Dairy Farm

Annual Report 2018

Our Goal :

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

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

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Corporate Information

Directors

Ben Keswick
Chairman and Managing Director

Ian McLeod
Group Chief Executive

Neil Galloway

Mark Greenberg

George J. Ho

Adam Keswick

Simon Keswick

Michael Kok

Dr Delman Lee

Anthony Nightingale

Y.K. Pang

Jeremy Parr

Lord Sassoon, Kt

Percy Weatherall

John Witt

Company Secretary

Jonathan Lloyd

Registered Office

Jardine House
33-35 Reid Street
Hamilton
Bermuda

Dairy Farm Management Services Limited

Directors

Ben Keswick
Chairman

Ian McLeod
Group Chief Executive

Neil Galloway
Group Finance & IKEA Director

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

Sam Kim
Chief Executive Officer – Southeast Asia

Martin Lindström
Group Director, IKEA

Simon McDowell
Group Chief Customer Officer and
Chief Executive Officer North Asia Health and Beauty

Michael Wu
Chairman and Managing Director, Maxim's

Mark Greenberg

David Hsu

Y.K. Pang

Jeremy Parr

John Witt

Corporate Secretary

Jonathan Lloyd

Dairy Farm At-a-Glance

Network Span

11 Asian countries and territories

Store Network*

9,747 outlets

* Including associates and joint ventures.

Geographical Locations

- Supermarkets and Hypermarkets (red)
- Convenience Stores (green)
- Health and Beauty (orange)
- Home Furnishings (blue)
- Restaurants (tan)
- Other Retailing (purple)

Mainland China
- Yonghui
- 7-Eleven
- Mannings
- Maxim's

Taiwan
- Wellcome
- Jasons
- IKEA

Thailand
- Maxim's

Macau
- San Miu
- 7-Eleven
- Mannings
- IKEA
- Maxim's

Hong Kong
- Wellcome
- MarketPlace
- 7-Eleven
- Mannings
- GNC
- IKEA
- Maxim's

The Philippines
- Robinsons (red, green, orange, tan, purple)
- Rose Pharmacy

Cambodia
- Lucky
- Giant
- Guardian
- Maxim's

Vietnam
- Guardian
- Maxim's

Singapore
- Cold Storage
- MarketPlace
- Jasons
- Giant
- 7-Eleven
- Guardian
- Maxim's

Malaysia
- Giant
- Cold Storage
- Jasons
- Guardian
- Maxim's

Brunei
- Giant
- Guardian

Indonesia
- Hero
- Giant
- Guardian
- IKEA

Highlights

- **Sales up 4% at US$11.7 billion**
- **Strong Health and Beauty performance but further decline in Food**
- **Food business US$453 million restructuring charge following strategic review**
- **Multi-year transformation plan in progress under new leadership**

Results	**2018 US$m**	2017 US$m restated#	Change %
Sales			
– subsidiaries	**11,749**	11,289	4
– including associates and joint ventures*	**21,957**	21,827	1
Underlying EBITDA†	**655**	588	11
Underlying profit attributable to shareholders‡	**424**	403	5
Net non-trading items	**(332)**	(1)	n/a
Profit attributable to shareholders	**92**	402	(77)
Net debt	**744**	599	24

	US¢	US¢	%
Underlying earnings per share‡	**31.37**	29.77	5
Basic earnings per share	**6.80**	29.75	(77)
Dividends per share	**21.00**	21.00	–
Net asset value per share^	**106.97**	124.95	(14)

Store Network§	**2018**	2017	Net change
Food	**5,474**	4,216	+1,258
– Supermarkets	**2,043**	1,450	+593
– Hypermarkets	**458**	466	–8
– Convenience Stores	**2,973**	2,300	+673
Health and Beauty	**2,322**	1,744	+578
Home Furnishings	**10**	10	–
Restaurants	**1,316**	1,210	+106
Other Retailing	**625**	–	+625
	9,747	7,180	+2,567

* On a 100% basis.

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

‡ The Group uses 'underlying profit' in its internal financial reporting to distinguish between ongoing business performance and non-trading items, as more fully described in note 1 to the financial statements. Management considers this to be a key measure which provides additional information to enhance understanding of the Group's underlying business performance.

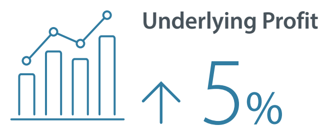
^ Net asset value per share is based on the book value of shareholders' funds.

The accounts have been restated due to changes in accounting policies upon adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', as set out in note 1 to the financial statements.

§ On a 100% and continuing basis.

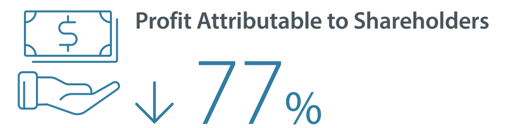
Total Sales*

↑ 1%



Underlying Profit

↑ 5%



Profit Attributable to Shareholders

↓ 77%

Number of Stores*

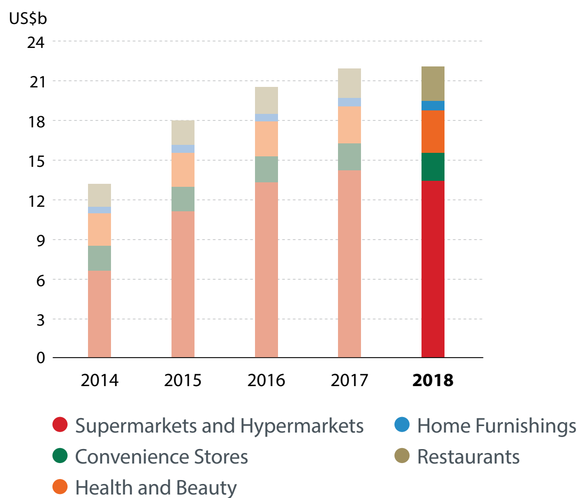
9,747

Number of Employees*

over 230,000 people

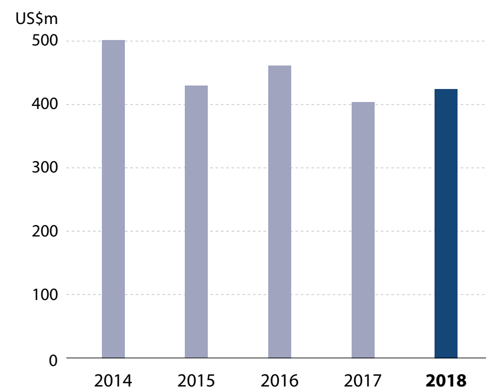
Total Sales*

US$22.0 billion



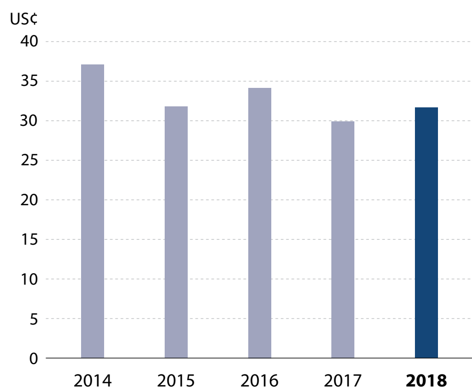
Underlying Profit Attributable to Shareholders

US$424 million



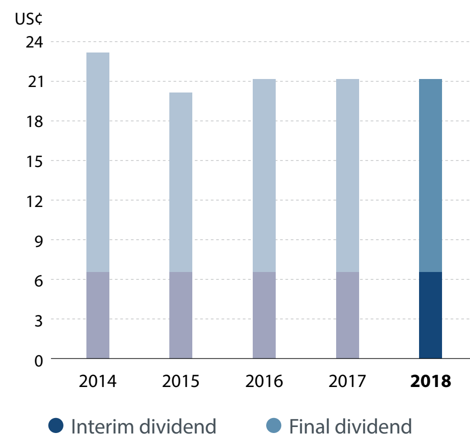
Underlying Earnings per Share

US¢31.37



Ordinary Dividends per Share

US¢21.00



Chairman's Statement

"2018 was a pivotal year for the Dairy Farm Group with the completion of the strategic review and the development of a multi-year transformation plan to reshape the business. These changes will make the business more agile and competitive. With a more customer-focused and market-driven strategy, we will achieve long-term sustainable growth."

Overview

2018 was a pivotal year for the Dairy Farm Group. A detailed strategic review was completed and a strong new senior leadership team was built with the right expertise to take the business forward. In addition, a multi-year transformation plan was developed to reset and reshape the business to compete more effectively.

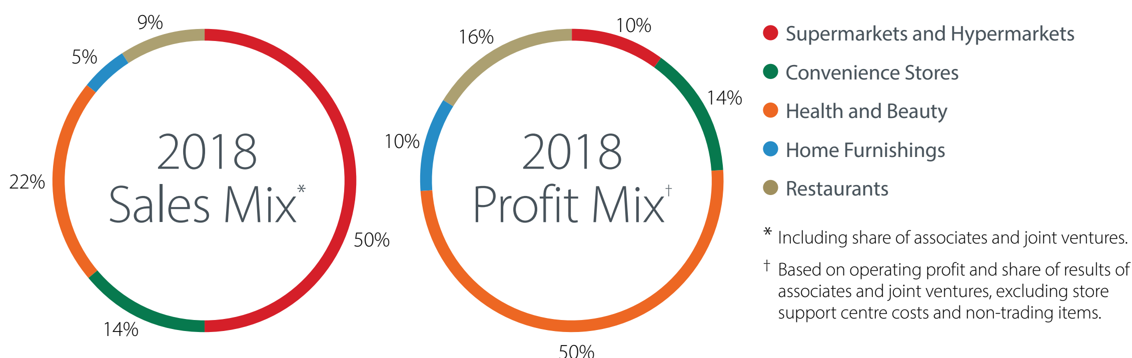
Most store formats reported improved performance in the year, with Health and Beauty delivering particularly strong results, but there was increasing weakness in Food. The performance of the Hong Kong Food business softened over the year and the Supermarket and Hypermarket business across Southeast Asia deteriorated further. The transformation plan will realign these Food businesses to meet changing customer preferences.

Operating performance

Sales for the year by the Group's subsidiaries of US$11.7 billion were 4% ahead of 2017. Total sales of US$22.0 billion, including 100% of associates and joint ventures, were 1% higher.

Underlying operating profit from subsidiaries was US$426 million compared with US$367 million in 2017, which included business change costs of US$73 million principally relating to the exit of various underperforming stores and stock clearance in the Food business in Southeast Asia. Increased contributions from Health and Beauty, and Convenience stores, offset disappointing results from the Supermarket and Hypermarket business, while IKEA was slightly ahead. Results include significantly higher store support centre costs reflecting the increased investment in management and functional capabilities necessary to take the business forward. The contribution from associates and joint ventures was down. There was a record result from Maxim's but a decrease in Yonghui's contribution compared with the prior year. The Group's net financing charge rose, reflecting higher interest rates and additional borrowings to finance further investment in the Philippines.

Underlying profit attributable to shareholders was US$424 million compared to US$403 million in the prior year, while underlying earnings per share of US¢31.37 were up 5% from 2017.



The net non-trading charge for the year totalled US$332 million. This included a US$453 million restructuring charge for the Food business in Southeast Asia partially offset by a net gain of US$121 million principally in relation to business and property disposals.

Following the completion of a detailed strategic review, which concluded that Southeast Asia Food was not viable in its current form, impairments have been made against the goodwill and assets associated with the Giant business and the leases of the underperforming stores have been provided for as part of the business restructuring charge. Net cash costs related to the restructuring charge are expected to be less than US$50 million.

Partially offsetting the financial impact of the restructuring was a net gain of US$119 million arising from the reorganisation of Dairy Farm's interests in the Philippines and Vietnam and the sale of non-core properties. Notably in the Philippines, a gain was recognised on the sale of the Rustan Supercenters, Inc. business in exchange for an investment in Robinsons Retail group, which was partially offset by an impairment in the value of Rose Pharmacy, which Dairy Farm now fully owns. Accordingly, the profit attributable to shareholders was US$92 million for the year, compared with US$402 million in 2017.

The Group maintained strong net cash flows from operating activities of US$643 million, slightly below the US$671 million recorded in 2017. Net debt at the end of 2018 increased from US$599 million to US$744 million, reflecting the additional investments in the Philippines.

The Board is recommending an unchanged final dividend of US¢14.50 per share. This, together with the interim dividend of US¢6.50 per share, will make a total annual dividend of US¢21.00 per share.

In the Supermarket and Hypermarket business, sales were lower and profit fell significantly as trading worsened in Southeast Asia. Trading in Hong Kong also softened in the year and increasing rental and labour costs put pressure on profitability. Market competition is intensifying in all key markets, providing customers with more choice, competitive prices, and greater location convenience. These changes have impacted the business significantly and at an increasing rate.

The Convenience store business had a solid year with higher sales and profit. Enhancements to range and services have been made and the format is benefitting from the overall shift in customer habits towards convenience. Notably, the 7-Eleven business in Guangdong passed the 1,000th store milestone.

Chairman's Statement

Health and Beauty had a very strong year, with sales and profit showing double-digit growth. Mannings in Hong Kong and Macau delivered exceptional results, in part benefitting from increased tourist traffic from mainland China. Guardian in Southeast Asia also made very good progress, reporting increased sales in all six of its markets.

In the Home Furnishings Division, IKEA delivered further strong sales growth in all its markets, and despite being adversely affected by currency fluctuation, rising costs of goods and pre-opening expenses for new stores, profits were slightly ahead.

Maxim's had another good year, with record sales and profit, supported by strong mooncake sales and the full year effect of the successful integration of Starbucks Singapore into the group. However, the business had a challenging year in mainland China as the growth of home food delivery services impacted certain of its restaurant formats.

Yonghui Superstores in mainland China reported strong sales growth through positive like-for-like sales and 471 new store openings. Profit was, however, impacted by the cost of a new employee incentive scheme and losses from new retail formats. In addition, Group results only benefitted from nine months of Yonghui's performance as its 2018 full year results announcement has not yet been made.

Business developments

Having completed the strategic review during the year covering all of our businesses, Dairy Farm is now at the start of a multi-year transformation programme. While the review has resulted in a restructuring charge for the Southeast Asia Food business, which has had a material impact on the Group's 2018 results, the restructuring is an essential step for repositioning businesses that have had a long and proud history of serving their customers.

The new leadership team, with the right depth and breadth of experience and functional expertise, is now largely in place. During the year, this team has focused on developing and implementing new strategies and business performance initiatives. It has also reorganised the businesses into a new streamlined and centralised structure, with regional hubs based in Hong Kong and Singapore and the addition of enhanced functional leadership in key disciplines. These changes will make the business more agile and enable it to respond to and address the changing and challenging consumer environment. Dairy Farm remains committed to being a market leader and growing the business across Asia, but in order to be successful, its formats need to be realigned to meet changing customer preferences.

Corporate developments

As part of the transformation there were several significant corporate developments during the year. These included the investments in Robinsons Retail and Rose Pharmacy in the Philippines.

In November, Dairy Farm entered a partnership with Robinsons Retail, the Philippines' third largest retail business, whereby Dairy Farm's Food business has become part of the Robinsons Retail with Dairy Farm now having a 20% interest in the combined business. Robinsons Retail had a strong year in 2018 and this new partnership positions the Group well to take advantage of the growing opportunities in the Philippines.

In December, Dairy Farm completed the acquisition of the remaining 51% of Rose Pharmacy from its founders, and now owns 100% of the business. This will allow Dairy Farm to drive the next phase of the development of the business.

Yonghui has been a successful investment and a good partner for Dairy Farm and I am pleased to have been appointed Chairman of the Yonghui Board with effect from 20th December 2018, which will enable a further strengthening of our relationship.

People

In what has been another challenging year, I would like to thank all our team members for their hard work and dedication in striving to take the Group forward and deliver the trust, quality, value and service that our consumers want and expect. While there is still much work to do to rebalance the business, I am very supportive of the changes the new management is making to reset and reshape Dairy Farm for a strengthened future.

Dr George Koo and Sir Henry Keswick retired from the Board on 9th May 2018 and 31st December 2018 respectively. We would like to record our gratitude to both of them for the significant contributions they have made over many years to the Group. We were pleased to welcome Dr Delman Lee to the Board in May. On 22nd January 2019, we announced that the Group Finance Director, Neil Galloway, will step down from the Board at the end of March and leave Dairy Farm to return to the UK. His successor will be appointed in due course. We would like to thank Neil for his contribution to the Group.

Prospects

With a more customer-focused and market-driven strategy we will stay competitive, improve performance, and achieve long-term sustainable growth. While the Group faces significant challenges in the short-term as we reset and reshape the Food business as part of the multi-year transformation plan, the Group's other businesses and key associates are performing well and have strong market positions.

Ben Keswick
Chairman
28th February 2019

Group Chief Executive's Review

"With the new leadership team in place we now have the strategic and operational plan needed to reshape Dairy Farm to improve sales and profitability. Our multi-year transformation will deliver a more sustainable business with the right balance and mix for our customers."

I have now had the privilege of being CEO of this iconic Group of businesses for a full year and, in that time, I have been impressed by the dedication of our people, the strength and leadership of our market positions and the scale and reach of our banners and brands.

Overall our businesses delivered a stable trading performance in 2018, despite tough market conditions, underpinned by an exceptional Health and Beauty performance, particularly in Hong Kong, and solid performances from our Convenience and IKEA businesses. Our Convenience store format expanded its presence in mainland China to over 1,000 stores during the year and IKEA saw increasing benefits from a growing e-commerce business, which now has sales equivalent to an 11th store. Strong Beauty category promotions of our Health and Beauty businesses, alongside the introduction of more mobile payment options in stores, further improved customers' shopping experience and helped drive sales.

The Group's investment in key strategic partnerships also continued to deliver good returns, with Yonghui, Maxim's, and the recently added Robinsons, each enjoying sales growth and profit expansion in their core operations during the year. Underlying profit growth in Yonghui still remains strong and the business will benefit further from the partial sell down of their investment in the Yunchuang Technology business, which was announced in December 2018.

However, the positive performances in our stronger trading divisions and strategic partnerships were not enough to offset the growing weakness in Food. Performance of North Asia Food softened over the year and, while the food performance of our upscale stores has improved, the prolonged weakness in our Supermarket and Hypermarket business across Southeast Asia eroded performance further.

Our Supermarket and Hypermarket business requires immediate and significant course correction, to realign to changing consumer expectations from a trusted, quality retailer. Like many other retailers, we face significant challenges as the food industry adapts to changing customer behaviour. Customers now want access to products through a multitude of channels, in different formats, ranges and locations and we have historically been slow in responding to changing consumer dynamics and underinvesting in business infrastructure; something we are urgently addressing.

Strategic review

Following the Strategic Review undertaken shortly after my arrival, we began the urgent work required to assess and address the significant issues faced by the Group, especially those within our Food business, to support the changing demands of the customers. While the Strategic Review also highlighted opportunities to improve performance in other parts of the Group, the Food business is clearly the one requiring the greatest level of focus and short-term action.

It is very clear that the level of change necessary to deliver the required improvements will take at least five years to deliver in a sustainable way. There are few 'quick fixes' and no 'silver bullets'. Continuous improvement against a deliverable, long-term strategic and operational plan is needed. We now have this plan in place, with three distinct phases: Building a Solid Foundation; Delivering Consistently Well; and Driving the Dairy Farm Difference.

