR[1]+Margin	2019-2022	1,378,000	1,376,354
Unsecured bank loans	COF[2]+Margin	2019	80,000	80,000
Unsecured bank loans	2.38% - 2.64%	2021-2022	450,000	449,700
Unsecured fixed rate notes	2.80% - 3.10%	2024-2028	350,000	348,760
			2,258,000	2,254,814

[1] *Swap Offer Rate*
[2] *Bank's cost of funds*

Notes to The Financial Statements
Year ended 31 December 2019

13 LOANS AND BORROWINGS (CONT'D)

SECURITY

In 2018, the secured bank loans are secured over investment properties with carrying amounts of $575 million (see note 5). There were no secured bank loans as at 31 December 2019.

UNSECURED FIXED RATE NOTES

On 19 January 2018 and 24 January 2019, the Co-operative issued $150 million notes at 3.10% fixed coupon rate and $100 million notes at 3.28% fixed coupon rate respectively, under the $1,000 million Multicurrency Medium Term Note Programme ("MTN"). The $150 million notes and $100 million notes mature in 2028 and 2025 respectively and interest is repayable semi-annually from the date of issuance.

INTEREST RATE SWAPS

The Group entered into interest rate swaps with a counter party to provide fixed rate funding for unsecured bank loans. Details of the interest rate swaps are set out in note 25.

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Loans and borrowings $'000	Interest rate swaps used for hedging – liabilities (Note 14) $'000	Interest payable* $'000	Total $'000
Group				
Balance as at 1 January 2018	2,508,000	(38)	9,399	2,517,361
Changes from financing cash flows				
Interest paid	–	–	(61,199)	(61,199)
Proceeds from loans and borrowings	150,000	–	–	150,000
Repayment of loans and borrowings	(225,000)	–	–	(225,000)
Total changes from financing cash flows	(75,000)	–	(61,199)	(136,199)
Interest expense	–	–	60,893	60,893
Change in fair value	–	(1,837)	–	(1,837)
Others	(3,186)	–	–	(3,186)
Balance as at 31 December 2018	2,429,814	(1,875)	9,093	2,437,032
Balance as at 1 January 2019	2,429,814	(1,875)	9,093	2,437,032
Changes from financing cash flows				
Interest paid	–	–	(60,294)	(60,294)
Proceeds from loans and borrowings	100,000	–	–	100,000
Repayment of loans and borrowings	(255,000)	–	–	(255,000)
Total changes from financing cash flows	(155,000)	–	(60,294)	(215,294)
Interest expense	–	–	63,812	63,812
Change in fair value	–	(5,227)	–	(5,227)
Others	260	–	–	260
Balance as at 31 December 2019	2,275,074	(7,102)	12,611	2,280,583

* *Included as part of trade and other payables.*

14 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	Group		Co-operative	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Advance rental billings	2,637	1,578	–	–
Refundable deposits	1,592	3,034	–	–
Interest payable on loans and borrowings	12,611	9,093	12,611	6,722
Amounts due to subsidiaries	–	–	96,894	252,941
Accrued expenses	26,094	28,916	4,299	3,711
Other payables	6,913	7,842	1,045	2,803
Derivative financial liability	7,102	1,875	7,102	1,875
Contribution payable to:				
- Central Co-operative Fund	103	115	25	25
- Singapore Labour Foundation	16,960	16,009	15,649	14,689
	74,012	68,462	137,625	282,766
Trade and other payables				
Current	67,335	65,135	130,948	280,891
Non-current	6,677	3,327	6,677	1,875
	74,012	68,462	137,625	282,766

AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are non-trade related, unsecured, interest-free and repayable on demand.

15 MEMBERSHIP SHARES

	Group and Co-operative			
	2019		2018	
	No. of shares ('000)	$'000	No. of shares ('000)	$'000
Issued and fully paid membership shares, at par value of $1 each:				
In issue at 1 January	1,803,627	1,803,627	1,713,857	1,713,857
Issued during the year	53,349	53,349	89,770	89,770
At 1 January and 31 December	1,856,976	1,856,976	1,803,627	1,803,627

The shares are held by 3 members.