We are currently taking action in phase one of this plan, to reset, reshape and transform Dairy Farm's business to improve performance and profitability. The first important action has been to bring in the right leadership talent who have the capability and determination to deliver significant and meaningful

transformational change. During the year we have successfully recruited a new leadership team (of the ten members of the team, seven are new to the business and two are leaders with revised responsibilities), who have begun to instil the right functional discipline, efficiency and business capabilities to deliver against a challenging turnaround plan. I am confident that this team has the depth and breadth of expertise needed to address the historical business underperformance and ensure we are successful in improving and strengthening our business for the long term.

The new team is aligned on our strategic objectives and has already commenced implementing change programmes to make sustainable and long-term improvements, not only to what we offer our customers, but also to how we operate and how we organise ourselves more effectively to deliver against the challenges we face.

As we carried out the Strategic Review, it became clear that we were organised and deployed as multiple business units by banner, country, format or all of the above. While allowing for locally based decision-making, our way of working was to act as a series of small businesses, without shared learning, quality functional specialism, or the consistency of scale and expertise one might expect from one of Asia's largest retailers. Our businesses have now been centralised into two core trading Divisions, covering North Asia and Southeast Asia. This reorganisation has allowed us to collectively benefit as a Group from scale leverage, newly appointed functional specialism and, most importantly, strong regional leadership.

As new leaders have joined, we have begun to address key areas where we have fallen behind, most notably in store format development and digital expansion. As an example, having used stronger consumer insights and intelligence to analyse our customer offering and product selection, we have decided no longer to build Hypermarkets. While some of these stores remain successful and continue to show growth, it is clear that this format has struggled to deliver effective returns across the Food Retail industry in Southeast Asia and needs to be reshaped. We are now introducing pilot stores, redefining space allocation and trialling new innovations in our formats, to place greater emphasis on Fresh food, demographic range optimisation and, where relevant, even repurposing the space altogether. One Hypermarket in Indonesia is being repurposed as an IKEA in 2019 with the prospect of this conversion offering an opportunity to accelerate the expansion of IKEA in that market, while also addressing an underperforming Food store.

While we have strengthened our digital capability to better respond to expanding opportunities in e-commerce, we are starting from a very low base and are playing catch up.

There has been considerable effort placed on developing our people capability, improving operating standards, reviewing supply chain efficiencies and establishing the regional trading hubs in the very early stages of the multi-year plan. These initial steps provide us with confidence that we can continue to develop the businesses that are performing and deliver the enhancements necessary in the underperforming areas of Dairy Farm to build a better business for the future. But these changes are not insignificant and a transformation of this scale will be challenging and will take time to deliver. One of the key benefits of a portfolio business is that as some businesses or assets need particular attention to address challenges, there is the reassurance that others with momentum will continue to perform.

Group Chief Executive's Review

We are only in phase one of our transformation, but I believe we are now facing into and addressing a series of challenges to transform our business to better respond to the needs of present and future customers, not merely repeating habits or assumptions based in the past.

2018 was a year where we began taking a series of material actions to correct the course of our business. Inevitably, there are significant adjustment costs associated with this but, in the longer term, these essential changes will not only deliver the quality, service, value and, most importantly, trust our customers expect, but will provide the Group with the greatest opportunity to deliver improving and sustainable returns over time.

Five strategic imperatives

While organisation design and efficiency improvement are important factors in operational success, we also recognise that as a business we need to review our strategic position to compete in a changing global retail environment. In order for us to achieve our transformation we have identified five strategic priorities that will enable us to effect the changes necessary to allow the business to build a platform for future growth. The Strategic priorities are: Grow in China; Maintain Strength in Hong Kong; Revitalise Southeast Asia; Build Capability; and Drive Digital Innovation.

Grow in China: China is one of the largest and fastest growing consumer markets in the world, and one where convenience, health and brand trust represent encouraging market potential for our businesses there. While we have been represented in China for over 25 years with 7-Eleven and 14 years with Mannings, our scale of growth has not fulfilled its potential. With both businesses centred in Guangdong province, which is home to 100 million people, we should be able to pool resources and grow these businesses more successfully. Our Strategic Review identified opportunities to revise our approach and by more effective definition of range, space, store size and location, we believe there are opportunities for both businesses to achieve stronger growth in scale in the coming years. We have developed a strong and growing relationship with Yonghui, who continue to impress, and we anticipate further shared learning and idea generation between the two businesses going forward. We also continue to develop relationships with China's technology companies, with a series of trials taking place to better understand the changes in customer expectations as regards to the use of technology in this market and beyond.

Maintain Strength in Hong Kong: We are in the fortunate position that, within our home market of Hong Kong, we have a series of very strong brands with a track record of effective performance. Each of Wellcome, Mannings, 7-Eleven and IKEA have high brand presence, strong brand awareness with consumers and importantly, high degrees of brand trust. We have the further benefit of our long-standing relationship with Maxim's, which continues to be a thriving business with effective presence in each area of the market and a growing portfolio of renowned international brands such as Starbucks, Genki Sushi, The Cheesecake Factory and the recently added Shake Shack, which has exceeded all performance expectations. Mannings had an exceptional year in 2018, but Wellcome's performance disappointed. While the underlying business remains strong, substantial cost rises, particularly on rents, have had a material effect on year-on-year profitability. As a result of the Strategic Review, we will reconsider our approach to opening new space, where we open it, and seek to deliver greater range clarity by demographic across the Wellcome portfolio of retail brands.

IKEA benefitted from a full year of operation by a fourth store opened in the last quarter of 2017, which cemented our leading position within the home furnishings market in Hong Kong. While we have faced some cost offsets with currency fluctuations on cost of goods and new startup costs, we are very confident about our underlying position for IKEA and its growth potential not only in Hong Kong but also in the other markets where we operate the franchise. We will also drive further innovation with a planned relaunch of e-commerce and building on the recent experience of a pop-up Christmas store in Hong Kong.

Revitalise Southeast Asia: As mentioned, we have some serious problems in our Food business that require radical solutions and actions. This will necessitate a fundamental re-engineering of our Food offer and our customer proposition plus significant rationalisation of space and of our General Merchandise offer, converting Hypermarkets to large food format stores over time.

In Southeast Asia our core issue rests within our Giant brand and particularly Hypermarkets in Malaysia, Indonesia and Singapore. We have significantly underinvested in these Hypermarkets in the past and they now need a course correction to reshape and resize our offering, to ensure it is fit for purpose to meet the demands of modern-day consumers and keep pace with the rising middle class. We have already begun

the process of redesigning our proposition in Fresh and Grocery and we have pilot propositions already on the ground. Our Malaysian pilot is a redefined Hypermarket where we have halved the general merchandise range size and achieved double-digit sales growth. We are also putting more emphasis on Fresh Food, investing in value on Grocery and streamlining General Merchandise and Apparel to optimise our range and space by category. In another pilot conversion, General Merchandise has been reduced by a third while Fresh space has been increased by over 70%. While it remains very early days for the pilots being developed in each key market of Indonesia, Malaysia and Singapore, we have been encouraged by their early performance. The predominant challenges rest within mass market Hypermarkets and Supermarkets where locations have been lacking in investment for years, or were simply built in the wrong place, or the competitive landscape has changed. These fundamental retail errors are now being addressed head on. Encouragingly, our upscale stores within these markets are showing signs of recovery as we raise operating standards of quality, freshness, availability and even hygiene. That said, the challenge that we face in right-sizing our Food business in Southeast Asia is substantial and will take considerable time to achieve.

Our Guardian Health and Beauty business remains a significant opportunity for us in Southeast Asia. Countries which were demonstrating trading difficulties a couple of years ago are beginning to grow, if not thrive, under new leadership and we will more aggressively invest in the expansion and format development of our Health and Beauty business in the region.

We remain committed to being market leaders and growing our business across Asia, but to be successful we must now realign our formats to make them fit for purpose and to support the needs and preferences of the consumers we serve. By repurposing and remodelling our stores, we will build a stronger Food business, and the early progress we have made gives us confidence that we can breathe new life into it. It is, without doubt, a significant challenge but I look forward to sharing our progress in the years ahead.

Build Capability: Since the start of 2018 we have almost completely changed the leadership team. We now have a group of people with strong track records in the Retail and Consumer industries leading this business. This significant increase in experience and capability is absolutely key to the success of our work ahead. Embedding their knowledge and expertise right across the Group is now the priority. With around 200 years of Retail and Consumer experience collectively across the leadership team we now have the ability to drive the considerable changes necessary to not only improve Dairy Farm's performance, but to transform the business to a modern-day retailer focused on delivering what customers want, where and how they want it.

We have also built strength in depth, with over 30 new senior management appointments across the Group beyond the leadership team itself, adding further experience and energy to the transformation effort.

Drive Digital Innovation: Retail is seeing rapid change and Dairy Farm has been slow in responding to the pace of Digital change. We have significantly underinvested in Digital (people and technology) and as a result are behind the curve. In 2018 we began to change this. Two new positions have been created; Chief Digital Officer and Chief Technology Officer. Both were appointed in the fourth quarter of 2018 and have decades of relevant experience. They have already begun to review all our current ad-hoc programmes and initiatives, to reset and reshape our Group approach to a badly needed IT infrastructure upgrade and accelerate our core SAP system rollout, as well as carrying out a review of our digital priorities within each business and region. We have made some improvements in developing our digital offer, with numerous initiatives and pilot schemes now in place, as well as developing partnerships with key Chinese technology companies. The reality, though, is that our digital capability is in its infancy; something we believe is vital that we change.

Leveraging scale

The key objective of our transformation is to leverage our expertise and scale more effectively across our countries and banners. This will be achieved by operating more effectively as one company. The structure change which has established two trading Divisions for Dairy Farm now allows us the opportunity to drive a much stronger and more consistent approach across the company. While we fully recognise that there needs to be localisation of offer and customer proposition at both a banner and a country level, we also believe there are significant opportunities for us to drive efficiency and lower costs through a more cohesive approach towards leveraging synergy and scale. One good example of this is in Own Brand development.

Group Chief Executive's Review

Our approach to Own Brand development has been variable, non-strategic and has lacked cohesion. While several Own Brand products have performed reasonably well, there has been no clear direction on how Own Brand should be positioned within each market and within each store brand. Equally, because of the way we have been operating under a devolved structure, there has been a disparate approach to development, positioning and priorities across countries, with no emphasis placed on leveraging sourcing through total business scale. This position is equally true in Food and Health and Beauty and across both North Asia and Southeast Asia.

As part of the multi-year plan there will be a radical repositioning of our Own Brand portfolio, establishing clear brand and quality range architecture across our business. To deliver a better value proposition in competitive retail markets, successful delivery of a strong Own Brand portfolio will be a key strategic development for us and with the reorganisation into Regional hubs delivering fewer better quality decision points, we have a much better chance of delivering successfully.

In addition to Own Brand, we also see significant opportunities to improve consistency and lower costs in other areas such as Procurement, Category Management, People Development, Store Productivity, Supply Chain Optimisation and Business Process Re-engineering.

A series of pilot improvement programmes have already been developed which are designed to increase customer focus and improve competitiveness. Given the transformation journey has only recently begun, this work is at an early stage and will take considerable time and effort to embed such change in a sustainable way within the stores and within the business more broadly, but all this work is designed to transform Dairy Farm and reshape the company for a strong, sustainable future.

2018 performance

Overall sales in the Food business declined by 1% to US$8.0 billion, with underlying operating profit of US$126 million, 43% lower than 2017.

The challenges for Supermarkets and Hypermarkets are worsening, and while this is being felt across all our markets, it is being felt most acutely in Southeast Asia. Sales in Hong Kong were ahead of last year, but profit was behind as operating costs, particularly rental and labour costs, continued to increase. Sales and profit were also lower in Taiwan. Giant Supermarkets and Hypermarkets results were poor across our key markets in Southeast Asia, with lower sales and profits in Singapore, Malaysia and Indonesia. Our Food business in the Philippines enjoyed significant growth, driven by strong like-for-like sales and several new store openings. The business became part of the Robinsons Retail group in November.

The Convenience format, by contrast, had a good year with sales and operating profits ahead of last year. In Hong Kong and Macau, Ready-to-Eat food continued to boost sales. In mainland China we expanded beyond 1,000 stores. In Singapore there was a slight decline in total sales following the closure of some stores related to the end of a franchise arrangement.

Our Health and Beauty businesses had an exceptional year. Overall sales grew 17% to US$3.0 billion, driven primarily by Mannings in Hong Kong and Macau, which were well placed to take advantage of a significant increase in tourist arrivals from mainland China. The Guardian businesses in Southeast Asia also performed well. This drove a 59% underlying operating profit increase to US$334 million. In addition, Rose Pharmacy is now 100% owned by Dairy Farm, increasing our ability to drive the business forward in the Philippines.

In our Home Furnishings Division, sales were up 10% to US$721 million, supported by the full year effect of the new IKEA store in Hong Kong, plus the increasing contribution from e-commerce. Underlying operating profit was flat on prior year at US$68 million with increased cost of goods, exacerbated by currency fluctuations and the additional costs of the new store in Hong Kong as it develops to maturity.

The Restaurants Division delivered another year of excellent results. Once again, the popularity of Maxim's mooncakes supported double-digit sales and profit growth. In addition, Maxim's benefitted from the full year effect of the integration of Starbucks Singapore, which has gone very well and is already delivering additional efficiency improvements. During the year Maxim's helped introduce more international brands to new Asian markets, with the opening of the first Shake Shack in Hong Kong and Genki Sushi in Malaysia.

Yonghui delivered strong sales growth in the year, driven largely by store openings while also having positive like-for-like sales. While underlying profit growth from retail operations was solid, profit was affected by the cost of a new employee share incentive scheme, and the impact of losses from the Yunchuang digital business which was partially divested at the end of the year. In addition, Group results benefitted from only nine months of Yonghui's performance as its 2018 full year results announcement has not yet been made.

Transforming Dairy Farm Food

In recognition of the challenges facing our Southeast Asia Food business, we have taken decisive action to reset this business, which has a significant one-off financial impact on our reported 2018 results. We have written down the goodwill associated with the Giant business across the region, impaired underperforming assets, booked onerous lease provisions related to underperforming stores, written off poor quality stocks, and incurred various related business correction costs in relation to resetting and reshaping this business, allowing us to build for the future and draw a line under the weakness of the past. In aggregate, we have incurred a non-trading after-tax and non-controlling interests charge of US$453 million to reset our Southeast Asian Food business. It is worth noting that the majority of this relates to non-cash items with net cash costs expected to be less than US$50 million. This is clearly a significant decision, but it is necessary if we are to move forward, clear of legacy issues that will otherwise continue to constitute a drag on future financial performance.

In addition to the above, we have recognised a number of additional non-trading items in 2018. We realised a gain from the exchange of our Food business in the Philippines for a share in Robinsons Retail and the exit of our Giant operation in Vietnam. We also realised an impairment of goodwill relating to Rose Pharmacy in the Philippines while taking full ownership of this business, which we believe better places us to invest to support sustainable performance improvement in the future. Elsewhere, we made gains on the sale of several Food properties which we did not believe were strategic assets to own.

Together with the costs of resetting the Southeast Asian Food business and some other smaller items, we have accordingly recognised non-trading items to the 2018 results of US$332 million, as set out below.

Non-trading items	**2018 US$m**
Goodwill impairment	**(102)**
Impairment of other assets	**(173)**
Onerous lease provisions	**(83)**
Business correction costs	**(95)**
Total Food Business Restructuring charge	**(453)**
Net gain arising from the reorganisation of interests in the Philippines and Vietnam	**91**
Other non-trading items	**30**
Total non-trading items (after tax and non-controlling interests)	**(332)**

Year ahead

Looking to the year ahead, there is much work to do and many challenges to face, but I see distinct and clear opportunities. There is a comprehensive strategic, fundamental multi-year transformation plan in place, designed to move Dairy Farm, and all its potential, into a new era of retail. Its successful execution will require considerable time, effort, resolve and determination, but we have significant opportunities to pursue.

We believe we will emerge a better, more profitable and sustainable business, with the right balance and mix in our retail portfolio, capable of withstanding the significant industry change we will continue to experience, and deliver retail propositions that are valued, relevant and trusted by our customers across Asia.

This scale of change will not be possible without the talent, determination and commitment of our people. Having travelled extensively during the year to meet team members in Support Centres, Distribution Centres and stores from 100,000 square feet to 1,000 square feet, I am even more encouraged about the desire of our teams to do the best they can to deliver the change necessary. I would like to thank them for their commitment to serving our customers.

I also want to express my thanks to those customers, and take a moment to reaffirm our commitment to giving you stores you can trust to deliver the quality, service and value you deserve.

Ian McLeod
Group Chief Executive
28th February 2019

Big Hearts Bring Big Change

Giving back to local communities where we work and live is a big focus for Dairy Farm. We know we have the responsibility and ability to make a difference to lives of our customers and to those who are less fortunate and in need across the region, so our teams have been hard at work helping those around them to get more from life. Here are some of their stories…

Dairy Farm Works Towards Drink Without Waste

Drink Without Waste is an initiative of the Single-Use Beverage Packaging Working Group in Hong Kong formed to develop solutions for reducing waste from beverage consumption.

Dairy Farm has joined the working group, partnering with key players from the beverage, retail, waste industries and NGOs. Currently, over 80% of the packaging used for beverages ends up as waste in Hong Kong's landfills. After commissioning an independent research study as a first step to consult stakeholders and the community on better managing single-use beverage packaging, released in 2018, the working group is now focused on strategies and actions to Reduce, Redesign, Recover and Recycle single-use packaging.

over 80%

of the packaging used for beverages ends up as waste in Hong Kong's landfills

IKEA Plans to Phase Out Single-Use Plastic by 2020

In a further acknowledgment of the need to reduce and gradually eliminate plastic use, IKEA has revealed a global commitment to phase out all single-use plastic products from its home furnishing range by 2020, including cups, straws, plates, freezer bags and plastic-coated paper plates and cups. Our IKEA stores in Taiwan, Hong Kong and Indonesia are proudly part of this global effort.

To reach this goal, IKEA is committed to finding new and innovative ways to work with renewable and recycled materials in all aspects, from product development to sourcing materials, developing the supply chain and logistics, and how and where it meets its customers.

To highlight some progress made in IKEA's product range: IKEA KUNGSBACKA kitchen fronts are made by recycle plastic; IKEA plastic bag ISTAD is now made mostly (85%) of a renewable material from the sugar cane industry. The shift is expected to save around 75,000 barrels of oil yearly, helping to reduce IKEA's carbon footprint; and RORSLEV doormat is mostly made from recycled PET bottles instead of new raw materials.

US$6,400

has been raised to support 100 primary students

Maxim's Triple Efforts

Maxim's group has stepped up three campaigns to help reduce food waste and plastic straw usage.

Maxim's group held the 'Less Rice and Help the Needy' campaign between August and September 2018, where MX donated HK$5 (US$0.64) to the Kiddy Heart Canteen of Baptist Oi Kwan Social Service upon each order requesting less rice, to help support low income families' expenses for the new school term. The campaign raised a sum of HK$50,000 (US$6,400), supporting 100 primary students.

To embed green living practices, MX has also implemented the 'No Straw Each Day' initiative from October 2018, where all outlets stopped providing straws to dine-in customers. Straws are only provided upon request. MX is the first Chinese fast food chain to launch this initiative. The goal is to reduce straw usage by 70%. This is not the first time MX has made an effort to reduce food waste, as MX's customers now enjoy their dine-in meals using reusable containers and cutlery in all MX stores across the city, aside from a handful of kiosks with limited seats and cleaning facilities. All MX stores also have free water refills in order to minimise the use of single-use plastic bottles or cups. Styrofoam containers have also been phased out for takeaway orders.

In its effort to reduce food waste, MX also up-cycles used cooking oil at Maxim's restaurants to energy. Partnering with Shell, Biodiesel from Maxim's used cooking oil is used to power its fleet in Hong Kong. With annual consumption of 184,000 liters, 119 trucks from two food production plants are currently using Biodiesel.

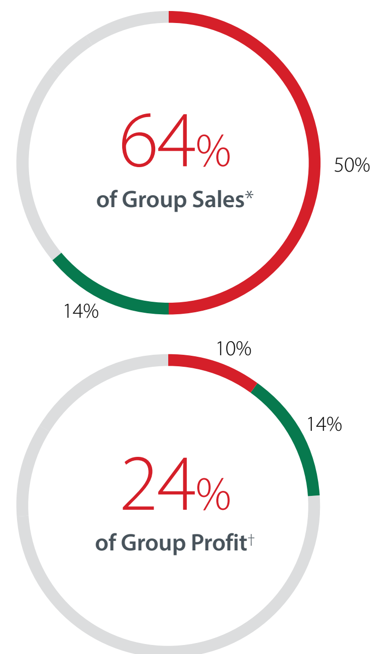
Hero group Indonesia Sharing Inspiration in Fun Teaching Day 2018

Hero group held a Fun Teaching Day on 14th May 2018 at SDN Pakualam 01 Alam Sutera in celebration of National Education Day. The Fun Teaching Day invited team members from all business units of Giant, Hero supermarket, Guardian, and IKEA in Indonesia to share experiences with and inspire students in a My Class session. There were science exhibitions and games, while child psychologist Elizabeth Santosa hosted an engaging Parenting Class for students, parents and teachers. Student representatives were also invited to visit IKEA Alam Sutera to learn about the culture of great self-service.

Business Review

Food

Food (excluding Yonghui) reported US$8.0 billion in sales, 1% lower than last year in constant currency. Operating profit decreased 43% to US$126 million, driven by deteriorating performance from the Supermarket and Hypermarket businesses in both North and Southeast Asia. In contrast, the Convenience format performed well.



- Supermarkets and Hypermarkets
- Convenience Stores

* Including share of associates and joint ventures.

† Based on operating profit and share of results of associates and joint ventures, excluding store support centre costs and non-trading items.

- Supermarkets and Hypermarkets
- Convenience Stores

Total Sales‡ (US$)

15.4 billion

Operating Profit (US$)

126 million

Store Network‡

5,474 stores

‡ Including 100% of associates and joint ventures.

Business Review — Food

Supermarkets and Hypermarkets

Sales of US$5.9 billion from our Supermarkets and Hypermarkets were 2% lower than last year in constant currency, while operating profit fell by 75% to US$34 million. Like-for-like sales were generally weak or negative, other than in the Philippines where we saw good growth.

Hong Kong

Sales saw a moderate rise, consolidating market share gains made in recent years. Costs, particularly rentals, continued to escalate, leading to a reduction in operating profit overall. With the outlook for the property market remaining challenging for retailers, our property strategy is under review to minimise the impact of future rent increases. This will mean much more rigourous decision making in selecting new stores. The nascent e-commerce business recorded double-digit growth and upgrades continued to be made to our in-store shopping experience, such as the introduction of self-checkout counters across many of our stores. However, there is significant additional work to be done to meet customer expectations for a digital retail experience.

Macau

San Miu in Macau performed well in 2018. Both sales and profit were ahead of last year despite higher store expenses and increasing competition. Two new stores were opened during the year, supported by an investment in a new dry distribution centre which commenced operations in 2017. Own Brand participation continued to increase and the upscale range was further improved.

Taiwan

A mixture of weak market sentiment, conservative consumer spending and fierce competition led to a reduction in sales for Wellcome Taiwan. Profit was further impacted by price deflation in fresh food and supply shortages of imported fruits. Moving forward, the business is set to focus on strengthening operating fundamentals for future growth.

Indonesia

Overall sales of our food businesses in Indonesia decreased this year, driven by continued weakness in Giant's Hypermarkets and Supermarkets with negative like-for-like sales and the closure of underperforming stores. In contrast Hero Supermarkets saw increasingly positive trends with modest sales increases. Losses worsened compared to last year and turnaround plan is now being implemented to address declining customer count and profitability with several stores being used to pilot changes. Improvements can already be seen in on-shelf availability and fresh food quality and there is now clearer communication in store. There is also a review of space allocation within stores. These initiatives are delivering encouraging initial results where they have been implemented.

Malaysia

The business environment remained extremely challenging for our Hypermarkets and Supermarkets in Malaysia. Poor market sentiment persists and smaller minimarkets are growing to threaten the traditional formats. As a result, sales were lower than last year and losses increased further due to lower sales, weaker margins and higher store expenses. Significant work will be required to reset and reshape our core Giant Supermarket and Hypermarket operations if they are to return to profitability. As with Indonesia, there is a review of all our stores, space and stock allocation within them, the relevance of our customer offer in terms of both range and pricing, with a focus on improving the core fresh food and grocery proposition. The pilot stores in which these consequent changes have been implemented are delivering encouraging results. Notwithstanding the challenges in Giant, our upscale food business, principally under the Cold Storage brand, and minimart trial stores achieved better performance, with promising sales increases. However, it will take time and significant effort to reinvent our business model, to deliver profitable new and reimagined retail destinations that better meet customer needs.

Business Review — Food

The Philippines

Sales and profit of our Philippines Food business were slightly behind the prior year, in part related to operating costs of several new stores. In November, the Food business in the Philippines was exchanged for a stake in Robinson's Retail Holdings, Inc., the third largest retailer in the country. With the investment completed, Robinsons and Dairy Farm will work together to ensure that both groups benefit from each other's scale, knowledge and expertise. Alongside the investment Dairy Farm has two seats on the Robinsons Board. This development will allow us a stronger opportunity to participate in the development of this 100 million people consumer market.

Singapore

Sales were slightly below prior year driven by negative like-for-like sales and some store closures. Profit was significantly lower due to lower margins and rising costs. Competition from e-commerce platforms and independent discount retailers continued to inhibit market growth, particularly for the traditional Supermarket and Hypermarket format. Customer footfall improved, however, in Cold Storage stores where we have acted to reset our range and made targeted investments intended to improve our customer relevance and price perception. As with our food operations in Malaysia and Indonesia we are piloting new ideas and plan to implement successful initiatives more widely across the business. Short-term improvements have been made to our current e-commerce offer, while longer term plans to build this customer channel in a more impactful and relevant way are under development.

Cambodia

Sales increased as we opened more stores, though like-for-like was flat as competition toughened. The first three Lucky Express stores were opened during the year and initial results were promising.

Convenience

Convenience reported US$2.1 billion in sales, an increase of 4% over last year in constant currency. Operating profit increased by 9% to US$92 million.

Hong Kong | Macau

Both sales and profit of 7-Eleven Hong Kong were ahead of last year, with ready-to-eat remaining a key driver. Own Brand achieved strong performance and is expected to further leverage on its growth. The store network grew slightly with more sites secured in key locations. Digital and other services were continuously added to keep up with changes in the marketplace, while several new payment methods were added to meet customer demand. In Macau, 7-Eleven saw solid improvement in sales and profit. Tobacco sales returned to normal level after the display ban in January. Furthermore, a new skin care assortment targeted at tourist stores helped to boost Health and Beauty category sales.

Mainland China

While profit was in line with prior year, sales increased with store expansion. During this year, the 1,000th store milestone was crossed and the business expanded into three new cities in west Guangdong. On top of existing delivery promotions with Meituan and mobile payment promotions, facial recognition self-checkout machines were launched in 50 stores alongside a WeChat-based loyalty program which has already proved popular. A new distribution centre in Shenzhen is under planning to meet increasing expansion plans.

Singapore

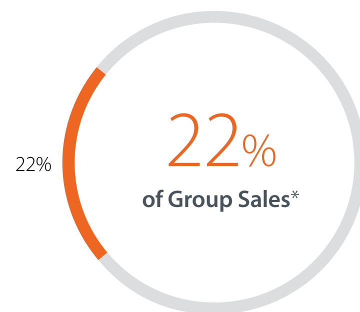
Overall sales fell slightly but like-for-like sales grew positively, which, together with cost savings initiatives in overheads and operations, drove improved profit. New products and Own Brand initiatives continued to support growth in the drinks, snacks and beauty categories. To keep up with customer aspirations, digital technology was leveraged in payment, top-ups and marketing. New parcel collection services are also in progress to improve customer traffic and incremental service income.

Business Review

Health and Beauty

Health and Beauty achieved US$3.2 billion in total sales, an increase of 16% in constant currency, while operating profit increased 59% with better performance across major markets.

We continue to roll out our Health and Beauty business concept across the region through well-established brands – Mannings, Guardian and Rose Pharmacy. Serving the needs of Asia's increasingly health-conscious population, Dairy Farm's Health and Beauty business now spans ten countries and territories.



Health and Beauty

*Including share of associates and joint ventures.

† Based on operating profit and share of results of associates and joint ventures, excluding store support centre costs and non-trading items.

Health and Beauty

Total Sales‡ (US$)
3.2 billion

Operating Profit (US$)
334 million

Store Network‡
2,322 stores

‡ Including 100% of associates and joint ventures.

Business Review — Health and Beauty

Hong Kong | Macau

Mannings in Hong Kong and Macau recorded an exceptional performance in 2018. An increase in local spending along with a strong rebound in the number of tourist visitors in both markets propelled sales and profit. The Beauty Care and Baby categories continued to be key revenue drivers while Own Brand products gained more popularity. Scan-and-Go functionality via mobile was introduced to all stores and self-checkout trials were carried out, further improving the shopping experience.

Mainland China

It has been a transition year for Mannings China. Sales were slightly ahead of last year, mainly thanks to imported product ranges. However, profit declined due to rising store expenses and unplanned closures of several stores. The e-commerce business, including Own Brand online as well as domestic and cross-border e-commerce, made good progress. With optimised range structure, improved Mannings position and continuous innovations such as virtual walls and facial recognition, we will continue to build capability in the market and strengthen our position.

Singapore

Despite the generally challenging retail market driven by the growth of e-commerce and imported products, sales and profit were broadly in line with prior year. With a focus on providing new and exclusive ranges at good value, Own Brand products became increasingly popular with our customers.

Malaysia

Following several challenging years, in 2018 Guardian Malaysia delivered healthy growth in both sales and profit. Along with a favourable external environment given the election sentiment and tax holiday, 'Beauty Days' promotions and store reinvention drove a strong performance. Our Beauty category remained a star performer. Building on the positive results, we expect to increase new store openings and undertake refurbishment of the existing estate to capture further market opportunities.

Indonesia

Despite increasing competition, our Indonesian Health and Beauty business achieved increasing sales and profit improvement, with healthy higher customer footfall driving like-for-like sales growth. Marketing initiatives such as 'Beauty Days' proved successful and delivered significant sales uplift. Own Brand penetration remained strong, and there were further improvements in range selections.

Vietnam

In Vietnam, sales increased, driven by new store openings and the strong performance of our Beauty ranges. As a relatively new business in Vietnam, we continued to develop our brand proposition to better serve the Health and Beauty needs of our customers.

Cambodia

Guardian reported good sales performance with strong like-for-like growth. However, losses increased as we invested in new store expansion.

The Philippines

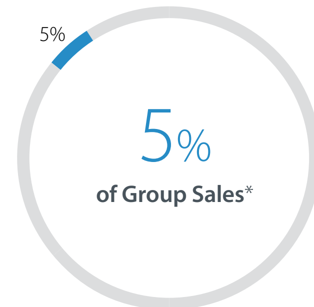
While sales at Rose Pharmacy showed modest improvement, this was offset by the increase of operating expenses, resulting in a slight fall in profit. A continuous focus on cost saving measures is expected to help boost performance. Own Brand products, especially health care items, continued to prove popular in the market. In December, Dairy Farm completed the acquisition of the remaining 51% interest in Rose Pharmacy and now owns the company outright, which will give greater opportunity for accelerating growth.

Business Review

Home Furnishings

IKEA achieved record sales of US$721 million in 2018, up 11% in constant currency, while operating profit was in line with last year at US$68 million, despite cost increases, in part related to investments in new store expansion.

Well-established in Hong Kong and Taiwan, and now with a presence in Indonesia, IKEA provides a comprehensive range of affordable and attractive home furnishing products.



● Home Furnishings

*Including share of associates and joint ventures.

† Based on operating profit and share of results of associates and joint ventures, excluding store support centre costs and non-trading items.

● Home Furnishings

Total Sales (US$)

721 million

Operating Profit (US$)

68 million

Store Network

10 stores

Business Review — Home Furnishings

Hong Kong | Taiwan | Indonesia

IKEA achieved record sales again in 2018, bolstered by the full year effect of the new store opened in Hong Kong in the fourth quarter of 2017, together with strong like-for-like performances in Taiwan and Indonesia. While there was a strong profit increase in both Taiwan and Indonesia, lower profits in Hong Kong left overall profits in line with last year for the Division. Encouragingly there has been strong growth in IKEA's e-commerce channels in all markets and a significant revamp of the e-commerce site has been launched in Indonesia and will follow in Hong Kong and Taiwan during 2019 which is expected to improve this channel's adoption by customers significantly.

This year IKEA announced commitments to inspire and enable sustainable living. This includes reducing the total IKEA climate footprint by an average of 70% per product, using only renewable or recycled materials by 2030 and removing all single-use plastic products from the IKEA range globally by 2020. To meet these challenges, IKEA is investing more resources to develop new materials and a truly recyclable IKEA range.

Progress continues to be made on new site development. A new store has been announced in Macau with plans to open in 2020. In Taiwan, significant progress has been made on the fit out of the new store in southern Taipei, which is expected to open in 2019,

as well as the construction of a new store in Taoyuan by 2021. In Indonesia, we have made progress on the construction of the second store in Jakarta Garden City and secured the site for a third store in Bandung with planned openings in 2021. We have also identified an opportunity to convert an existing Giant Hypermarket in Indonesia to a smaller format IKEA store during 2019. In the meantime, we have been establishing pop-up stores in Hong Kong and Taiwan for the first time to provide festival inspiration.

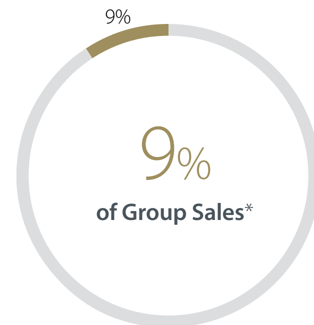
We will continue to strengthen our affordability position by investing in prices to further drive sales and volume growth, and increase our focus on market specific products to enhance local customer appeal. We are also developing shopping experiences beyond 'cash & carry' to meet the needs of today's customers, experimenting with different store formats and distribution set ups.

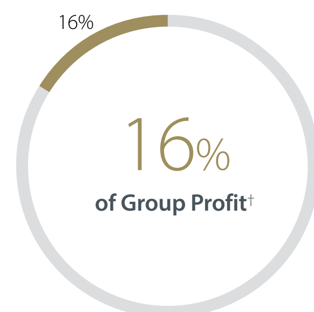
Business Review

Restaurants

Maxim's reported another record year, with US$2.6 billion in total sales, an increase of 16% over last year in constant currency, while profit increased by 13%. The business had a particularly strong performance in both its branded products division, with record mooncake sales, and Starbucks benefitting from a full year of operating in Singapore.

Dairy Farm's restaurant associate, Maxim's, is known for its passion for excellence, innovative approach to cuisine, and superior service. With operations in Hong Kong, Macau, mainland China, Singapore, Vietnam, Cambodia, Thailand and Malaysia, Maxim's offers a diverse mix of Chinese, Asian and Western restaurants in addition to fast food and coffee outlets and cake shops.





● Restaurants

*Including share of associates and joint ventures.

† Based on operating profit and share of results of associates and joint ventures, excluding store support centre costs and non-trading items.

● Restaurants

Total Sales‡ (US$)

2.6 billion

Share of Results (US$)

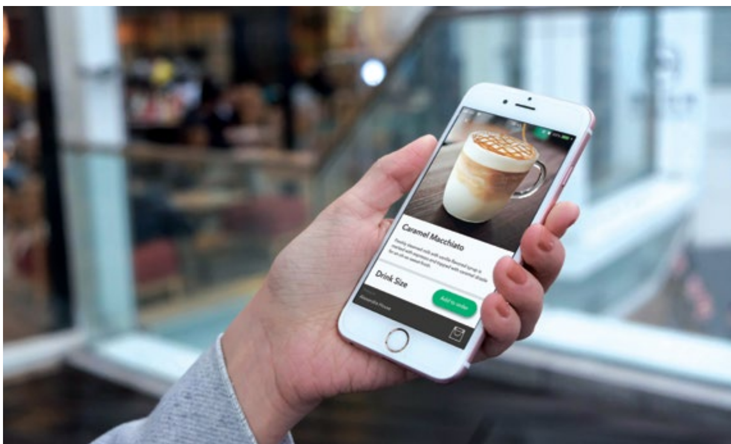
107 million

Store Network‡

1,316 stores

‡ Including 100% of associates and joint ventures.

Business Review — Restaurants



In Hong Kong, Maxim's achieved record high sales and strong profit growth. Maxim's mooncakes grew even more popular with the introduction of an online sales platform. The Japanese Chain Restaurants division had an impressive sales increase, driven by the conversion of Genki Sushi stores to 'Kousoku' lines with a 'sushi bullet train' which will continue over the next two years. The first Shake Shack was opened in May with overwhelming public reception supported by the effective use of social media, and a second store was opened in December.

A Starbucks Hong Kong Flagship was opened and 'Mobile Order & Payment' has been particularly successful across all stores. Moreover, Maxim's is also responding to the popularity of Taiwanese tea with its Cha Long brand, launching six stores during the year.

In Macau, Maxim's signed lease terms with the Airport Authority to operate Quick Serving Restaurants and Starbucks in Macau Airport, commencing in 2019. More international brands are also expected to be introduced to the market from the year onwards.

In mainland China, expansion continued including the addition of a new Cantonese restaurant in Nanjing and The Cheesecake Factory in Beijing. The first Shake Shack in China will open in Shanghai in early 2019. However, performance in China during the year was very challenging with the growth in food delivery services impacting profitability on the back of changing consumer behaviour.

In Singapore, Maxim's benefitted from the full year financial impact of integrating Starbucks and Genki Sushi into the business. Profitability improved further since the acquisition through refining operational efficiencies and efforts to reduce ineffective marketing tactics. The business further extended its footprint in Malaysia by opening the first Genki Sushi store in Kuala Lumpur in November.

Financial Review

" Sales, excluding those of associates and joint ventures, at US$11.7 billion, were 4% higher than last year. Underlying operating profit at US$426 million, was 16% up on prior year, principally due to good performances in Health and Beauty and Convenience."

Accounting policies

The accounting policies are consistent with those of the previous year. The Directors continue to review the appropriateness of the accounting policies adopted by the Group with regard to developments in International Financial Reporting Standards ('IFRS'). In 2018, the Group adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. The adoption of these standards does not have a material effect on the financial statements, but the comparative financial statements have been restated in accordance with the requirements under IFRS.