In 2019, 53 million membership shares, amounting to approximately $53 million were issued under the bonus issue where 30 membership shares were issued for every 1,000 membership shares.

In 2018, there were the following issuance of membership shares:

- 51 million membership shares were issued under the bonus issue where 33 membership shares were issued for every 1,000 membership shares; and
- 39 million membership shares were issued at the par value of $1 each as satisfaction of the consideration of $59 million payable on the acquisition of additional interest in a subsidiary, NCH (note 6).

Notes to The Financial Statements
Year ended 31 December 2019

15 MEMBERSHIP SHARES (CONT'D)

RIGHTS OF MEMBERS

(a) The membership shares relate to shares held by members where redemption of share is subject to approval of the Board of Directors.

(b) All members are entitled to redeem their shares at the par value or the net asset value of the Co-operative based on the latest audited financial position as at the date of redemption, whichever is lower.

(c) The shares do not carry any rights to fixed income.

(d) In accordance with Section 4.5 of the Co-operative's By-Laws, every member shall, unless otherwise disqualified under the Act or the By-Laws, have the right to:

(i) avail himself of all services of the Co-operative;

(ii) nominate candidates for election or to be co-opted to office, subject to the provisions of the Act and the By-Laws;

(iii) be represented by delegates, subject to the provisions of the Act and the By-Laws;

(iv) participate and vote at General Meetings; and

(v) enjoy all other rights, privileges and benefits as prescribed by the By-Laws.

(e) Members are entitled to receive dividends as and when declared by the Co-operative.

(f) In the event of the winding up of the Co-operative, the assets shall be applied first to the cost of liquidation, then to the discharge of the liabilities of the Co-operative, then to the payment of the share capital or subscription capital, and then, provided that the By-laws of the Co-operative permit, to the payment of a dividend or patronage refund at a rate not exceeding that laid down in the Rules (made under section 95 of the Act) or in the By-Laws.

(g) Any monies remaining after the application of the funds to the purposes specified in the above paragraph (section 88 of Co-operative Societies Act) and any sums unclaimed after two years under Section 89(2) of the Act (which relates to claims of creditors), shall not be divided among the members but shall be carried to the Co-operative Societies Liquidation Account kept by the Registrar of the Co-operative Societies.

(h) A sum carried to the Co-operative Societies Liquidation Account shall be kept in this Account for at least two years. Out of the Co-operative Societies Liquidation Account such sums may be transferred to the Central Co-operative Fund, or applied generally for the furtherance of co-operative principles in such manner, as the Minister may determine from time to time.

15 MEMBERSHIP SHARES (CONT'D)

CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Co-operative manages its capital to ensure that it will be able to continue as going concern and invests in quality assets at a fair rate of return and largely capital protected. The Co-operative makes adjustments to its capital structure, taking into account changes in economic conditions. To maintain or adjust the capital structure, the Co-operative may adjust the dividend payment to shareholders or return capital to members.

The Group and the Co-operative's overall strategy remains unchanged during the year.

16 OTHER RESERVES

	Group		Co-operative	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Capital reserve	386,457	386,457	384,821	384,821
Asset replacement reserve	14,603	10,952	–	–
Hedging reserve	(7,102)	(1,875)	(7,102)	(1,875)
Dividend reserve	2,734	2,734	–	–
	396,692	398,268	377,719	382,946

16 OTHER RESERVES (CONT'D)

The movement of other reserves of the Group is as follows:

	Note	Capital reserve $'000	Asset replacement reserve $'000	Hedging reserve $'000	Dividend reserve $'000	Total $'000
Group						
At 1 January 2018		366,539	23,717	(38)	–	390,218
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedge		–	–	(1,837)	–	(1,837)
Total other comprehensive income		–	–	(1,837)	–	(1,837)
Total comprehensive income for the year		–	–	(1,837)	–	(1,837)
Transactions with members, recognised directly in equity						
Change in ownership interest in subsidiaries						
Acquisition of non-controlling interests without a change in control	6	19,918	–	–	–	19,918
Total change in ownership interest in subsidiaries		19,918	–	–	–	19,918
Total transactions with members		19,918	–	–	–	19,918
Transfers		–	(12,765)	–	2,734	(10,031)
At 31 December 2018 and 1 January 2019		386,457	10,952	(1,875)	2,734	398,268
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedge		–	–	(5,227)	–	(5,227)
Total other comprehensive income		–	–	(5,227)	–	(5,227)
Total comprehensive income for the year		–	–	(5,227)	–	(5,227)
Transfers		–	3,651	–	–	3,651
At 31 December 2019		386,457	14,603	(7,102)	2,734	396,692