The new accounting standard, IFRS 16 'Leases' will be effective from 2019 onwards. The standard will require the Group to recognise almost all of its leases onto the balance sheet by capitalising future lease payments into a right-of-use asset and a corresponding lease liability. The Group will apply IFRS 16 based on a full retrospective approach from 1st January 2019. A preliminary assessment of the estimated impact on the Group's results for 2018 can be found in note 1 to the financial statements. In future years, the impact on the Group's underlying profit will vary. While the expense on the existing portfolio of leases will decrease over time (due to the front-loaded expense recognition pattern), this could be more than offset by the impact of lease renewals and new leases added to the overall portfolio.

Results

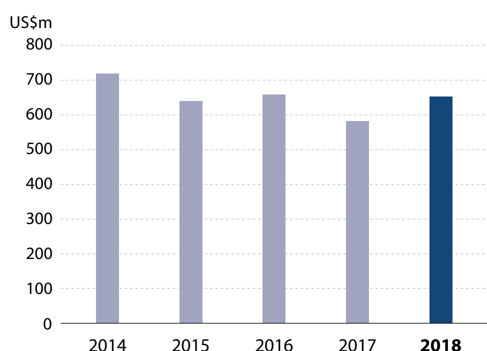
Sales, excluding those of associates and joint ventures, at US$11.7 billion, were 4% higher than last year. Underlying operating profit at US$426 million, was 16% up on prior year, principally due to good performances in the Health and Beauty and Convenience stores businesses partly offset by further deterioration in the Supermarket and Hypermarket operations in Southeast Asia and softening in the Supermarket business in Hong Kong.

The Group's share of results of associates and joint ventures decreased 7%, to US$133 million compared with 2017 principally due to a lower contribution from Yonghui. Group results include Yonghui's performance only for the first nine months of 2018 compared with a full 12 months in 2017 as Yonghui's preliminary full year results will be announced later, in March 2019. However, the nine months results were also 27% lower than the comparable nine months period in 2017 due to the investments in new formats and the additional costs of the new employee incentive scheme. In contrast, Maxim's produced record sales and profitability for the year with increases of 16% and 13%, respectively.

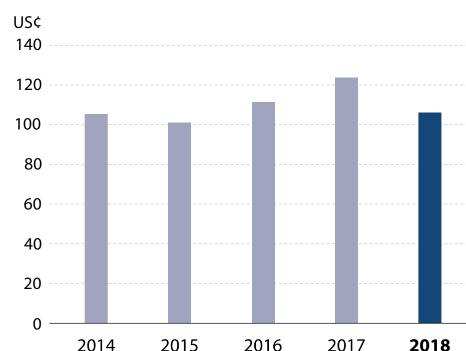
The tax charge for 2018 was US$101 million, 9% higher than 2017, mainly due to a change in the profit contribution mix across the territories. The prior year also benefitted from a tax rebate from an earlier period, effectively reducing the overall tax charge for that year. On a normalised basis, the tax charge would have risen by 3%.

Underlying net profit was US$424 million, a 5% increase from 2017. Underlying earnings per share were US¢31.37, compared to US¢29.77 in 2017.

Underlying EBITDA

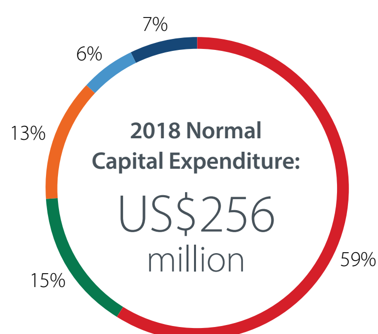


Net Asset Value per Share



In 2017, we noted US$73 million of pre-tax costs for ongoing store closures and stock write offs that were taken against underlying profitability. In 2018, following the conclusion of a strategic review of the Southeast Asia Food business, a decision was made to significantly restructure the business with pre-tax costs of US$467 million which included impairments against certain goodwill and assets, provisions in relation to onerous leases on underperforming stores and other associated business correction costs. The net cost after tax and non-controlling interests was US$453 million. These one-off business restructuring charges have been classified as non-trading items due to the scale of the plan and the impact that it will have on business. Most of the costs related to the restructuring were non-cash charges to write down the value of assets to their recoverable amounts, with the net cash impact expected to be less than US$50 million.

These costs were partly offset by one-off net gains related to several corporate actions in 2018, notably arising from the reorganisation of its business interests in the Philippines described below, the divestment of Giant in Vietnam and the sale of a number of non-core properties.



- Supermarkets and Hypermarkets
- Convenience Stores
- Health and Beauty
- Home Furnishings
- IT and Distribution Centres

Reflecting these significant net non-trading items, profit attributable to shareholders was US$92 million, compared to US$402 million in 2017 with basic earnings per share of US¢6.80, compared to US¢29.75 in 2017.

Cash flow

Summarised Cash Flow	2018 US$m	2017 US$m
Underlying operating profit	**426**	367
Depreciation and amortisation	**229**	221
(Increase)/decrease in working capital	**(19)**	92
Dividends received from associates	**94**	85
Others	**(87)**	(94)
Cash flows from operating activities	**643**	671
Normal capital expenditure	**(256)**	(279)
Investments	**(278)**	(6)
Disposals	**33**	4
Cash flow from investing activities	**(501)**	(281)
Cash flow before financing	**142**	390

The Group maintained strong operating cash flow and generated a net inflow from operating activities of US$643 million in the year, compared to US$671 million in 2017. The unfavourable movement in working capital this year was partly due to tighter stock control resulting in lower purchases in the Malaysia and Indonesia Food businesses and a corresponding reduction in supplier payables. Payments to suppliers due to the earlier Chinese New Year holidays in 2019 also had a negative impact.

Financial Review

Normal capital expenditure was slightly lower at US$256 million versus US$279 million in 2017 principally due to tighter control on both new store expansion and refurbishment of the existing estate.

During the year, the Group exchanged its 100% interest in its Rustan Supercenters, Inc. business in the Philippines for a 12.15% shareholding in RRHI. The Group made further purchases of RRHI shares both from RRHI's major shareholders and through market purchases, and now owns a 20% interest in RRHI. In addition, the Group completed the acquisition of the remaining 51% interest in Rose Pharmacy in the Philippines for US$55 million and reclassified from a joint venture to a wholly-owned subsidiary. In 2018, the Group also realised proceeds on the disposal of a number of non-core properties in Singapore.

The Group's businesses, including associates and joint ventures, added a net 689 outlets in 2018. Also, as a result of the Group's 20% interest in RRHI with its portfolio of 1,878 stores, Dairy Farm's presence now consists of 9,747 stores across all formats in 11 markets. Included in this total are 1,250 Yonghui stores and 1,298 Maxim's stores.

Number of Stores	2018	2017
At 1st January	7,180	6,547
Net additions, excluding RRHI	689	633
Additions related to RRHI investment	1,878	–
At 31st December	9,747	7,180

Balance sheet

Total assets, excluding cash and bank balances, of US$5.1 billion were broadly in line with 2017, mainly reflecting the capital expenditure for new and refurbished stores offset by impairment of tangible and intangible assets. Inventory was down by 4% to US$913 million reflecting the continuous effort to manage inventory more tightly and clear poor quality stocks. Net operating assets were US$1.5 billion at the end of 2018, a 15% decrease versus the previous year.

The Group ended the year with net debt of US$744 million, US$145 million higher as compared to US$599 million at 31st December 2017, reflecting the additional investments in the Philippines.

Dividend

The Board is recommending an unchanged final dividend of US¢14.50 per share, bringing the total dividend in respect of 2018 to US¢21.00 per share, the same as prior year.

Financing

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

The Group, excluding associates and joint ventures, had gross debt of US$1,040 million at the year end, an increase of US$106 million from 2017. The gross debt is funded by total committed and uncommitted lines of US$2,341 million. At the end of 2018, US$597 million of committed and US$704 million of uncommitted facilities were unused and available. The Group had cash balances of US$296 million at 31st December 2018. The Group has implemented a global liquidity cash pooling scheme which enables the Group to manage and optimise its working capital funding requirements on a daily basis.

Net financing charges increased from US$26 million in 2017 to US$33 million in 2018, reflecting the drawdown of facilities to fund the purchase of the additional investments in the Philippines and higher interest rates.

Financial risk management

A comprehensive discussion of the Group's financial risk management policies is included in note 2 to the financial statements. The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objectives are to limit exchange and interest rate risks and to provide a degree of certainty about costs. As a matter of policy, the Group does not enter into speculative transactions in derivatives. The investment of the Group's cash resources is managed so as to minimise risk while seeking to enhance yield. Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt (short and long term), to maximise flexibility for the future development of the business.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 125 and 126.

Neil Galloway
Group Finance Director
28th February 2019

Directors' Profiles

Ben Keswick* ***Chairman and Managing Director***	Mr Keswick joined the Board as Managing Director in 2012 and became Chairman in 2013. He has held a number of executive positions since joining the Jardine Matheson group in 1998, including finance director and then chief executive officer of Jardine Pacific between 2003 and 2007 and, thereafter, group managing director of Jardine Cycle & Carriage until 2012. He has an MBA from INSEAD. Mr Keswick is chairman of Jardine Matheson Limited, Jardine Cycle & Carriage and Yonghui Superstores and a commissioner of Astra. He is also executive chairman and managing director of Jardine Matheson and Jardine Strategic, chairman and managing director of Hongkong Land and Mandarin Oriental, and a director of Jardine Pacific and Jardine Motors.
Ian McLeod* ***Group Chief Executive***	Mr McLeod joined the Board as Group Chief Executive in 2017. He has extensive experience in the retail sector, and was previously chief executive of Southeastern Grocers in the United States, before which he was managing director of Coles in Australia. He is also a director of Yonghui Superstores and a commissioner of Hero.
Neil Galloway* ***Group Finance Director***	Mr Galloway joined the Board as Group Finance Director in 2013. He was previously finance director and chief financial officer of The Hongkong and Shanghai Hotels from 2008. Mr Galloway began his career in investment banking and he held a range of senior positions in Hong Kong and the United Kingdom. He is also a commissioner of Hero. As announced on 22nd January 2019, Mr Galloway will be stepping down as a Director on 31st March 2019.
Mark Greenberg	Mr Greenberg joined the Board in 2006. He is group strategy director of Jardine Matheson. He previously spent 16 years in investment banking with Dresdner Kleinwort Wasserstein in London. He is also a director of Jardine Matheson Limited, Hongkong Land, Jardine Cycle & Carriage and Mandarin Oriental, and a commissioner of Astra and Permata Bank.
George J. Ho	Mr Ho joined the Board in 1998. He was previously engaged in private law practice in San Francisco and is currently engaged in the broadcasting and multi-media industries. Mr Ho is also chairman of Hong Kong Commercial Broadcasting Company.
Adam Keswick	Mr Keswick joined the Board in 2012. Having joined Jardine Matheson in 2001, he was appointed to the board in 2007 and was deputy managing director from 2012 to 2016. Mr Keswick is also deputy chairman of Jardine Lloyd Thompson and a director of Hongkong Land, Jardine Strategic and Mandarin Oriental. He is also a director of Ferrari, and vice chairman of the supervisory board of Rothschild & Co.
Simon Keswick	Mr Keswick joined the Board in 1986 and was Chairman of the Company from 1986 to 2013. He joined the Jardine Matheson group in 1962 and is a director of Hongkong Land, Jardine Matheson, Jardine Strategic and Mandarin Oriental.
Michael Kok	Mr Kok was Group Chief Executive from 2007, when he first joined the Board, until he retired from executive office in 2012. He began his career in Dairy Farm in 1987 and has extensive experience in the retail industry in Asia. He is also a director of Jardine Cycle & Carriage, Mapletree North Asia Commercial Trust Management and SATS.

* Executive Director

Directors' Profiles

Dr Delman Lee	Dr Lee joined the Board in May 2018. He is currently the president and chief technology officer of TAL Apparel, and a director of The Bank of East Asia and Tradelink Electronic Commerce. He is also a council member of The Hong Kong Management Association.
Anthony Nightingale	Mr Nightingale joined the Board in 2006 and was Managing Director of the Company from 2006 to 2012. He is also a director of Hongkong Land, Jardine Cycle & Carriage, Jardine Matheson, Jardine Strategic, Mandarin Oriental, Prudential, Schindler, Shui On Land and Vitasoy, and a commissioner of Astra. He is chairperson of The Sailors Home and Missions to Seafarers in Hong Kong.
Y.K. Pang	Mr Pang joined the Board in 2016. He is deputy managing director of Jardine Matheson, chairman of Jardine Pacific, and chairman and chief executive of Jardine Motors. He previously held a number of senior executive positions in the Jardine Matheson group, which he joined in 1984, including chief executive of Hongkong Land between 2007 and 2016. Mr Pang is also deputy chairman of Jardine Matheson Limited, and a director of Hongkong Land, Jardine Matheson (China), Jardine Strategic, Mandarin Oriental and Zhongsheng. He is chairman of the General Committee and Executive Committee of the Employers' Federation of Hong Kong, Deputy Chairman of the Hong Kong Management Association and a past chairman of the Hong Kong General Chamber of Commerce.
Jeremy Parr	Mr Parr joined the Board in 2015. He is general counsel of the Jardine Matheson group. He was previously a senior corporate partner with Linklaters, where he was the global head of the firm's corporate division, based in London. Mr Parr is also a director of Jardine Matheson Limited, Jardine Matheson and Mandarin Oriental.
Lord Sassoon, Kt	Lord Sassoon joined the Board in 2013. He began his career at KPMG, before joining SG Warburg (later UBS Warburg) in 1985. From 2002 to 2006 he served as a civil servant in the United Kingdom Treasury, where he had responsibility for financial services and enterprise policy. He subsequently chaired the Financial Action Task Force and conducted a review of the UK's system of financial regulation. From 2010 to 2013 Lord Sassoon was the first Commercial Secretary to the Treasury and acted as the Government's Front Bench Treasury spokesman in the House of Lords. He is a director of Hongkong Land, Jardine Lloyd Thompson, Jardine Matheson and Mandarin Oriental. He is also chairman of the China-Britain Business Council.
Percy Weatherall	Mr Weatherall joined the Board in 2000 and was Managing Director from 2000 to 2006. He first joined the Jardine Matheson group in 1976 and retired from executive office in 2006. He is also a director of Hongkong Land, Jardine Matheson, Jardine Strategic and Mandarin Oriental. He is chairman of Corney & Barrow and the Nith District Salmon Fishery Board.
John Witt	Mr Witt joined the Board in 2016, following his appointment as group finance director of Jardine Matheson. He is a Chartered Accountant and has an MBA from INSEAD. He has been with the Jardine Matheson group since 1993 and has held a number of senior finance positions. Most recently, he was the chief financial officer of Hongkong Land. He is also a director of Jardine Matheson Limited and a commissioner of Astra.

Our Leadership

Ian McLeod

Group Chief Executive

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

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

Choo Peng Chee

Chief Executive Officer – North Asia & Group Convenience

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

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

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

Sam Kim

Chief Executive Officer – Southeast Asia

Sam joined Dairy Farm as Chief Executive Officer – Southeast Asia Division in April 2018.

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

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

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

Neil Galloway

Group Finance & IKEA Director

Neil joined the Board as Group Finance Director in 2013. He was previously Finance Director and Chief Financial Officer of The Hongkong and Shanghai Hotels from 2008.

Neil began his career in investment banking and he has held a range of senior positions in Hong Kong and the United Kingdom. He is also a commissioner of Hero.

Our Leadership

Simon McDowell

Group Chief Customer Officer and Chief Executive Officer North Asia Health and Beauty

Simon joined Dairy Farm in May 2018 as the Group Chief Customer Officer and Chief Executive Officer North Asia Health and Beauty.

Simon has extensive senior management experience in Consumer Marketing, General Management and end to end P&L leadership, working across the FMCG, Media & Entertainment and Retail sectors.

Over his career he has lived and worked in the United States, Europe, Asia and in his home country of Australia.

Prior to joining Dairy Farm, Simon worked for major global corporations including The Coca-Cola Company, Sony Pictures Entertainment and most recently was a Director of the Coles Retail group for nine years.

Simon has a Bachelor of Arts degree from the University of Sydney and a Master of Commerce degree in Marketing from the University of New South Wales.

Marcus Spurrell

Chief Digital Officer

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

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

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

Judith Nelson

Group Human Resources Director

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

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

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

Clem Constantine

Group Property Director

Clem joined Dairy Farm as the Group Property Director in July 2018.

Clem brings with him both international experience and extensive knowledge of property portfolio reviews, property contracts, store design and expansion projects, together with strong reputation in driving and delivering property and store development strategies.

Clem ran his own international retail property consultancy from 2014 to 2018. Prior to this, Clem spent nine years with Marks & Spencer and held two major positions, Group Property & Development Director from 2005 to 2014, also appointed as International Director between 2009 and 2011. From 1999 to 2005, Clem was the Group Property Director at Arcadia group and previously the Group Finance Director of the group.

Clem has a Master degree in Economics.

Edward Hunter

Group Supply Chain Director

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

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

Edward graduated in Chemical Engineering.