16 OTHER RESERVES (CONT'D)

CAPITAL RESERVE

Capital reserve arose from the following:

(i) acquisition of investment properties in relation to the past property restructuring exercise; and
(ii) acquisition of a subsidiary and the subsequent acquisition of additional interest in the subsidiary, representing the excess of the fair value of the membership shares issued over the par value of the membership shares issued in satisfaction of the purchase consideration.

ASSET REPLACEMENT RESERVE

The asset replacement reserve was established to meet the replacement and renewal expenses for building, plant and equipment owned and managed by the Group.

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

DIVIDEND RESERVE

This relates to the Group's share of the dividend reserve of a subsidiary which has established a separate dividend reserve for the proposed final exempt dividend to its shareholders at its next annual general meeting.

17 REVENUE

	Group		Co-operative	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Rental income from investment properties	248,240	244,459	–	–
Others	11,483	10,779	–	–
	259,723	255,238	–	–

18 OTHER INCOME

	Group		Co-operative	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Management fee income	8,625	5,972	29,949	27,476
Gain on disposal of asset held for sale, net	1,139	–	–	–
Others	9,162	7,204	2,780	221
	18,926	13,176	32,729	27,697

Notes to The Financial Statements
Year ended 31 December 2019

19 PROFIT BEFORE TAX AND CONTRIBUTIONS

Included in profit before tax and contributions are the following items:

	Group		Co-operative	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Loss on disposal of investment in an associate	–	2	–	–
Property, plant and equipment written off	409	–	47	–
Included in staff costs:				
- defined contribution plans	1,878	2,247	552	377

20 FINANCE INCOME AND FINANCE COSTS

	Group		Co-operative	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Finance income				
Interest income under the effective interest method, arising from financial assets measured at amortised cost:				
- Loans to subsidiaries	–	–	8,281	8,849
- Fixed deposits and bank balances	2,454	1,300	879	438
- Debt instruments – unquoted bonds	10,109	8,469	–	–
- Others	102	52	–	–
	12,665	9,821	9,160	9,287
Interest income from financial assets carried at FVTPL – loans to subsidiaries	–	–	115,800	104,159
Total finance income	12,665	9,821	124,960	113,446

20 FINANCE INCOME AND FINANCE COSTS (CONT'D)

	Group		Co-operative	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Finance costs				
Interest expense and borrowing costs on financial liabilities measured at amortised cost:				
- Bank loans	51,326	51,859	50,913	46,016
- Medium Term Notes	13,538	10,021	13,538	10,021
	64,864	61,880	64,451	56,037

21 TAX EXPENSE

	Group	
	2019	2018
	$'000	$'000
Current tax		
Current year	11	5
Under provision in respect of previous year	8	4
	19	9
Reconciliation of effective tax rate		
Profit before tax and contributions	93,598	88,596
Share of results of associate and joint venture	(19,506)	(19,128)
	74,092	69,468
Tax calculated using Singapore tax rate of 17% (2018: 17%)	12,596	11,810
Exempt income*	(14,089)	(13,867)
Non-deductible expenses	1,504	2,062
Under provision in respect of previous year	8	4
	19	9

* *Includes income of any co-operative society registered under the Co-operative Societies Act, Chapter 62, which is exempted from income tax under Section 13 (1)(f)(ii) of the Singapore Income Tax Act, Chapter 134.*

22 CONTRIBUTIONS TO CENTRAL CO-OPERATIVE FUND AND SINGAPORE LABOUR FOUNDATION

In accordance with Section 71(2)(a) of the Act, all co-operatives under the Group contributes 5% of the first $0.5 million of its surplus resulting from the operations during the year to the Central Co-operative Fund.