Charlie Wood

Group Counsel

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

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

Consolidated Profit and Loss Account

for the year ended 31st December 2018

		2018			2017		
	Note	**Underlying business performance US$m**	**Non-trading items US$m**	**Total US$m**	Underlying business performance US$m	Non-trading items US$m restated	Total US$m restated
Sales	*4*	**11,749.3**	**–**	**11,749.3**	11,288.7	–	11,288.7
Cost of sales		**(8,100.5)**	**–**	**(8,100.5)**	(7,856.1)	–	(7,856.1)
Gross margin		**3,648.8**	**–**	**3,648.8**	3,432.6	–	3,432.6
Other operating income		**194.9**	**181.2**	**376.1**	182.4	1.5	183.9
Selling and distribution costs		**(2,876.7)**	**–**	**(2,876.7)**	(2,714.1)	–	(2,714.1)
Administration and other operating expenses		**(540.8)**	**(528.5)**	**(1,069.3)**	(533.5)	–	(533.5)
Operating profit	*5*	**426.2**	**(347.3)**	**78.9**	367.4	1.5	368.9
Financing charges		**(37.8)**	**–**	**(37.8)**	(28.0)	–	(28.0)
Financing income		**5.1**	**–**	**5.1**	1.7	–	1.7
Net financing charges	*6*	**(32.7)**	**–**	**(32.7)**	(26.3)	–	(26.3)
Share of results of associates and joint ventures	*7*	**131.6**	**1.2**	**132.8**	143.4	(1.2)	142.2
Profit before tax		**525.1**	**(346.1)**	**179.0**	484.5	0.3	484.8
Tax	*8*	**(98.6)**	**(2.8)**	**(101.4)**	(92.5)	(0.5)	(93.0)
Profit after tax		**426.5**	**(348.9)**	**77.6**	392.0	(0.2)	391.8
Attributable to:							
Shareholders of the Company		**424.3**	**(332.3)**	**92.0**	402.6	(0.2)	402.4
Non-controlling interests		**2.2**	**(16.6)**	**(14.4)**	(10.6)	–	(10.6)
		426.5	**(348.9)**	**77.6**	392.0	(0.2)	391.8
		US¢		**US¢**	US¢		US¢
Earnings per share	*9*						
– basic		**31.37**		**6.80**	29.77		29.75
– diluted		**31.36**		**6.80**	29.76		29.74

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2018

	Note	**2018 US$m**	2017 US$m restated
Profit for the year		**77.6**	391.8
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	*21*	**(12.0)**	19.2
Tax relating to items that will not be reclassified		**2.2**	(2.6)
		(9.8)	16.6
Share of other comprehensive income of associates and joint ventures		**0.9**	5.4
		(8.9)	22.0
Items that may be reclassified subsequently to profit or loss:			
Net exchange translation differences			
– net (loss)/gain arising during the year		**(99.0)**	108.6
– transfer to profit and loss		**46.7**	–
		(52.3)	108.6
Cash flow hedges			
– net gain/(loss) arising during the year		**3.1**	(1.8)
– transfer to profit and loss		**1.8**	0.2
		4.9	(1.6)
Tax relating to items that may be reclassified		**(1.0)**	0.2
		(48.4)	107.2
Other comprehensive (expense)/income for the year, net of tax		**(57.3)**	129.2
Total comprehensive income for the year		**20.3**	521.0
Attributable to:			
Shareholders of the Company		**38.4**	532.8
Non-controlling interests		**(18.1)**	(11.8)
		20.3	521.0

Consolidated Balance Sheet

at 31st December 2018

	Note	**2018 US$m**	2017 US$m
Net operating assets			
Intangible assets	*11*	**666.7**	814.7
Tangible assets	*12*	**848.0**	1,184.2
Associates and joint ventures	*13*	**2,066.9**	1,601.0
Other investments	*14*	**7.4**	6.9
Non-current debtors	*15*	**160.3**	162.6
Deferred tax assets	*16*	**23.8**	26.4
Non-current assets		**3,773.1**	3,795.8
Stocks		**913.1**	950.0
Current debtors	*15*	**372.0**	350.7
Current tax assets		**35.2**	27.1
Cash and bank balances	*17*	**296.2**	332.4
		1,616.5	1,660.2
Assets classified as held for sale		**–**	11.2
Current assets		**1,616.5**	1,671.4
Current creditors	*18*	**(2,398.6)**	(2,469.5)
Current borrowings	*19*	**(1,025.7)**	(412.7)
Current tax liabilities		**(84.3)**	(71.6)
Current provisions	*20*	**(104.1)**	(52.5)
		(3,612.7)	(3,006.3)
Liabilities directly associated with assets classified as held for sale		**–**	(6.2)
Current liabilities		**(3,612.7)**	(3,012.5)
Net current liabilities		**(1,996.2)**	(1,341.1)
Long-term borrowings	*19*	**(14.5)**	(522.0)
Deferred tax liabilities	*16*	**(58.6)**	(62.7)
Pension liabilities	*21*	**(47.6)**	(34.2)
Non-current creditors	*18*	**(39.7)**	(42.7)
Non-current provisions	*20*	**(125.6)**	(37.4)
Non-current liabilities		**(286.0)**	(699.0)
		1,490.9	1,755.7
Total equity			
Share capital	*22*	**75.1**	75.1
Share premium and capital reserves	*24*	**58.3**	57.9
Revenue and other reserves		**1,313.6**	1,557.0
Shareholders' funds		**1,447.0**	1,690.0
Non-controlling interests		**43.9**	65.7
		1,490.9	1,755.7

Approved by the Board of Directors

Ben Keswick
Ian McLeod
Directors

28th February 2019

Consolidated Statement of Changes in Equity

for the year ended 31st December 2018

	Attributable to shareholders of the Company						
	Share capital	**Share premium**	**Capital reserves**	**Revenue and other reserves**	**Total**	**Attributable to non-controlling interests**	**Total equity**
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
2018							
At 1st January	75.1	33.1	24.8	1,557.0	1,690.0	65.7	**1,755.7**
Total comprehensive income	–	–	–	38.4	38.4	(18.1)	**20.3**
Dividends paid by the Company	–	–	–	(284.0)	(284.0)	–	**(284.0)**
Dividends paid to non-controlling interests	–	–	–	–	–	(0.2)	**(0.2)**
Unclaimed dividends forfeited	–	–	–	0.4	0.4	–	**0.4**
Share-based long-term incentive plans	–	–	0.4	–	0.4	–	**0.4**
Change in interests in subsidiaries	–	–	–	–	–	(3.5)	**(3.5)**
Change in interests in associates and joint ventures	–	–	–	1.8	1.8	–	**1.8**
Transfer	–	0.8	(0.8)	–	–	–	–
At 31st December	**75.1**	**33.9**	**24.4**	**1,313.6**	**1,447.0**	**43.9**	**1,490.9**
2017							
At 1st January	75.1	31.1	28.3	1,370.8	1,505.3	74.1	1,579.4
Total comprehensive income	–	–	–	532.8	532.8	(11.8)	521.0
Dividends paid by the Company	–	–	–	(284.0)	(284.0)	–	(284.0)
Dividends paid to non-controlling interests	–	–	–	–	–	(0.5)	(0.5)
Unclaimed dividends forfeited	–	–	–	0.6	0.6	–	0.6
Share-based long-term incentive plans	–	–	1.6	–	1.6	–	1.6
Change in interests in subsidiaries	–	–	–	(66.4)	(66.4)	6.3	(60.1)
Change in interests in associates and joint ventures	–	–	–	0.1	0.1	–	0.1
Capital repayment to non-controlling interests	–	–	–	–	–	(2.4)	(2.4)
Transfer	–	2.0	(5.1)	3.1	–	–	–
At 31st December	75.1	33.1	24.8	1,557.0	1,690.0	65.7	1,755.7

Revenue and other reserves comprised revenue reserves of US$1,657.1 million *(2017: US$1,855.7 million)*, hedging reserves of US$4.3 million *(2017: US$0.4 million)* and exchange reserves of US$347.8 million loss *(2017: US$299.1 million loss)*.

Consolidated Cash Flow Statement

for the year ended 31st December 2018

	Note	2018 US$m	2017 US$m restated
Operating activities			
Operating profit	*5*	**78.9**	368.9
Depreciation and amortisation	*28(a)*	**229.1**	221.0
Other non-cash items	*28(b)*	**386.7**	15.1
(Increase)/decrease in working capital	*28(c)*	**(19.1)**	92.1
Interest received		**3.9**	1.6
Interest and other financing charges paid		**(34.3)**	(28.0)
Tax paid		**(96.0)**	(84.3)
		549.2	586.4
Dividends from associates and joint ventures		**94.2**	84.9
Cash flows from operating activities		**643.4**	671.3
Investing activities			
Purchase of a subsidiary	*28(d)*	**(54.6)**	–
Purchase of associates and joint ventures	*28(e)*	**(223.1)**	(5.8)
Purchase of intangible assets		**(33.2)**	(60.9)
Purchase of tangible assets		**(222.9)**	(218.4)
Sale of subsidiaries	*28(f)*	**(1.6)**	–
Sale of properties	*28(g)*	**32.6**	3.2
Sale of tangible assets		**1.9**	1.3
Cash flows from investing activities		**(500.9)**	(280.6)
Financing activities			
Change in interests in subsidiaries	*28(h)*	**(3.5)**	(60.1)
Capital repayment to non-controlling interests		**–**	(2.4)
Drawdown of borrowings	*19*	**998.2**	851.0
Repayment of borrowings	*19*	**(963.6)**	(1,014.2)
Net increase in other short-term borrowings	*19*	**67.1**	122.3
Dividends paid by the Company	*25*	**(284.0)**	(284.0)
Dividends paid to non-controlling interests		**(0.2)**	(0.5)
Cash flows from financing activities		**(186.0)**	(387.9)
Net (decrease)/increase in cash and cash equivalents		**(43.5)**	2.8
Cash and cash equivalents at 1st January		**334.5**	322.6
Effect of exchange rate changes		**(6.5)**	9.1
Cash and cash equivalents at 31st December	*28(i)*	**284.5**	334.5

Notes to the Financial Statements

1. Principal Accounting Policies

Basis of preparation

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

The Group has adopted the following new accounting standards in 2018:

IFRS 9 'Financial Instruments'
Under IFRS 9, the gains and losses arising from changes in fair value of the Group's equity investments, previously classified as available-for-sale, have been recognised in profit and loss, instead of through other comprehensive income. Such fair value gains or losses on revaluation of these investments are classified as non-trading items, and do not have any impact on the Group's underlying profit attributable to shareholders and shareholders' funds. The new hedge accounting rules, which align the accounting for hedging instruments closely with the Group's risk management practices, and the new forward-looking expected credit loss model replacing the incurred loss impairment model, have no significant impact to the Group.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 establishes a comprehensive framework for the recognition of revenue. It replaces IAS 11 *'Construction Contracts'*, and IAS 18 *'Revenue'* which covers contracts for goods and services. The core principle in the framework is that revenue is recognised when control of a good or service transfers to a customer. There is no significant impact of the new standard on the Group.

Changes to accounting policies on adoption of IFRS 9 and IFRS 15 have been applied retrospectively, and the comparative financial statements have been restated.

There are no other amendments, which are effective in 2018 and relevant to the Group's operations, that have a significant effect on the Group's accounting policies.

Notes to the Financial Statements

1. Principal Accounting Policies continued

Basis of preparation continued

The effects of adopting IFRS 9 and IFRS 15

(i) On the consolidated profit and loss account for the year ended 31st December 2017

	Increase/(decrease) US$m
Other operating income	1.0
Share of results of associates and joint ventures	(2.0)
Tax	(0.1)
Profit after tax	(1.1)
Attributable to:	
Shareholders of the Company*	(1.1)
Non-controlling interests	–
	(1.1)
*Further analysed as:	
Underlying profit attributable to shareholders	–
Non-trading items	
– fair value gain on equity investments	0.9
– share of Yonghui's fair value loss on equity investment	(1.8)
– share of net gain from disposal of an investment by Yonghui	(0.2)
Profit attributable to shareholders	(1.1)
	US¢
Basic underlying earnings per share	–
Diluted underlying earnings per share	–
Basic earnings per share	(0.08)
Diluted earnings per share	(0.08)

1. Principal Accounting Policies continued

Basis of preparation continued

The effects of adopting IFRS 9 and IFRS 15 continued

(ii) On the consolidated statement of comprehensive income for the year ended 31st December 2017

	Increase/(decrease) US$m
Profit for the year	(1.1)
Other comprehensive income	
Items that may be reclassified subsequently to profit or loss:	
Revaluation of other investments at fair value through other comprehensive income	
– net gain arising during the year	(1.0)
Tax relating to items that may be reclassified	0.1
Share of other comprehensive income of associates and joint ventures	2.0
Other comprehensive income for the year, net of tax	1.1
Total comprehensive income for the year	–
Attributable to:	
Shareholders of the Company	–
Non-controlling interests	–
	–

(iii) On the consolidated balance sheet at 31st December 2017

There is no impact on the consolidated balance sheet upon the adoption of IFRS 9 and IFRS 15.

Notes to the Financial Statements

1. Principal Accounting Policies continued

Basis of preparation continued

New standards and amendments effective after 2018 which are relevant to the Group's operations and yet to be adopted:

A number of new standards and amendments, which are effective for accounting periods beginning after 2018, have been published and will be adopted by the Group from their effective dates. An assessment of the impact of the standards and amendments, that are relevant and have a material impact to the Group, is set out below.

IFRS 16 'Leases' (effective from 1st January 2019)
The standard replaces IAS 17 *'Leases'* and related interpretations. It will result in lessees bringing almost all of their leases onto the balance sheet as the distinction between operating leases and finance leases is removed. The model requires a lessee to recognise a right-of-use asset and a lease liability, except for leases with a term ending within 12 months or with low-value. IFRS 16 will affect primarily the accounting for the Group's operating leases while the accounting for lessors will not change significantly. The Group will apply IFRS 16 based on a full retrospective approach from 1st January 2019.

Based on a preliminary assessment, it is estimated that the change in accounting for the Group's operating leases will result in the recognition of right-of-use assets and lease liabilities of approximately US$3.5 billion and US$3.8 billion respectively as at 31st December 2018. The Group's underlying profit attributable to shareholders for the year ended 31st December 2018 would decrease by around US$90 million and the shareholders' funds would decrease by approximately US$400 million as at 31st December 2018. These estimates are based on the Group's lease profile during 2018 and based on a range of assumptions across the markets we operate in including: discount rates, future rent based on market conditions and lease terms. The assessment has yet to include the impact from the Group's two associates, Yonghui and RRHI, as they are still in the process of assessing the IFRS 16 impact at the balance sheet date.

Apart from the above, there are no other standards or amendments that are not yet effective and that would be expected to have a material impact to the Group.

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

The Group's reportable segments are set out in notes 4, 5 and 7 and are described on page 67.

Basis of consolidation

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

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

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

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

1. Principal Accounting Policies continued

Basis of consolidation continued

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

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

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

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

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

Foreign currencies

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

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

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

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

Impairment of non-financial assets

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

Notes to the Financial Statements

1. Principal Accounting Policies continued

Intangible assets

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

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

(ii) Leasehold land represents payments to third parties to acquire short-term interests in property. These payments are stated at cost and are amortised over the useful life of the lease which includes the renewal period if the lease can be renewed by the Group without significant cost.

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

Tangible fixed assets and depreciation

Freehold land and buildings, and the building component of owner-occupied leasehold properties are stated at cost less any accumulated depreciation and impairment. Long-term interests in leasehold land are classified as finance leases and grouped under tangible assets if substantially all risks and rewards relating to the land have been transferred to the Group, and are amortised over the useful life of the lease. Grants related to tangible assets are deducted in arriving at the carrying amount of the assets. Other tangible fixed assets are stated at cost less amounts provided for depreciation and impairment.

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

Freehold properties	25 – 40 years
Leasehold properties	Shorter of the lease term or useful life
Leasehold improvements	Shorter of unexpired lease term or useful life
Leasehold land	Over period of the lease
Plant and machinery	3 – 15 years
Furniture, equipment and motor vehicles	3 – 7 years

1. Principal Accounting Policies continued

Tangible fixed assets and depreciation continued

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

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

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

Investments

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

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

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

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss on a straight line basis over the period of the lease. When a lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the year in which termination takes place.

Stocks

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

Debtors

Trade and other debtors, excluding derivative financial instruments, are measured at amortised cost except where the effect of discounting would be immaterial. Provision for impairment is established when there is objective evidence that the outstanding amounts will not be collected. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the debtor is impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in arriving at operating profit. When a debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amount previously written off are credited to profit and loss.

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

Notes to the Financial Statements

1. Principal Accounting Policies continued

Cash and cash equivalents

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

Provisions

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

Borrowings and borrowing costs

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

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

Current and deferred tax

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

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

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

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

1. Principal Accounting Policies continued

Employee benefits

(i) Pension obligations

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

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

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

Past service costs are recognised immediately in profit and loss.

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

(ii) Share-based compensation

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

Non-current assets and disposal group held for sale

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

1. Principal Accounting Policies continued

Derivative financial instruments

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

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

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

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

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

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

Offsetting financial instruments

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

1. Principal Accounting Policies continued

Non-trading items

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

Earnings per share

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

Dividends

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

Sales recognition

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

Buying income

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

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

The key types of buying income which the Group receives include:

- Discounts and incentives relate to individual unit sales.
- Sales volume-based incentives based on achieving certain purchases on promotion for an event or a period.
- Conditional incentives subject to satisfaction of certain conditions by the Group.
- Fixed amounts agreed with suppliers for supporting in-store activity.

Other operating income

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

Pre-operating costs

Pre-operating costs are expensed as incurred.

2. Financial Risk Management

Financial risk factors

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

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

(i) Market risk

Foreign exchange risk

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

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

Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency. There are no significant monetary balances held by Group companies at 31st December 2018 that are denominated in a non-functional currency. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing assets and liabilities. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of derivative financial instruments including interest rate swaps. The Group monitors interest rate exposure on a regular basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain 40% to 60% of its long-term non-working capital gross borrowings in fixed rate instruments. At 31st December 2018, the Group's fixed rate borrowings were 19% *(2017: 21%)* on total borrowings, with an average tenor of 0.2 year *(2017: 1.2 years)*. The interest rate profile of the Group's borrowings after taking into account hedging transactions is set out in note 19.

2. Financial Risk Management continued

Financial risk factors continued

(i) Market risk continued

Interest rate risk continued

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

At 31st December 2018, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US$6.5 million *(2017: US$5.0 million)* higher/lower, and with no change to hedging reserves *(2017: US$2.0 million)* higher/lower, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the United States, Hong Kong and Malaysian rates, over the period until the next annual balance sheet date. In the case of effective fair value hedges, changes in the fair value of the hedged items caused by interest rate movements balance out in the profit and loss account against changes in the fair value of the hedging instruments. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

(ii) Credit risk

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

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

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

Notes to the Financial Statements

2. Financial Risk Management continued

Financial risk factors continued

(iii) Liquidity risk

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

At 31st December 2018, total available borrowing facilities amounted to US$2,340.8 million *(2017: US$2,064.7 million)*, of which US$1,371.4 million *(2017: US$1,232.2 million)* are committed facilities. A total of US$1,040.2 million *(2017: US$934.7 million)* from both committed and uncommitted facilities was drawn down. Undrawn committed facilities, in the form of revolving credit facilities, totalled US$596.6 million *(2017: US$482.8 million)*.

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

	Within one year US$m	Between one and two years US$m	Between two and three years US$m	Between three and four years US$m	Between four and five years US$m	Beyond five years US$m	Total undiscounted cash flows US$m
At 31st December 2018							
Creditors	2,261.8	35.0	1.2	0.2	0.3	3.0	**2,301.5**
Borrowings	1,038.1	15.9	0.1	–	–	–	**1,054.1**
Net-settled derivative financial instruments	–	–	–	–	–	–	**–**
Gross-settled derivative financial instruments							
– inflow	455.9	50.0	–	–	–	–	**505.9**
– outflow	451.4	49.6	–	–	–	–	**501.0**
At 31st December 2017							
Creditors	2,330.0	12.9	26.1	0.4	0.3	2.9	2,372.6
Borrowings	429.6	307.9	21.3	208.3	–	–	967.1
Net-settled derivative financial instruments	–	–	–	–	–	–	–
Gross-settled derivative financial instruments							
– inflow	163.8	150.0	–	–	–	–	313.8
– outflow	165.3	148.8	–	–	–	–	314.1

2. Financial Risk Management continued

Capital management

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

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

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover. The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and bank balances. Interest cover is calculated as underlying operating profit and share of results of associates and joint ventures divided by net financing charges. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2018 and 2017 are as follows:

	2018	2017
Gearing ratio (%)	**50**	34
Interest cover (times)	**17**	19

Fair value estimation

(i) Financial instruments that are measured at fair value

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

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

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

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

Notes to the Financial Statements

2. Financial Risk Management continued

Fair value estimation continued

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

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

There were no changes in valuation techniques during the year.