In accordance with Section 71(2)(b) of the Act, all co-operatives under the Group have opted to contribute 20% of its surplus (excluding capital gains arising from the disposal of any office premises and shares) in excess of $0.5 million from the operations to the Singapore Labour Foundation.

Notes to The Financial Statements
Year ended 31 December 2019

23 LEASES

A. LEASES AS LESSEE (FRS 116)

The Group leases common areas and equipment with contract terms of one month to ten years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

Amounts recognised in profit or loss

	$'000
2019 - Leases under FRS 116	
Expenses relating to short-term leases	553
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	166
2018 – Operating leases under FRS 17	
Lease expense	923

The total cash outflow for leases recognised in the statement of cash flows is $719,000.

B. LEASES AS LESSOR

The Group leases out its investment property consisting of its owned commercial properties and strata-titled units (see note 5). All leases are classified as operating leases from a lessor perspective.

Operating lease

The Group leases out its investment properties. The Group has classified these leases as operating leases because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 5 sets out information about the operating leases of investment property.

Rental income recognised by the Group during 2019 was $248 million (2018: $244 million).

24 COMMITMENTS

(I) OPERATING LEASE COMMITMENTS

a) Leases as lessee

The Group lease their office and equipment under lease agreements which are non-cancellable. As at 31 December 2018, the future minimum lease payments are as follows:

	Group 2018 $'000
Within one year	24
Between one and five years	18
Total	42

24 COMMITMENTS (CONT'D)

(I) OPERATING LEASE COMMITMENTS (CONT'D)

b) Leases as lessor

The Group leases out investment properties in Singapore under operating leases. The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	Group $'000
2019 – Operating leases under FRS 116	
Less than one year	217,677
One to two years	155,073
Two to three years	71,178
Three to four years	35,771
Four to five years	19,841
More than five years	200,242
Total	699,782
2018 – Operating leases under FRS 17	
Less than one year	213,232
Between one and five years	277,583
More than five years	151,669
Total	642,484

(II) CAPITAL COMMITMENT

The Group had capital commitment of $12 million (2018: $Nil) in relation to asset enhancement initiatives of an investment property.

25 FINANCIAL INSTRUMENTS

OVERVIEW

The Group has exposure to the following risks from its activities:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing the risk.

RISK MANAGEMENT FRAMEWORK

The Group's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Group's financial performance.

Notes to The Financial Statements
Year ended 31 December 2019

25 FINANCIAL INSTRUMENTS (CONT'D)

RISK MANAGEMENT FRAMEWORK (CONT'D)

The Board of Directors of the Co-operative are responsible for setting the objectives and underlying principles of financial risk management for the Group. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, and exposure limits, in accordance with the objectives and underlying principles approved by the Board of Directors.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk.

(I) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and debt investments. The Group has a credit policy in place which establishes credit limits for tenants and monitor their balances on an ongoing basis. Credit evaluation are performed on all tenants requiring credit over a certain amount.

The carrying amounts of trade and other receivables, other investments and cash and cash equivalents represent the Group's and the Co-operative's maximum exposure to credit risk. Cash and cash equivalents are placed in banks and financial institutions which are regulated.

The Group and the Co-operative have no significant concentration of credit risk, except for the loans to subsidiaries by the Co-operative.

Impairment loss

Expected credit loss assessment (ECL)

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers. ECL is calculated based on actual credit loss experience over the past three years, and adjusted for differences between economic conditions during the period over which the historic data has been collected, current market conditions and the Group's view of economic conditions over the expected lives of the receivables.

Based on the Group's assessment, the amount of expected credit loss on trade receivables is negligible.

The following table provides information about the exposure to credit risk for trade receivables as at 31 December:

	Group	
	2019 $'000	2018 $'000
Not past due	2,955	979
Past due 1 – 30 days	214	464
Past due 31 – 120 days	956	181
	4,125	1,624

25 FINANCIAL INSTRUMENTS (CONT'D)

(I) CREDIT RISK (CONT'D)

Impairment loss (cont'd)

Expected credit loss assessment (ECL) (cont'd)

Debt investments

The Group invests in bonds issued by the holding co-operative, NTUC Enterprise Co-operative Limited, of $455 million (2018: $455 million) (note 9). Impairment on the bonds has been measured on the 12-month expected loss basis which reflects the low credit risk of the exposure. The amount of the impairment allowance on these bonds is negligible.

Cash and cash equivalents

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposure. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and cash equivalents is negligible.

Derivatives

The derivatives are entered into with bank and financial institution counterparties, with sound credit ratings. As at the reporting date, the Group and the Co-operative have entered into interest rate swaps with a total notional amount of $855 million (2018: $425 million).

Amounts due from subsidiaries, including loans to subsidiaries

The Co-operative has balances owing from its subsidiaries of $294 million (2018: $337 million). These balances include amounts lent to subsidiaries to satisfy funding requirements. The Co-operative uses a similar approach for assessment of ECLs for these receivables to those used for debt investments. Impairment on these balances has been measured on the 12-month expected loss basis which reflects the low credit risk of the exposures. The amount of the allowance on these balances is negligible.

Notes to The Financial Statements
Year ended 31 December 2019

25 FINANCIAL INSTRUMENTS (CONT'D)

(II) LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

			Cash flows	
	Carrying amount $'000	Contractual cash flows $'000	Within 1 year $'000	More than 1 year $'000
Group				
2019				
Non-derivative financial liabilities				
Rental deposits	56,537	(56,537)	(20,658)	(35,879)
Trade and other payables*	64,273	(64,273)	(64,273)	–
Loans and borrowings	2,275,074	(2,459,320)	(474,235)	(1,985,085)
	2,395,884	(2,580,130)	(559,166)	(2,020,964)
Derivative financial liability				
Interest rate swaps used for hedging (net-settled)	7,102	(4,487)	(2,155)	(2,332)
2018				
Non-derivative financial liabilities				
Rental deposits	53,017	(53,017)	(14,807)	(38,210)
Trade and other payables*	65,009	(65,009)	(65,009)	–
Loans and borrowings	2,429,814	(2,606,956)	(513,267)	(2,093,689)
	2,547,840	(2,724,982)	(593,083)	(2,131,899)
Derivative financial liability				
Interest rate swaps used for hedging (net-settled)	1,875	(2,354)	(859)	(1,495)

* *Excludes advance rental billings and interest rate swaps*

25 FINANCIAL INSTRUMENTS (CONT'D)

(II) LIQUIDITY RISK (CONT'D)

	Carrying amount $'000	Contractual cash flows $'000	Cash flows: Within 1 year $'000	Cash flows: More than 1 year $'000
Co-operative				
2019				
Non-derivative financial liabilities				
Trade and other payables*	130,523	(130,523)	(130,523)	–
Loans and borrowings	2,275,074	(2,459,320)	(474,235)	(1,985,085)
	2,405,597	(2,589,843)	(604,758)	(1,985,085)
Derivative financial liability				
Interest rate swaps used for hedging (net-settled)	7,102	(4,487)	(2,155)	(2,332)
2018				
Non-derivative financial liabilities				
Trade and other payables*	280,891	(280,891)	(280,891)	–
Loans and borrowings	2,254,814	(2,431,543)	(337,854)	(2,093,689)
	2,535,705	(2,712,434)	(618,745)	(2,093,689)
Derivative financial liability				
Interest rate swaps used for hedging (net-settled)	1,875	(2,354)	(859)	(1,495)

* *Excludes advance rental billings and interest rate swaps*

(III) MARKET RISK – CASH FLOW AND INTEREST RATE RISKS

Market risk is the risk that changes in market prices will affect the Group's profit or loss, or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform interbank offered rate (IBOR) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposure to IBORs on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the timing and the methods of transition for replacing the existing benchmark IBORs with alternative rates. In Singapore, the fundamental review and reform of the two key Singapore Dollar interest rate benchmarks that are widely referenced in financial contracts, namely Singapore interbank offered rates (SIBORs) and Singapore swap offer rates (SORs), and the transition from SOR to the Singapore Overnight Rate Average (SORA), is also ongoing.