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

	2018 US$m	2017 US$m
Assets		
Other investments		
– equity investments *(note 14)*	**7.4**	6.9
Derivatives designated at fair value *(note 29)*		
– through other comprehensive income	**6.2**	2.7
– through profit and loss	**0.1**	0.7
	13.7	10.3
Liabilities		
Derivatives designated at fair value *(note 29)*		
– through other comprehensive income	**(0.3)**	(2.3)
	(0.3)	(2.3)

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

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

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

2. Financial Risk Management continued

Fair value estimation continued

Financial instruments by category

The carrying amounts of financial assets and financial liabilities at 31st December 2018 and 2017 are as follows:

	Fair value of hedging instruments US$m	Fair value through profit and loss US$m	Financial assets at amortised cost US$m	Other financial liabilities US$m	Total carrying amounts US$m
2018					
Financial assets measured at fair value					
Other investments					
– equity investments	–	7.4	–	–	**7.4**
Derivative financial instruments	6.2	0.1	–	–	**6.3**
	6.2	**7.5**	**–**	**–**	**13.7**
Financial assets not measured at fair value					
Debtors	–	–	153.4	–	**153.4**
Cash and bank balances	–	–	296.2	–	**296.2**
	–	**–**	**449.6**	**–**	**449.6**
Financial liabilities measured at fair value					
Derivative financial instruments	(0.3)	–	–	–	**(0.3)**
	(0.3)	**–**	**–**	**–**	**(0.3)**
Financial liabilities not measured at fair value					
Borrowings	–	–	–	(1,040.2)	**(1,040.2)**
Trade and other payables excluding non-financial liabilities	–	–	–	(2,301.5)	**(2,301.5)**
	–	**–**	**–**	**(3,341.7)**	**(3,341.7)**
2017					
Financial assets measured at fair value					
Other investments					
– equity investments	–	6.9	–	–	6.9
Derivative financial instruments	2.7	0.7	–	–	3.4
	2.7	7.6	–	–	10.3
Financial assets not measured at fair value					
Debtors	–	–	161.3	–	161.3
Cash and bank balances	–	–	332.4	–	332.4
	–	–	493.7	–	493.7
Financial liabilities measured at fair value					
Derivative financial instruments	(2.3)	–	–	–	(2.3)
	(2.3)	–	–	–	(2.3)
Financial liabilities not measured at fair value					
Borrowings	–	–	–	(934.7)	(934.7)
Trade and other payables excluding non-financial liabilities	–	–	–	(2,372.6)	(2,372.6)
	–	–	–	(3,307.3)	(3,307.3)

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

3. Critical Accounting Estimates and Judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

Acquisition of subsidiaries, associates and joint ventures

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

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

Impairment of assets

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

Income taxes

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

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

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

Buying income

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

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

4. Sales

	Including associates and joint ventures		Subsidiaries	
	2018	2017	**2018**	2017
	US$m	US$m	**US$m**	US$m
Analysis by operating segment:				
Food	**15,424.7**	16,148.7	**7,992.2**	8,038.3
– Supermarkets/hypermarkets	**13,320.6**	14,128.7	**5,888.1**	6,018.3
– Convenience stores	**2,104.1**	2,020.0	**2,104.1**	2,020.0
Health and Beauty	**3,225.7**	2,787.2	**3,035.8**	2,597.4
Home Furnishings	**721.3**	653.0	**721.3**	653.0
Restaurants	**2,585.5**	2,238.1	**–**	–
	21,957.2	21,827.0	**11,749.3**	11,288.7

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

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board for the purpose of resource allocation and performance assessment. Dairy Farm operates in four segments: Food, Health and Beauty, Home Furnishings and Restaurants. Food comprises supermarket, hypermarket and convenience store businesses (including the Group's associate, Yonghui, a leading supermarket/hypermarket retailer in mainland China). Health and Beauty comprises the health and beauty businesses. Home Furnishings is the Group's IKEA businesses. Restaurants is the Group's catering associate, Maxim's, a leading Hong Kong restaurant chain.

Sales and share of results of Yonghui represent only nine months from January to September 2018 based on their latest published announcement *(2017: full year results)*. The share of Yonghui's results for October to December 2018 will be accounted for in the year ending 31st December 2019 *(note 7)*.

Robinsons Retail Holdings, Inc. ('RRHI'), the Group's newly acquired associate, has not announced its 2018 full year results yet. Sales and share of results of RRHI from the date of acquisition of its 20% interest to 31st December 2018 will be accounted for in the year ending 31st December 2019 *(note 7)*.

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

	Including associates and joint ventures		Subsidiaries	
	2018	2017	**2018**	2017
	US$m	US$m	**US$m**	US$m
Analysis by geographical area:				
North Asia	**17,254.1**	17,153.6	**7,422.4**	6,870.9
Southeast Asia	**4,703.1**	4,673.4	**4,326.9**	4,417.8
	21,957.2	21,827.0	**11,749.3**	11,288.7

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

Notes to the Financial Statements

5. Operating Profit

	2018 US$m	2017 US$m
Analysis by operating segment:		
Food	**126.5**	220.0
– Supermarkets/hypermarkets	**34.1**	135.1
– Convenience stores	**92.4**	84.9
Health and Beauty	**334.3**	209.9
Home Furnishings	**68.4**	68.0
	529.2	497.9
Store support centre	**(103.0)**	(57.7)
	426.2	440.2
Business change costs	**–**	(72.8)
Underlying operating profit	**426.2**	367.4
Non-trading items:		
– business restructuring costs	**(467.3)**	–
– profit on sale of businesses and properties	**180.7**	0.5
– loss on reclassification of a joint venture as a subsidiary	**(61.2)**	–
– fair value gain on equity investments	**0.5**	1.0
	78.9	368.9

In 2017, following management's decision to exit various stores and stock categories in the Food businesses in Southeast Asia, a charge of US$61.1 million was recognised in the profit and loss. In addition, a restructuring cost of US$11.7 million for the Group was also recognised in the profit and loss.

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

	2018 US$m	2017 US$m
Analysis by geographical area:		
North Asia	**528.0**	457.7
Southeast Asia	**1.2**	40.2
	529.2	497.9
Store support centre	**(103.0)**	(57.7)
	426.2	440.2
Business change costs	**–**	(72.8)
Underlying operating profit	**426.2**	367.4

5. Operating Profit continued

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

	2018 US$m	2017 US$m
Cost of stocks recognised as expense	**(8,060.5)**	(7,818.1)
Amortisation of intangible assets *(note 11)*	**(23.5)**	(21.7)
Depreciation of tangible assets *(note 12)*	**(205.6)**	(199.3)
Impairment of intangible assets *(note 11)*	**(117.4)**	(0.4)
Impairment of tangible assets *(note 12)*	**(209.3)**	(2.0)
Write down of stocks	**(19.1)**	(9.4)
Reversal of write down of stocks	**4.2**	6.7
Employee benefit expense		
– salaries and benefits in kind	**(1,130.6)**	(1,065.4)
– share options and share awards granted *(note 24)*	**(0.4)**	(1.6)
– defined benefit pension plans *(note 21)*	**(22.9)**	(19.5)
– defined contribution pension plans	**(54.0)**	(51.4)
	(1,207.9)	(1,137.9)
Operating lease expenses		
– minimum lease payments	**(986.4)**	(932.1)
– contingent rents	**(50.4)**	(35.0)
– subleases	**43.1**	39.8
	(993.7)	(927.3)
Auditors' remuneration		
– audit	**(3.3)**	(3.4)
– non-audit services	**(0.7)**	(1.3)
	(4.0)	(4.7)
Concession and service income	**159.9**	145.4
Rental income from properties	**27.7**	27.9
Net foreign exchange gains	**2.7**	4.7
Profit/(loss) on sale of tangible and intangible assets	**11.7**	(10.1)

Notes to the Financial Statements

6. Net Financing Charges

	2018 **US$m**	2017 US$m
Interest expense – bank loans and advances	**(33.3)**	(23.7)
Commitment and other fees	**(4.5)**	(4.3)
Financing charges	**(37.8)**	(28.0)
Financing income	**5.1**	1.7
	(32.7)	(26.3)

7. Share of Results of Associates and Joint Ventures

	2018* **US$m**	2017 US$m
Analysis by operating segment:		
Food – Supermarkets/hypermarkets	**30.1**	52.0
Health and Beauty	**(4.4)**	(5.0)
Restaurants	**107.1**	95.2
	132.8	142.2

Share of results of associates and joint ventures included the following from non-trading items:

	2018 **US$m**	2017 US$m
Share of Yonghui's fair value gain/(loss) on equity investments	**1.2**	(1.8)
Share of net gain from disposal of an investment by Yonghui	**–**	0.6
	1.2	(1.2)

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

* Includes Yonghui's nine months results from January to September 2018 *(2017: full year results)* while the 20% interest of RRHI's results from the date of acquisition to 31st December 2018 will be accounted for in the year ending 31st December 2019 as the 2018 full year results were not yet announced *(note 4)*.

8. Tax

	2018 US$m	2017 US$m
Tax charged to profit and loss is analysed as follows:		
Current tax	**(102.1)**	(86.9)
Deferred tax	**0.7**	(6.1)
	(101.4)	(93.0)
Reconciliation between tax expense and tax at the applicable tax rate[†]*:*		
Tax at applicable tax rate	**35.7**	(49.8)
Income not subject to tax	**11.7**	4.9
Expenses not deductible for tax purposes	**(96.2)**	(15.7)
Tax losses and temporary differences not recognised	**(38.9)**	(17.8)
Utilisation of previously unrecognised tax losses and temporary differences	**–**	0.3
Deferred tax assets written off	**(3.5)**	–
Over provision in prior years	**0.1**	3.0
Withholding tax	**(12.9)**	(16.5)
Change in tax rate	**0.7**	–
Other	**1.9**	(1.4)
	(101.4)	(93.0)
Tax relating to components of other comprehensive income is analysed as follows:		
Remeasurements of defined benefit plans	**2.2**	(2.6)
Cash flow hedges	**(1.0)**	0.2
	1.2	(2.4)

Share of tax charge of associates and joint ventures of US$34.7 million *(2017: US$32.0 million)* is included in share of results of associates and joint ventures.

[†] The applicable tax rate for the year was 15.2% *(2017: 14.5%)* and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates.

Notes to the Financial Statements

9. Earnings per Share

Basic earnings per share are calculated on profit attributable to shareholders of US$92.0 million *(2017: US$402.4 million)*, and on the weighted average number of 1,352.6 million *(2017: 1,352.4 million)* shares in issue during the year.

Diluted earnings per share are calculated on profit attributable to shareholders of US$92.0 million *(2017: US$402.4 million)*, and on the weighted average number of shares in issue after adjusting for the number of shares which are deemed to be issued for no consideration under the share-based long-term incentive plans based on the average share price during the year.

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

	Ordinary shares in millions	
	2018	2017
Weighted average number of shares for basic earnings per share calculation	**1,352.6**	1,352.4
Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans	**0.8**	0.6
Weighted average number of shares for diluted earnings per share calculation	**1,353.4**	1,353.0

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

	2018			2017		
		Basic earnings per share	**Diluted earnings per share**		Basic earnings per share	Diluted earnings per share
	US$m	**US¢**	**US¢**	US$m	US¢	US¢
Profit attributable to shareholders	**92.0**	**6.80**	**6.80**	402.4	29.75	29.74
Non-trading items *(note 10)*	**332.3**			0.2		
Underlying profit attributable to shareholders	**424.3**	**31.37**	**31.36**	402.6	29.77	29.76

10. Non-trading Items

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

	Operating profit		Profit attributable to shareholders	
	2018	2017	**2018**	2017
	US$m	US$m	**US$m**	US$m
Business restructuring costs				
– impairment of intangible assets	**(102.1)**	–	**(102.1)**	–
– impairment of tangible assets	**(186.0)**	–	**(173.1)**	–
– onerous lease provisions	**(83.1)**	–	**(83.1)**	–
– business correction provisions	**(96.1)**	–	**(95.2)**	–
	(467.3)	–	**(453.5)**	–
Profit on sale of businesses	**152.5**	–	**152.5**	–
Loss on reclassification of a joint venture as a subsidiary	**(61.2)**	–	**(61.2)**	–
Profit on sale of properties	**28.2**	0.5	**28.2**	0.1
Others	**0.5**	1.0	**1.7**	(0.3)
	120.0	1.5	**121.2**	(0.2)
	(347.3)	1.5	**(332.3)**	(0.2)

Following the completion of a detailed strategic review undertaken since late 2017, it was concluded that the Group's Southeast Asia Food business was not viable in the current form. Impairments against certain goodwill and assets, provisions in relation to onerous leases on underperforming stores and other associated business correction provisions have been recorded. Business correction provisions included expected future payments to landlords, tenants and employees.

Profit on sale of businesses included profit on disposal of 100% interest in Rustan Supercenters, Inc. ('RSCI') amounting to US$143.8 million and US$8.7 million related to Asia Investment and Supermarket Trading Company Limited ('AISTC') *(note 28(f))*.

The Group reorganised its business in the Philippines by exchanging its 100% interest in RSCI with RRHI, the third largest retailer in the Philippines, listed on the Philippines Stock Exchange, for a 12.15% interest in the enlarged share capital of RRHI. This together with a further 6.1% interest acquisition in the enlarged share capital from the existing controlling shareholders, and certain on-market purchases, gave the Group a total shareholding of 20% in RRHI at 31st December 2018 *(notes 13(a) and 28(e))*.

Notes to the Financial Statements

10. Non-trading Items continued

The profit on disposal of 100% interest in RSCI is shown below:

	2018 US$m
Consideration received in the form of 12.15% interest in RRHI	**336.2**
Less:	
– net assets disposed of	**(149.4)**
– release of exchange reserves	**(31.0)**
– transaction costs	**(12.0)**
Profit on sale of business	**143.8**

In addition, the Group acquired the remaining 51% interest in Rose Pharmacy, Inc. ('Rose Pharmacy') from its joint venture partner in December 2018 and Rose Pharmacy became a wholly-owned subsidiary *(note 28(d))*. Upon the completion of the remaining interest acquisition in Rose Pharmacy, goodwill amounting to US$97.5 million was recognised, followed by goodwill impairment amounting to US$15.3 million. The loss on reclassification of a joint venture as a subsidiary is summarised as follows:

	2018 US$m
Fair value of previously held investment in a joint venture	**42.0**
Less:	
– carrying value of investment disposed of	**(73.1)**
– release of exchange reserves	**(14.7)**
– transaction costs	**(0.1)**
	(45.9)
Impairment of goodwill	**(15.3)**
Loss on reclassification of a joint venture as a subsidiary	**(61.2)**

11. Intangible Assets

	Goodwill US$m	Leasehold land US$m	Computer software US$m	Other US$m	Total US$m
2018					
Cost	569.1	118.3	178.4	43.7	**909.5**
Amortisation and impairment	(0.3)	(11.5)	(66.6)	(16.4)	**(94.8)**
Net book value at 1st January	568.8	106.8	111.8	27.3	**814.7**
Exchange differences	(11.6)	(7.0)	(1.3)	(1.4)	**(21.3)**
New subsidiary	97.5	–	0.4	5.5	**103.4**
Additions	–	–	32.2	–	**32.2**
Disposal of subsidiaries	(101.5)	–	(1.1)	(18.5)	**(121.1)**
Disposals	–	–	(0.3)	–	**(0.3)**
Amortisation	–	(2.4)	(18.1)	(3.0)	**(23.5)**
Impairment charge	(116.8)	(0.2)	(0.1)	(0.3)	**(117.4)**
Net book value at 31st December	**436.4**	**97.2**	**123.5**	**9.6**	**666.7**
Cost	551.9	110.5	203.5	18.8	**884.7**
Amortisation and impairment	(115.5)	(13.3)	(80.0)	(9.2)	**(218.0)**
	436.4	**97.2**	**123.5**	**9.6**	**666.7**
2017					
Cost	562.6	95.6	134.2	44.0	836.4
Amortisation and impairment	(0.3)	(9.2)	(48.8)	(13.0)	(71.3)
Net book value at 1st January	562.3	86.4	85.4	31.0	765.1
Exchange differences	8.2	(0.9)	2.1	(0.4)	9.0
Additions	–	23.7	40.9	–	64.6
Disposals	–	–	(0.2)	–	(0.2)
Amortisation	–	(2.4)	(16.0)	(3.3)	(21.7)
Impairment charge	–	–	(0.4)	–	(0.4)
Reclassified to assets held for sale	(1.7)	–	–	–	(1.7)
Net book value at 31st December	568.8	106.8	111.8	27.3	814.7
Cost	569.1	118.3	178.4	43.7	909.5
Amortisation and impairment	(0.3)	(11.5)	(66.6)	(16.4)	(94.8)
	568.8	106.8	111.8	27.3	814.7

Notes to the Financial Statements

11. Intangible Assets continued

Additions of goodwill in respect of a new subsidiary in 2018 related to the acquisition of the remaining 51% shareholding of Rose Pharmacy *(note 28(d))*.

In 2018, other intangible assets comprised mainly trademarks. While in 2017, the same also included a right-to-use trademark and assets under a lease agreement.

There were no intangible assets pledged as security for borrowings at 31st December 2018 and 2017.

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

The remaining amortisation periods for intangible assets are as follows:

Leasehold land	up to 56 years
Computer software	up to 7 years
Trademarks and others	up to 13 years

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

	2018 US$m	2017 US$m
San Miu Macau	**180.0**	180.3
RSCI, the Philippines	**–**	108.8
Giant Malaysia	**–**	81.3
Rose Pharmacy, the Philippines	**82.4**	–
Giant Singapore	**42.1**	63.2
Others	**131.9**	135.2
Total	**436.4**	568.8

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

Following the completion of a strategic review, the Group has recognised impairment charges against goodwill relating to its Giant businesses in Malaysia amounting to US$81.5 million and Singapore of US$20.0 million, and Rose Pharmacy in the Philippines of US$15.3 million in the profit and loss. Goodwill related to the Giant Malaysia business was fully impaired during the year and goodwill related to the businesses in Giant Singapore and Rose Pharmacy in the Philippines have been reduced to their recoverable amounts. Any decrease in gross margins, average growth rates and any increase in the discount rate would result in further impairment.

Key assumptions used for value-in-use calculations for the remaining significant balances of goodwill in 2018 include budgeted gross margins between 21% and 30% and average sales growth rates are between 0.3% and 3.8% to project cash flows, which vary across the Group's business segments and geographical locations, over a five-year period and thereafter, and are based on management expectations for the market development; and pre-tax discount rates of between 6% and 14% applied to the cash flow projections. The discount rates used reflect business specific risks relating to the relevant industry, business life-cycle and geographical location. On the basis of this review, management concluded that no further impairment charge is required.

12. Tangible Assets

	Freehold properties US$m	Leasehold properties US$m	Leasehold improvements US$m	Plant & machinery US$m	Furniture, equipment & motor vehicles US$m	Total US$m
2018						
Cost	141.2	543.0	860.2	718.3	525.8	**2,788.5**
Depreciation and impairment	(6.3)	(119.1)	(590.8)	(483.8)	(404.3)	**(1,604.3)**
Net book value at 1st January	134.9	423.9	269.4	234.5	121.5	**1,184.2**
Exchange differences	(2.3)	(13.6)	(4.6)	(4.3)	(4.4)	**(29.2)**
New subsidiary	–	–	2.0	–	2.1	**4.1**
Additions	–	8.2	74.1	79.4	27.4	**189.1**
Disposal of subsidiaries	–	(20.1)	(25.1)	(20.3)	(2.2)	**(67.7)**
Disposals	–	(3.4)	(6.9)	(4.8)	(2.9)	**(18.0)**
Depreciation charge	(1.6)	(16.0)	(78.7)	(69.2)	(40.1)	**(205.6)**
Impairment charge	(24.0)	(128.3)	(11.4)	(20.7)	(24.9)	**(209.3)**
Reclassified from assets held for sale	–	0.4	–	–	–	**0.4**
Net book value at 31st December	**107.0**	**251.1**	**218.8**	**194.6**	**76.5**	**848.0**
Cost	133.4	493.7	825.1	691.9	503.2	**2,647.3**
Depreciation and impairment	(26.4)	(242.6)	(606.3)	(497.3)	(426.7)	**(1,799.3)**
	107.0	**251.1**	**218.8**	**194.6**	**76.5**	**848.0**
2017						
Cost	115.8	511.6	756.5	620.2	518.1	2,522.2
Depreciation and impairment	(4.6)	(100.0)	(516.8)	(422.1)	(379.2)	(1,422.7)
Net book value at 1st January	111.2	411.6	239.7	198.1	138.9	1,099.5
Exchange differences	11.5	17.7	8.9	8.6	1.6	48.3
Additions	13.4	16.7	104.8	94.5	25.4	254.8
Disposals	–	(0.9)	(6.1)	(3.2)	(2.4)	(12.6)
Depreciation charge	(1.2)	(16.8)	(76.9)	(62.5)	(41.9)	(199.3)
Impairment charge	–	–	(1.0)	(0.9)	(0.1)	(2.0)
Reclassified to assets held for sale	–	(4.4)	–	(0.1)	–	(4.5)
Net book value at 31st December	134.9	423.9	269.4	234.5	121.5	1,184.2
Cost	141.2	543.0	860.2	718.3	525.8	2,788.5
Depreciation and impairment	(6.3)	(119.1)	(590.8)	(483.8)	(404.3)	(1,604.3)
	134.9	423.9	269.4	234.5	121.5	1,184.2

Notes to the Financial Statements

12. Tangible Assets continued

Net book value of leasehold properties acquired under finance leases amounted to US$79.7 million *(2017: US$87.9 million)*.