Notes to The Financial Statements
Year ended 31 December 2019

25 FINANCIAL INSTRUMENTS (CONT'D)

(III) MARKET RISK – CASH FLOW AND INTEREST RATE RISKS (CONT'D)

As a result of these uncertainties, significant accounting judgement is involved in determining certain hedge accounting relationships that hedge the variability of interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2019. The Group evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Group's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. In Singapore, SIBOR and SOR continue to be used as reference rates in financial markets and are used in the valuation of instruments with maturities that exceed the expected end date for SIBOR and SOR. However, the Group's cash flow hedging relationships extend beyond the anticipated cessation dates for IBORs. The Group expects that SOR will be replaced by SORA, but there is uncertainty over the timing and amount of the replacement rate cash flows. Such uncertainty may impact the hedging relationship, for example its effectiveness assessment and highly probable assessment. The Group applies the amendments to FRS 109 issued in December 2019 to these hedging relationships directly affected by IBOR reform. The Group does not anticipate changing the hedged risk to a different benchmark. As such, the Group does not consider there to be uncertainty in the timing or amount of SIBOR or SOR cash flows arising from IBOR reform as at 31 December 2019.

The Group determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate. For cash flow hedging relationships directly impacted by IBOR reform, the Group assumes that the cash flows of the hedged item and hedging instrument will not be altered as a result of IBOR reform.

Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at 31 December 2019.

If a hedging relationship impacted by IBOR reform has not been highly effective throughout the financial reporting period, then the Group evaluates whether the hedge is expected to be highly effective prospectively and whether the effectiveness of the hedging relationship can be reliably measured. The hedging relationship will not be discontinued as long as it meets all criteria for hedge accounting, with the exception of the requirement that the hedge was actually highly effective.

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participants' expectations for when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and hedging instrument, which may lead to hedge ineffectiveness. The Group has applied its best judgement to analyse market expectations when determining the fair value of the hedging instrument and present value of estimated cash flows of the hedged item.

There were no other sources of ineffectiveness in these hedging relationships.

The Group's exposure to SOR designated in a hedging relationship is limited to a nominal amount of $855 million at 31 December 2019 attributable to the interest rate swaps hedging SOR cash flows on the Group's SGD bank loans maturing between 30 June 2020 to 27 June 2025.

25 FINANCIAL INSTRUMENTS (CONT'D)

(III) MARKET RISK – CASH FLOW AND INTEREST RATE RISKS (CONT'D)

Interest rate risk

The Group seeks to maintain an efficient and optimal interest cost structure using a mix of fixed and variable interest rate instruments. The Group's exposure to cash flow interest rates arises mainly from variable bank borrowings. The Group manages these cash flow interest rates using floating-to-fixed interest rate swaps.

Where used, interest rate derivatives are classified as cash flow hedges and stated at fair value within the Group's statement of financial position.

At the reporting date, the profile of the variable interest-bearing financial instruments is as follows:

	Group Carrying amount		Co-operative Carrying amount	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Variable rate instruments				
Cash at bank	47,181	56,690	24,562	12,800
Loans to subsidiaries	–	–	3,503,479	3,525,479
Loans and borrowings^	(521,561)	(1,031,354)	(521,561)	(1,031,354)
	(474,380)	(974,664)	3,006,480	2,506,925

^ *Excludes the $855 million (2018: $425 million) term loans which are hedged by the interest rate swaps*

Cash flow sensitivity analysis for variable rate instruments

The Group's financial assets and liabilities at variable rates for which effective hedges have not been entered into are denominated in Singapore Dollars. If the Singapore Dollar interest rates increase/decrease by 0.5% with other variables held constant, the profit/(loss) before tax and contributions will increase/(decrease) by the amounts as follows:

	Profit/(Loss) before tax and contributions			
	2019		2018	
	Increase by 0.5% $'000	Decrease by 0.5% $'000	Increase by 0.5% $'000	Decrease by 0.5% $'000
Group				
Variable rate instruments	(2,372)	2,372	(4,873)	4,873
Co-operative				
Variable rate instruments	15,032	(15,032)	12,535	(12,535)

Notes to The Financial Statements
Year ended 31 December 2019

25 FINANCIAL INSTRUMENTS (CONT'D)

(III) MARKET RISK – CASH FLOW AND INTEREST RATE RISKS (CONT'D)

Hedge accounting – cash flow hedges

The Group hedges its exposure to changes in interest rates of its variable rate borrowings by entering into interest rate swaps with notional contract amount of $855 million (2018: $425 million) whereby it receives variable rates equal to the Singapore swap offer rate on the notional amount and pays fixed interest rate between 1.55% to 2.20% (2018: 1.55% to 2.20%) per annum. The hedges are in place for a 2 to 5 years (2018: 3-year) tenure to years 2020 to 2024 (2018: 2020 to 2022).

There was no hedge ineffectiveness recognised in the Group's profit or loss in 2019 and 2018. Accordingly, the changes in the value of the hedging instruments of $5,227,000 (2018: $1,837,000) were recognised in the Group's other comprehensive income and recognised in equity as part of hedging reserve.

(IV) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

25 FINANCIAL INSTRUMENTS (CONT'D)

(IV) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONT'D)

31 December 2019	Note	Financial assets at amortised cost $'000	Financial assets at fair value through profit or loss $'000	Fair value – hedging instruments $'000	Financial liabilities at amortised cost $'000	Total carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Group										
Financial assets not measured at fair value										
Cash and cash equivalents	11	212,511	–	–	–	212,511				
Trade and other receivables*	10	26,722	–	–	–	26,722				
Debt investments – at amortised cost	9	455,000	–	–	–	455,000				
		694,233	–	–	–	694,233				
Financial liabilities not measured at fair value										
Loans and borrowings	13	–	–	–	2,275,074	2,275,074	453,069	1,823,844	–	2,276,913
Rental deposits		–	–	–	56,537	56,537				
Trade and other payables^	14	–	–	–	64,273	64,273				
		–	–	–	2,395,884	2,395,884				
Financial liabilities measured at fair value										
Interest rate swaps used for hedging	14	–	–	7,102	–	7,102	–	7,102	–	7,102
Co-operative										
Financial assets not measured at fair value										
Cash and cash equivalents	11	165,562	–	–	–	165,562				
Loans to subsidiaries	10	294,000	–	–	–	294,000				
Trade and other receivables*	10	401	–	–	–	401				
		459,963	–	–	–	459,963				
Financial assets measured at fair value										
Loans to subsidiaries	10	–	3,503,479	–	–	3,503,479	–	3,503,479	–	3,503,479
Financial liabilities not measured at fair value										
Loans and borrowings	13	–	–	–	2,275,074	2,275,074	453,069	1,823,844	–	2,276,913
Trade and other payables^	14	–	–	–	130,523	130,523				
		–	–	–	2,405,597	2,405,597				
Financial liabilities measured at fair value										
Interest rate swaps used for hedging	14	–	–	7,102	–	7,102	–	7,102	–	7,102

* *Excludes prepayment*
^ *Excludes advance rental billings and interest rate swaps*

25 FINANCIAL INSTRUMENTS (CONT'D)

(IV) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONT'D)

31 December 2018	Note	Financial assets at amortised cost $'000	Financial assets at fair value through profit or loss $'000	Fair value – hedging instruments $'000	Financial liabilities at amortised cost $'000	Total carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Group										
Financial assets not measured at fair value										
Cash and cash equivalents	11	216,484	–	–	–	216,484				
Trade and other receivables*	10	13,347	–	–	–	13,347				
Debt investments – at amortised cost	9	455,000	–	–	–	455,000				
		684,831	–	–	–	684,831				
Financial liabilities not measured at fair value										
Loans and borrowings	13	–	–	–	2,429,814	2,429,814	341,167	2,099,078	–	2,440,245
Rental deposits		–	–	–	53,017	53,017				
Trade and other payables^	14	–	–	–	65,009	65,009				
		–	–	–	2,547,840	2,547,840				
Financial liabilities measured at fair value										
Interest rate swaps used for hedging	14	–	–	1,875	–	1,875	–	1,875	–	1,875
Co-operative										
Financial assets not measured at fair value										
Cash and cash equivalents	11	170,960	–	–	–	170,960				
Loans to subsidiaries	10	302,000	–	–	–	302,000				
Trade and other receivables	10	35,343	–	–	–	35,343				
		508,303	–	–	–	508,303				
Financial assets measured at fair value										
Loans to subsidiaries	10	–	3,525,479	–	–	3,525,479	–	3,525,479	–	3,525,479
Financial liabilities not measured at fair value										
Loans and borrowings	13	–	–	–	2,254,814	2,254,814	341,167	1,924,078	–	2,265,245
Trade and other payables^	14	–	–	–	280,891	280,891				
		–	–	–	2,535,705	2,535,705				
Financial liabilities measured at fair value										
Interest rate swaps used for hedging	14	–	–	1,875	–	1,875	–	1,875	–	1,875

* *Excludes prepayment*
^ *Excludes advance rental billings and interest rate swaps*

25 FINANCIAL INSTRUMENTS (CONT'D)

(IV) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONT'D)

Loans to subsidiaries that are classified within Level 2 are valued based on discounted cash flows which approximates the carrying amount.

In 2019 and 2018, there were no transfers between the different levels of the fair value hierarchy.

26 RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in the financial statements, the following significant related party transactions were incurred based on terms as agreed between the parties during the financial year:

	Group		Co-operative	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Rental, advertising and promotion income from related entities included in revenue	50,112	44,292	–	–
Management fee income from related entities included in other income	2,652	167	29,949	27,642
Rental, training and affiliation expenses to related entities included in administrative expenses	(6)	(281)	(531)	(281)
Management fees and group wide programme fee paid to related entities included in other operating expenses	(2,731)	(3,239)	(2,678)	(3,239)

KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel compensation comprised:

	Group		Co-operative	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Short-term benefits	2,547	1,412	2,547	1,412
Post-employment benefits (including CPF)	70	48	70	48
Directors' fees	267	216	227	216
	2,884	1,676	2,844	1,676

27 SUBSEQUENT EVENTS

There were the following events subsequent to the reporting date:

- On 23 January 2020, the Co-operative issued $100 million notes at 3.08% fixed coupon rate under its existing $1,000 million Multicurrency Medium Term Note Programme ("MTN"). The $100 million notes will mature in 2030 and interest is repayable semi-annually on the date of issuance. The proceeds from the notes were used to early refinance $100m bank loan expiring on 30 June 2020.

- The Co-operative repaid $20 million loan with internal resources.

- The global COVID-19 pandemic in first quarter of 2020 has resulted in economic uncertainty and market volatility. On 24 March 2020, the Singapore government announced more stringent safe distancing measures to limit shopping malls' capacity. This was followed by 'circuit breaker' measures announced on 3 April 2020, which will be implemented from 7 April to 4 May 2020 (inclusive). These measures will potentially result in full year decline in the shopping malls' footfall, depending on how fast the COVID-19 outbreak is curbed and the economy recovers. The situation is evolving as more measures by various countries are put in place.

  Operationally, the Group has been taking precautionary measures in accordance with the guidelines provided by the respective authorities to safeguard the well-being of our tenants and shoppers, as well as to ensure the continuity of our mall business and office operations. The Group is also providing operational and financial support to our tenant's business, including but not limited to passing on property tax rebates offered by the government and offering of rental rebates to eligible tenants.

  The long term impact of COVID-19 is difficult to determine and unknown at this time. Management will continue to monitor developments, their impact on the Group, including its business and operations, lending arrangements and debt covenants, as well as proactively take actions to ensure business continuity.

Mercatus

Mercatus Co-operative Limited

No.1 Marina Boulevard
#15-01/04 One Marina Boulevard
Singapore 018989
+65 6950 8000
+65 6438 4506

www.mercatus.com.sg