Rental income from properties amounted to US$27.7 million *(2017: US$27.9 million)* including contingent rents of US$0.4 million *(2017: US$2.9 million)*.

Future minimum rental payments receivable under non-cancellable leases are as follows:

	2018 US$m	2017 US$m
Within one year	**12.2**	13.9
Between one and two years	**5.9**	8.6
Between two and five years	**5.6**	7.6
Beyond five years	**1.6**	1.9
	25.3	32.0

There were no tangible assets pledged as security for borrowings at 31st December 2018 and 2017.

13. Associates and Joint Ventures

	2018 US$m	2017 US$m
Listed associates	**862.2**	696.0
Unlisted associate	**449.6**	396.9
Share of attributable net assets	**1,311.8**	1,092.9
Goodwill on acquisition	**740.4**	413.6
	2,052.2	1,506.5
Unlisted joint ventures	**14.7**	19.3
Goodwill on acquisition	**–**	75.2
	14.7	94.5
	2,066.9	1,601.0

13. Associates and Joint Ventures continued

	Associates		Joint ventures	
	2018	2017	**2018**	2017
	US$m	US$m	**US$m**	US$m
Movements of associates and joint ventures during the year:				
At 1st January	**1,506.5**	1,366.8	**94.5**	95.0
Exchange differences	**(57.6)**	70.6	**(4.1)**	–
Share of results after tax and non-controlling interests	**138.2**	148.3	**(5.4)**	(6.1)
Share of other comprehensive income/(expense) after tax and non-controlling interests	**1.3**	5.6	**(0.4)**	(0.2)
Dividends received	**(94.2)**	(84.9)	**–**	–
Acquisition and capital injections	**556.2**	–	**3.2**	5.8
Reclassification of a joint venture as a subsidiary	**–**	–	**(73.1)**	–
Other	**1.8**	0.1	**–**	–
At 31st December	**2,052.2**	1,506.5	**14.7**	94.5
Fair value of listed associates	**2,669.3**	2,962.5		

(a) Investment in associates

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

Nature of investments in material associates in 2018 and 2017:

			% of ownership interest	
Name of entity	Nature of business	Country of incorporation/ place of listing	**2018**	2017
Maxim's Caterers Limited ('Maxim's')	Restaurants	Hong Kong/Unlisted	**50**	50
Yonghui Superstores Co., Ltd ('Yonghui')	Supermarkets and hypermarkets	Mainland China/Shanghai	**19.99**	19.99

13. Associates and Joint Ventures continued

(a) Investment in associates continued

In November 2018, the Group completed the investment of 20% in RRHI by exchanging its 100% interest in RSCI and further shares acquisition from the existing controlling shareholders and in the market. At the date of investment, goodwill amounting to US$346.4 million arose from the excess of the purchase consideration over the Group's interest in the fair value of the identifiable net assets of RRHI *(note 10)*.

A summary of the purchase consideration and percentage of ownership for acquisition of RRHI is shown as below:

	Consideration for acquisition US$m	Ownership acquired %
Disposal of 100% interest in RSCI	**336.2**	**12.15**
Further interest acquired from the existing controlling shareholders and certain on-market purchases	**220.0**	**7.85**
	556.2	**20.00**

The fair value of the identifiable assets and liabilities at the acquisition date is provisional and will be finalised within one year after the acquisition date.

Summarised financial information for material associates

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

	Maxim's		Yonghui	
	2018	2017	**2018***	2017*
	US$m	US$m	**US$m**	US$m
Non-current assets	**1,130.0**	1,082.5	**2,863.8**	2,195.3
Current assets				
Cash and cash equivalents	**268.8**	192.6	**835.9**	850.1
Other current assets	**210.2**	182.7	**2,426.2**	2,032.2
Total current assets	**479.0**	375.3	**3,262.1**	2,882.3
Non-current liabilities				
Financial liabilities†	**(145.5)**	(154.8)	**–**	–
Other non-current liabilities	**(51.8)**	(43.5)	**(27.1)**	(20.3)
Total non-current liabilities	**(197.3)**	(198.3)	**(27.1)**	(20.3)
Current liabilities				
Financial liabilities†	**(352.6)**	(323.7)	**(591.8)**	(60.8)
Other current liabilities	**(144.3)**	(128.2)	**(2,252.0)**	(1,646.5)
Total current liabilities	**(496.9)**	(451.9)	**(2,843.8)**	(1,707.3)
Non-controlling interests	**(15.6)**	(13.7)	**(119.4)**	(67.4)
Net assets	**899.2**	793.9	**3,135.6**	3,282.6

* Based on unaudited summarised balance sheet at 30th September 2018 and 2017.

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

13. Associates and Joint Ventures continued

(a) Investment in associates continued

Summarised financial information for material associates continued

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

	Maxim's		Yonghui	
	2018	2017	**2018***	2017*
	US$m	US$m	**US$m**	US$m
Sales	**2,585.5**	2,238.1	**8,051.9**	8,148.2
Depreciation and amortisation	**(121.6)**	(101.6)	**(140.2)**	(151.6)
Interest income	**3.4**	1.6	**7.9**	50.6
Interest expense	**(1.6)**	(0.4)	**(4.0)**	(26.8)
Profit from underlying business performance	**267.4**	235.2	**144.9**	290.4
Income tax expense	**(50.4)**	(42.0)	**(46.1)**	(57.6)
Profit after tax from underlying business performance	**217.0**	193.2	**98.8**	232.8
Profit after tax from non-trading items	**–**	–	**10.0**	19.8
Profit after tax	**217.0**	193.2	**108.8**	252.6
Non-controlling interests	**(2.9)**	(2.7)	**46.7**	14.3
Profit after tax and non-controlling interests	**214.1**	190.5	**155.5**	266.9
Other comprehensive (expense)/income	**(6.7)**	19.1	**–**	–
Total comprehensive income	**207.4**	209.6	**155.5**	266.9
Dividends received from associates	**51.0**	51.3	**43.2**	33.6

* Based on unaudited summarised statement of comprehensive income for the nine months ended 30th September 2018 and 12 months ended 30th September 2017.

The information contained in the summarised balance sheets and statements of comprehensive income reflect the amounts presented in the financial statements of the associates adjusted for differences in accounting policies between the Group and the associates, and fair value of the associates at the time of acquisition.

13. Associates and Joint Ventures continued

(a) Investment in associates continued

Reconciliation of the summarised financial information

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

	Maxim's		Yonghui		Total	
	2018	2017	**2018**	2017	**2018**	2017
	US$m	US$m	**US$m**	US$m	**US$m**	US$m
Net assets	**899.2**	793.9	**3,135.6**†	3,282.6†		
Interest in associates (%)	***50***	*50*	***19.99***	*19.99*		
Group's share of net assets in associates	**449.6**	396.9	**626.8**	656.2	**1,076.4**	1,053.1
Goodwill	**–**	–	**392.2**	413.6	**392.2**	413.6
Other reconciling items	**–**	–	**21.5**	39.8	**21.5**	39.8
Carrying value	**449.6**	396.9	**1,040.5**	1,109.6	**1,490.1**	1,506.5
Fair value	**n/a**	n/a	**2,188.9**	2,962.5		

† Based on unaudited summarised balance sheet at 30th September 2018 and 2017.

There were no contingent liabilities relating to the Group's interests in associates at 31st December 2018 and 2017.

(b) Investment in joint ventures

The Group has interests in a number of unlisted joint ventures. In the opinion of the Directors, no joint ventures are considered material.

Commitments and contingent liabilities in respect of joint ventures

There were no commitments and contingent liabilities relating to the Group's interest in joint ventures at 31st December 2018 and 2017.

14. Other Investments

	2018 US$m	2017 US$m
Movements during the year:		
At 1st January	**6.9**	5.9
Change in fair value recognised in profit and loss	**0.5**	1.0
At 31st December	**7.4**	6.9

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

15. Debtors

	2018 US$m	2017 US$m
Trade debtors		
Third parties	**121.8**	139.7
Joint ventures	**1.4**	1.1
	123.2	140.8
Less: provision for impairment	**(2.5)**	(3.9)
	120.7	136.9
Other debtors		
Third parties	**413.6**	379.0
Less: provision for impairment	**(2.0)**	(2.6)
	411.6	376.4
	532.3	513.3
Non-current	**160.3**	162.6
Current	**372.0**	350.7
	532.3	513.3

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

Notes to the Financial Statements

15. Debtors continued

Trade and other debtors

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

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

Other debtors are further analysed as follows:

	2018	2017
	US$m	US$m
Derivative financial instruments	**6.3**	3.4
Other receivables	**32.7**	24.4
Financial assets	**39.0**	27.8
Rental and other deposits	**171.0**	175.1
Prepayments	**86.6**	82.5
Other	**115.0**	91.0
	411.6	376.4

Impairment of trade and other debtors

At 31st December 2018, trade debtors of US$8.7 million *(2017: US$5.2 million)* and other debtors of US$5.5 million *(2017: US$4.4 million)*, respectively, were past due but not impaired. The ageing analysis of these debtors is as follows:

	Trade debtors		**Other debtors**	
	2018	2017	**2018**	2017
	US$m	US$m	**US$m**	US$m
Below 30 days	**3.0**	1.2	**4.1**	2.0
Between 31 and 60 days	**2.5**	1.1	**0.7**	1.3
Between 61 and 90 days	**1.9**	2.7	**0.3**	0.5
Over 90 days	**1.3**	0.2	**0.4**	0.6
	8.7	5.2	**5.5**	4.4

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

15. Debtors continued

Impairment of trade and other debtors continued

At 31st December 2018, trade debtors of US$2.5 million *(2017: US$3.9 million)* and other debtors of US$2.0 million *(2017: US$2.6 million)* were impaired, which have been fully provided for in both years. The ageing analysis of these debtors is as follows:

	Trade debtors		**Other debtors**	
	2018 US$m	2017 US$m	**2018 US$m**	2017 US$m
Below 30 days	**–**	–	**0.7**	–
Between 61 and 90 days	**–**	–	**0.6**	0.1
Over 90 days	**2.5**	3.9	**0.7**	2.5
	2.5	3.9	**2.0**	2.6

Movements in the provision for impairment are as follows:

	Trade debtors		**Other debtors**	
	2018 US$m	2017 US$m	**2018 US$m**	2017 US$m
At 1st January	**(3.9)**	(2.7)	**(2.6)**	(2.4)
Exchange differences	**0.1**	(0.1)	**0.1**	(0.1)
Additional provisions	**(0.4)**	(1.3)	**(1.3)**	(0.9)
Disposal of subsidiaries	**0.1**	–	**1.3**	–
Unused amounts reversed	**1.4**	0.1	**0.5**	–
Amounts written off	**0.2**	0.1	**–**	0.8
At 31st December	**(2.5)**	(3.9)	**(2.0)**	(2.6)

There were no debtors pledged as security for borrowings at 31st December 2018 and 2017.

Notes to the Financial Statements

16. Deferred Tax Assets/(Liabilities)

	Accelerated tax depreciation US$m	Fair value gains/ losses US$m	Employee benefits US$m	Provisions and other temporary differences US$m	Total US$m
2018					
At 1st January	(50.7)	(3.2)	6.4	11.2	**(36.3)**
Exchange differences	0.7	0.2	(0.3)	(0.5)	**0.1**
New subsidiary	–	–	1.3	0.2	**1.5**
Credited/(charged) to profit and loss	3.4	1.1	0.7	(4.5)	**0.7**
(Charged)/credited to other comprehensive expense	–	(1.0)	2.2	–	**1.2**
Disposal of subsidiaries	–	–	(0.9)	(1.1)	**(2.0)**
At 31st December	**(46.6)**	**(2.9)**	**9.4**	**5.3**	**(34.8)**
Deferred tax assets	1.3	–	9.4	13.1	**23.8**
Deferred tax liabilities	(47.9)	(2.9)	–	(7.8)	**(58.6)**
	(46.6)	**(2.9)**	**9.4**	**5.3**	**(34.8)**
2017					
At 1st January	(45.1)	(3.3)	9.0	11.8	(27.6)
Exchange differences	(1.2)	–	–	1.0	(0.2)
Charged to profit and loss	(4.4)	(0.1)	–	(1.6)	(6.1)
Credited/(charged) to other comprehensive income	–	0.2	(2.6)	–	(2.4)
At 31st December	(50.7)	(3.2)	6.4	11.2	(36.3)
Deferred tax assets	1.1	0.4	6.4	18.5	26.4
Deferred tax liabilities	(51.8)	(3.6)	–	(7.3)	(62.7)
	(50.7)	(3.2)	6.4	11.2	(36.3)

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

Deferred tax assets of US$34.2 million *(2017: US$28.0 million)* arising from unused tax losses of US$141.4 million *(2017: US$115.8 million)* have not been recognised in the financial statements. Included in the unused tax losses, US$56.1 million have no expiry date and the remaining balance will expire at various dates up to and including 2028.

Deferred tax liabilities of US$7.1 million *(2017: US$14.9 million)* arising on temporary differences associated with investment in subsidiaries of US$71.3 million *(2017: US$149.2 million)* have not been recognised as there is no current intention of remitting the retained earnings of these subsidiaries to the holding companies in the foreseeable future.

17. Cash and Bank Balances

	2018 US$m	2017 US$m
Deposits with banks	**86.1**	95.8
Bank balances	**82.2**	88.4
Cash balances	**127.9**	148.2
	296.2	332.4
Analysis by currency:		
Australian dollar	**1.1**	1.8
Chinese renminbi	**13.7**	18.7
Hong Kong dollar	**79.4**	109.9
Indonesian rupiah	**33.4**	15.7
Macau patacas	**26.5**	26.2
Malaysian ringgit	**18.4**	27.8
New Taiwan dollar	**62.0**	60.3
Philippine peso	**5.2**	19.0
Singapore dollar	**34.9**	27.0
United Kingdom sterling	**0.2**	0.5
United States dollar	**18.3**	21.2
Other	**3.1**	4.3
	296.2	332.4

The weighted average interest rate on deposits with banks is 1.4% *(2017: 0.4%)* per annum.

18. Creditors

	2018 US$m	2017 US$m
Trade creditors		
– third parties	**1,525.3**	1,548.6
– associates	**3.8**	3.6
	1,529.1	1,552.2
Accruals	**703.9**	755.1
Rental and other refundable deposits	**26.4**	27.3
Deferred consideration for acquisition of a subsidiary	**24.8**	24.8
Derivative financial instruments	**0.3**	2.3
Other creditors	**17.3**	13.2
Financial liabilities	**2,301.8**	2,374.9
Contract liabilities	**134.8**	135.4
Rental and other income received in advance	**1.7**	1.9
	2,438.3	2,512.2
Non-current	**39.7**	42.7
Current	**2,398.6**	2,469.5
	2,438.3	2,512.2

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

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

Notes to the Financial Statements

19. Borrowings

	2018 US$m	2017 US$m
Current		
– bank overdrafts	**11.7**	1.1
– other bank advances	**714.0**	411.6
	725.7	412.7
Current portion of bank borrowings	**300.0**	–
	1,025.7	412.7
Long-term bank borrowings	**14.5**	522.0
	1,040.2	934.7

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

The Group's borrowings are further summarised as follows:

	Fixed rate borrowings				
By currency	**Weighted average interest rates %**	**Weighted average period outstanding Years**	**US$m**	**Floating rate borrowings US$m**	**Total US$m**
2018					
Chinese renminbi	4.4	–	–	9.1	**9.1**
Hong Kong dollar	3.8	–	–	316.2	**316.2**
Malaysian ringgit	4.6	–	–	158.7	**158.7**
New Taiwan dollar	1.3	–	–	5.8	**5.8**
Philippine peso	6.0	–	–	23.8	**23.8**
United States dollar	3.3	0.2	200.0	326.6	**526.6**
			200.0	**840.2**	**1,040.2**
2017					
Hong Kong dollar	1.9	–	–	278.5	278.5
Malaysian ringgit	4.3	–	–	149.0	149.0
United States dollar	2.1	1.2	200.0	307.2	507.2
			200.0	734.7	934.7

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

19. Borrowings continued

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

	2018 US$m	2017 US$m
Floating rate borrowings		
– within one year	**840.2**	734.7

The movements in borrowings are as follows:

	Bank overdrafts US$m	Short-term borrowings US$m	Long-term borrowings US$m	Total US$m
2018				
At 1st January	1.1	411.6	522.0	**934.7**
Exchange differences	(0.4)	(4.1)	(0.3)	**(4.8)**
New subsidiary	–	23.8	–	**23.8**
Disposal of subsidiaries	–	(26.2)	–	**(26.2)**
Transfer	–	300.0	(300.0)	**–**
Change in bank overdrafts	11.0	–	–	**11.0**
Drawdown of borrowings	–	998.2	–	**998.2**
Repayment of borrowings	–	(756.4)	(207.2)	**(963.6)**
Net increase in other short-term borrowings	–	67.1	–	**67.1**
	11.7	**1,014.0**	**14.5**	**1,040.2**
2017				
At 1st January	1.2	368.4	595.0	964.6
Exchange differences	0.1	10.3	0.8	11.2
Change in bank overdrafts	(0.2)	–	–	(0.2)
Drawdown of borrowings	–	674.8	176.2	851.0
Repayment of borrowings	–	(764.2)	(250.0)	(1,014.2)
Net increase in other short-term borrowings	–	122.3	–	122.3
	1.1	411.6	522.0	934.7

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

Notes to the Financial Statements

20. Provisions

	Closure cost provisions US$m	Obligations under onerous leases US$m	Reinstatement and restoration costs US$m	Total US$m
2018				
At 1st January	47.5	12.5	29.9	**89.9**
Exchange differences	(3.0)	(2.6)	(0.8)	**(6.4)**
New subsidiary	0.2	–	–	**0.2**
Additional provisions	71.9	88.8	13.9	**174.6**
Disposal of subsidiaries	(0.1)	–	–	**(0.1)**
Unused amounts reversed	(6.5)	–	(1.6)	**(8.1)**
Utilised	(19.7)	–	(0.7)	**(20.4)**
At 31st December	**90.3**	**98.7**	**40.7**	**229.7**
Non-current	6.5	91.3	27.8	**125.6**
Current	83.8	7.4	12.9	**104.1**
	90.3	**98.7**	**40.7**	**229.7**
2017				
At 1st January	5.9	14.4	26.2	46.5
Exchange differences	1.1	1.3	1.8	4.2
Additional provisions	47.4	6.1	3.7	57.2
Unused amounts reversed	(2.8)	(9.3)	(0.6)	(12.7)
Utilised	(4.1)	–	(1.1)	(5.2)
Reclassified to liabilities directly associated with assets held for sale	–	–	(0.1)	(0.1)
At 31st December	47.5	12.5	29.9	89.9
Non-current	–	12.3	25.1	37.4
Current	47.5	0.2	4.8	52.5
	47.5	12.5	29.9	89.9

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

Provisions are made for obligations under onerous operating leases when the Group believes that the net costs of exiting from the leases exceed the economic benefits expected to be received.

Reinstatement cost provisions comprise the estimated costs of dismantling and removing property, plant and equipment and restoring the site on which the asset is located.

21. Pension Plans

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

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

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

	2018 **US$m**	2017 US$m
Fair value of plan assets	**169.3**	189.4
Present value of funded obligations	**(210.0)**	(216.5)
	(40.7)	(27.1)
Present value of unfunded obligations	**(6.9)**	(7.1)
Net pension liabilities	**(47.6)**	(34.2)
Analysis of net pension liabilities:		
Pension assets	**–**	–
Pension liabilities	**(47.6)**	(34.2)
	(47.6)	(34.2)

Notes to the Financial Statements

21. Pension Plans continued

The movements in the net pension liabilities are as follows:

	Fair value of plan assets US$m	Present value of obligations US$m	Total US$m
2018			
At 1st January	189.4	(223.6)	**(34.2)**
Current service cost	–	(17.4)	**(17.4)**
Interest income/(expense)	5.4	(5.9)	**(0.5)**
Past service cost on settlements	–	(4.2)	**(4.2)**
Administration expenses	(0.8)	–	**(0.8)**
	4.6	(27.5)	**(22.9)**
	194.0	(251.1)	**(57.1)**
Exchange differences	(0.5)	1.6	**1.1**
New subsidiary	1.1	(5.1)	**(4.0)**
Disposal of subsidiaries	(0.2)	5.8	**5.6**
Remeasurements			
– return on plan assets, excluding amounts included in interest income	(15.6)	–	**(15.6)**
– change in financial assumptions	–	5.9	**5.9**
– experience losses	–	(2.3)	**(2.3)**
	(15.6)	3.6	**(12.0)**
Contributions from employers	12.5	–	**12.5**
Benefit payments	(21.3)	27.6	**6.3**
Settlements	(0.4)	0.4	**–**
Transfer (to)/from other plans	(0.3)	0.3	**–**
At 31st December	**169.3**	**(216.9)**	**(47.6)**
2017			
At 1st January	195.2	(247.6)	(52.4)
Current service cost	–	(15.7)	(15.7)
Interest income/(expense)	5.3	(6.7)	(1.4)
Losses on settlements	–	(2.2)	(2.2)
Administration expenses	(0.2)	–	(0.2)
	5.1	(24.6)	(19.5)
	200.3	(272.2)	(71.9)
Exchange differences	(0.7)	0.2	(0.5)
Remeasurements			
– return on plan assets, excluding amounts included in interest income	28.3	–	28.3
– change in financial assumptions	–	(7.6)	(7.6)
– experience losses	–	(1.5)	(1.5)
	28.3	(9.1)	19.2
Contributions from employers	16.9	–	16.9
Benefit payments	(21.1)	23.2	2.1
Settlements	(34.4)	34.4	–
Transfer from/(to) other plans	0.1	(0.1)	–
At 31st December	189.4	(223.6)	(34.2)

21. Pension Plans continued

The weighted average duration of the defined benefit obligations at 31st December 2018 is 7.5 years *(2017: 7.9 years)*.

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

	2018	2017
	US$m	US$m
Within one year	**17.8**	18.5
Between one and two years	**18.4**	17.1
Between two and five years	**67.3**	65.9
Between five and ten years	**128.3**	134.1
Between ten and fifteen years	**116.1**	111.5
Between fifteen and twenty years	**96.1**	96.5
Beyond twenty years	**109.0**	86.1
	553.0	529.7

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

	Hong Kong		**Indonesia**		**Taiwan**		**The Philippines**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	%	%	**%**	%	**%**	%	**%**	%
Discount rate	**3.3**	2.9	**8.3**	7.0	**1.2**	1.5	**7.3**	4.9
Salary growth rate	**4.8**	4.8	**4.0**	4.0	**1.8**	2.1	**4.4**	3.5

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

		(Increase)/decrease on defined benefit obligations	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
	%	**US$m**	**US$m**
Discount rate	**1**	**(14.8)**	**16.8**
Salary growth rate	**1**	**17.3**	**(15.3)**

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

Notes to the Financial Statements

21. Pension Plans continued

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

	2018 US$m	2017 US$m
Equity investments		
Asia Pacific	**6.7**	19.3
Debt investments		
Asia Pacific	**0.7**	0.7
Investment funds		
Asia Pacific	**36.2**	36.6
Europe	**24.6**	17.6
North America	**53.8**	41.8
Global	**34.4**	62.7
	149.0	158.7
Total investments	**156.4**	178.7
Cash and cash equivalents	**18.9**	15.2
Benefits payable and other	**(6.0)**	(4.5)
	169.3	189.4

At 31st December 2018, 100% of equity investments, 100% of debt investments and 70% of investment funds were quoted on active markets *(2017: 100%, 100% and 67%, respectively)*.

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

At 31st December 2018, the Hong Kong plans had assets of US$161.1 million *(2017: US$182.1 million)*.

The Group maintains an active and regular contribution schedule across all the plans. The contributions to all its plans in 2018 were US$12.5 million and the estimated amounts of contributions expected to be paid to all its plans in 2019 are US$14.8 million.

22. Share Capital

	2018 US$m	2017 US$m
Authorised:		
2,250,000,000 shares of US¢5 5/9 each	**125.0**	125.0
500,000 shares of US$800 each	**400.0**	400.0
	525.0	525.0

	Ordinary shares in millions		2018	2017
	2018	2017	**US$m**	US$m
Issued and fully paid:				
Ordinary shares of US¢5 5/9 each				
At 1st January	**1,352.5**	1,352.2	**75.1**	75.1
Issued under share-based long-term incentive plans	**0.2**	0.3	**–**	–
At 31st December	**1,352.7**	1,352.5	**75.1**	75.1

23. Share-based Long-term Incentive Plans

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

An LTIP was adopted by the Company on 5th March 2015. During 2018, conditional awards of 597,514 shares were first awarded under the LTIP. Under these awards, free shares are received by the participants to the extent the award vests. Conditions, if any, are at the discretion of the Directors. The fair value of the share awards granted during the year was US$4.5 million. The inputs into the discounted cash flow valuation model were share price of US$8.38 per share at the grant date, dividend yield of 2.52%, and annual risk-free interest rates range from 2.63% to 2.84%.

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

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

The scheme was adopted on 5th December 2018.

During 2017, awards were granted in the form of options with exercise prices based on the then prevailing market prices, and no free shares were granted. Prior to the adoption of the LTIP, The Dairy Farm International Share Option Plan 2005 provided selected executives with options to purchase ordinary shares in the Company.

23. Share-based Long-term Incentive Plans continued

Movements of the outstanding conditional awards during the year:

	Conditional awards in millions	
	2018	2017
At 1st January	**–**	–
Granted	**0.6**	–
At 31st December	**0.6**	–

Outstanding conditional awards at 31st December:

	Ordinary shares in millions	
Awards vest date	**2018**	2017
2021	**0.2**	–
2022	**0.2**	–
2023	**0.2**	–
Total outstanding	**0.6**	–

Movements of the outstanding options during the year:

	2018		2017	
	Weighted average exercise price US$	**Options in millions**	Weighted average exercise price US$	Options in millions
At 1st January	**8.0741**	**5.4**	8.2712	7.2
Granted	**–**	**–**	8.9060	2.8
Exercised	**6.1906**	**(0.8)**	6.1680	(1.2)
Lapsed	**8.6230**	**(1.9)**	9.8772	(3.4)
At 31st December	**8.2155**	**2.7**	8.0741	5.4

The average share price during the year was US$8.70 *(2017: US$8.18)* per share.

23. Share-based Long-term Incentive Plans continued

Outstanding options at 31st December:

Expiry date	Exercise price US$	Options in millions 2018	2017
2023	12.1580	**0.2**	0.2
2024	9.7160	**–**	0.3
2025	9.6000	**0.2**	0.7
2026	5.9320	**0.9**	2.0
2027	8.9060	**1.4**	2.2
Total outstanding		**2.7**	5.4
of which exercisable		**0.3**	0.6

No options were granted during the year. The fair value of options granted in 2017, determined using the trinomial valuation model, was US$4.2 million. The significant inputs into the model, based on the number of options issued, were share price of US$8.95 at the grant date, exercise price shown above, expected volatility based on the last five years of 20.69%, dividend yield of 2.31%, option life disclosed above, and annual risk-free interest rate of 2.00%. Options are assumed to be exercised at the end of the fifth year following the date of grant.

24. Share Premium and Capital Reserves

	Share premium US$m	Capital reserves US$m	Total US$m
2018			
At 1st January	33.1	24.8	**57.9**
Share-based long-term incentive plans			
– value of employee services	–	0.4	**0.4**
Transfer	0.8	(0.8)	**–**
At 31st December	**33.9**	**24.4**	**58.3**
2017			
At 1st January	31.1	28.3	59.4
Share-based long-term incentive plans			
– value of employee services	–	1.6	1.6
– share options lapsed	–	(3.1)	(3.1)
Transfer	2.0	(2.0)	–
At 31st December	33.1	24.8	57.9

Capital reserves comprise contributed surplus of US$20.1 million *(2017: US$20.1 million)* and other reserves of US$4.3 million *(2017: US$4.7 million)*, which represent the value of employee services under the Company's share-based long-term incentive plans. The contributed surplus principally arose from the conversion of convertible preference shares in 1989 and, under the Bye-laws of the Company, is distributable.

Notes to the Financial Statements

25. Dividends

	2018	2017
	US$m	US$m
Final dividend in respect of 2017 of US¢14.50 *(2016: US¢14.50)* per share	**196.1**	196.1
Interim dividend in respect of 2018 of US¢6.50 *(2017: US¢6.50)* per share	**87.9**	87.9
	284.0	284.0

A final dividend in respect of 2018 of US¢14.50 *(2017: US¢14.50)* per share amounting to a total of US$196.1 million *(2017: US$196.1 million)* is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the 2019 Annual General Meeting. This amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2019.

26. Non-controlling Interests

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

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

Summarised balance sheet at 31st December:

	2018	2017
	US$m	US$m
Current		
Assets	**219.9**	187.8
Liabilities	**(156.6)**	(147.7)
Total current net assets	**63.3**	40.1
Non-current		
Assets	**191.9**	333.6
Liabilities	**(24.8)**	(11.1)
Total non-current net assets	**167.1**	322.5
Net assets	**230.4**	362.6
Non-controlling interests	**(33.1)**	(56.2)

26. Non-controlling Interests continued

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

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

	2018 US$m	2017 US$m
Sales	**909.1**	972.7
Loss after tax from underlying business performance	**(3.8)**	(20.8)
Loss after tax from non-trading items	**(106.7)**	–
Loss after tax	**(110.5)**	(20.8)
Other comprehensive expense	**(20.8)**	(6.9)
Total comprehensive expense	**(131.3)**	(27.7)
Total comprehensive expense allocated to non-controlling interests	**(20.1)**	(4.4)
Dividends paid to non-controlling interests	**–**	–

Summarised cash flows for the year ended 31st December:

	2018 US$m	2017 US$m
Cash generated from operations	**37.1**	47.2
Interest received	**0.5**	0.2
Interest and other financing charges paid	**(0.3)**	(0.4)
Tax paid	**(1.8)**	(5.3)
Cash flows from operating activities	**35.5**	41.7
Cash flows from investing activities	**(16.4)**	(38.0)
Cash flows from financing activities	**–**	–
Net increase in cash and cash equivalents	**19.1**	3.7
Cash and cash equivalents at 1st January	**16.7**	13.2
Effect of exchange rate changes	**(1.3)**	(0.2)
Cash and cash equivalents at 31st December	**34.5**	16.7

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

Notes to the Financial Statements

27. Geographical Analysis of Non-current Assets

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

	2018 US$m	2017 US$m
North Asia	**2,151.6**	2,184.4
Southeast Asia	**1,430.0**	1,415.5
At 31st December	**3,581.6**	3,599.9

28. Notes to Consolidated Cash Flow Statement

	2018 US$m	2017 US$m
(a) Depreciation and amortisation		
Food	**171.5**	170.9
– Supermarkets/hypermarkets	**143.3**	144.8
– Convenience stores	**28.2**	26.1
Health and Beauty	**32.0**	28.9
Home Furnishings	**17.3**	14.2
Store support centre	**8.3**	7.0
	229.1	221.0
(b) Other non-cash items		
By nature:		
Profit on sale of businesses	**(152.5)**	–
Loss on reclassification of a joint venture as a subsidiary	**61.2**	–
(Profit)/loss on sale of tangible and intangible assets	**(12.7)**	10.1
Fair value gain on other investments	**(0.5)**	(1.0)
Fair value gains on forward foreign exchange contracts not qualifying as hedges	**–**	(0.7)
Impairment of tangible and intangible assets	**311.4**	2.4
Write down of stocks	**4.5**	9.4
Reversal of write down of stocks	**(4.2)**	(6.7)
Share-based payment	**0.4**	1.6
Business correction provisions	**96.1**	–
Onerous lease provisions	**83.1**	–
Fair value gain on fair value hedge	**(0.1)**	–
	386.7	15.1
(c) (Increase)/decrease in working capital		
(Increase)/decrease in stocks	**(16.9)**	63.9
Increase in debtors	**(41.6)**	(58.6)
Increase in creditors	**39.4**	86.8
	(19.1)	92.1

28. Notes to Consolidated Cash Flow Statement continued

(d) Purchase of a subsidiary

	2018 US$m
Intangible assets	**5.9**
Tangible assets	**4.1**
Non-current debtors	**1.5**
Deferred tax assets	**1.5**
Current assets	**46.7**
Current liabilities	**(52.3)**
Non-current liabilities	**(4.1)**
Fair value of identifiable net assets acquired	**3.3**
Adjustment for fair value of previously held investment in a joint venture	**(42.0)**
	(38.7)
Goodwill	**97.5**
Consideration paid	**58.8**
Cash and cash equivalents at the date of acquisition	**(4.2)**
Net cash outflow	**54.6**

For the subsidiary acquired during 2018, the fair values of the identifiable assets and liabilities at the acquisition date are provisional and will be finalised within one year after the acquisition date.

Net cash outflow for purchase of a subsidiary during the year represented US$54.6 million for acquisition of the remaining 51% interest in Rose Pharmacy, which operates health and beauty stores chain in the Philippines in December 2018. Following the acquisition, Rose Pharmacy became a wholly-owned subsidiary of the Group *(note 10)*.

The goodwill arising from the acquisition amounted to US$97.5 million was attributable to the retail network and its market position in the Philippines. None of the goodwill is expected to be deductible for tax purposes.

There was no contribution from the subsidiary acquired to the Group's sales and profit after tax since the acquisition took place at end of December 2018. Had the acquisition occurred on 1st January 2018, consolidated sales and profit after tax for the year ended 31st December 2018 would have been US$11,910.2 million and US$68.1 million, respectively.

(e) Purchase of associates and joint ventures in 2018 mainly related to the acquisition of 7.85% interest in RRHI at a total consideration of US$220.0 million *(note 13(a))* and a capital injection of US$3.1 million in the Group's business in Vietnam.

Purchase in 2017 mainly related to the Group's capital injection of US$3.4 million in the business in Vietnam and US$2.4 million in Rose Pharmacy.

Notes to the Financial Statements

28. Notes to Consolidated Cash Flow Statement continued

(f) Sale of subsidiaries

	2018 US$m
Intangible assets	**1.7**
Tangible assets	**0.1**
Current assets	**3.3**
Current liabilities	**(5.8)**
Net liabilities disposed of	**(0.7)**
Release of exchange reserves	**1.0**
Profit on disposal	**8.7**
Net sale proceeds	**9.0**
Cash and cash equivalents of the subsidiary disposed of	**(2.6)**
Net cash inflow	**6.4**

In February 2018, the Group disposed of its 100% interest in AISTC, operating a hypermarket in Vietnam to a third party, for net cash inflow of US$6.4 million.

In November 2018, the Group completed the exchange of its interest in RSCI with RRHI with no cash consideration received *(note 10)*. The disposed cash and cash equivalents of RSCI and the associated transaction costs leading to a net cash outflow of US$8.0 million, together with the net cash inflow from the disposal of AISTC, it brought to a total net cash outflow of US$1.6 million.

(g) Sale of properties
Sale of properties in 2018 included disposal of 14 properties in Singapore for a total consideration of US$32.6 million.

Sales in 2017 comprised sale of land in Malaysia and a property in Taiwan for a total cash consideration of US$3.2 million.

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

In 2017, the Group acquired a further 34% interest in RSCI for a total consideration of US$59.9 million and an additional 0.06% interest in PT Hero for US$0.2 million.

28. Notes to Consolidated Cash Flow Statement continued

(i) Analysis of balances of cash and cash equivalents

	2018	2017
	US$m	US$m
Cash and bank balances *(note 17)*	**296.2**	332.4
Bank overdrafts *(note 19)*	**(11.7)**	(1.1)
Cash and bank balances included in assets held for sale	**–**	3.2
	284.5	334.5

29. Derivative Financial Instruments

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

	2018		2017	
	Positive fair value	**Negative fair value**	Positive fair value	Negative fair value
	US$m	**US$m**	US$m	US$m
Designated as cash flow hedges				
– forward foreign exchange contracts	**5.3**	**0.3**	0.5	2.3
– interest rate swaps	**0.9**	**–**	2.2	–
	6.2	**0.3**	2.7	2.3
Designated as fair value hedges				
– forward foreign exchange contracts	**0.1**	**–**	–	–
	0.1	**–**	–	–
Non-qualifying as hedges				
– forward foreign exchange contracts	**–**	**–**	0.7	–
	–	**–**	0.7	–

Forward foreign exchange contracts

The contract amounts of the outstanding forward foreign exchange contracts at 31st December 2018 were US$641.4 million *(2017: US$513.6 million)*.

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31st December 2018 were US$200.0 million *(2017: US$200.0 million)* and the fixed interest rates relating to interest rate swaps vary from 0.9% to 1.0% *(2017: 0.9% to 1.0%)* per annum.

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rate of 2.8% *(2017: 1.6%)* per annum.

Notes to the Financial Statements

30. Commitments

	2018 **US$m**	2017 US$m
Capital commitments		
Authorised not contracted	**290.5**	298.7
Contracted not provided	**118.0**	40.0
	408.5	338.7
Operating lease commitments		
Total commitments under operating leases		
– due within one year	**792.6**	822.6
– due between one and two years	**558.0**	561.5
– due between two and three years	**334.9**	350.8
– due between three and four years	**202.0**	217.1
– due between four and five years	**138.8**	161.1
– due beyond five years	**795.5**	790.6
	2,821.8	2,903.7

Total future sublease payments receivable relating to the above operating leases amounted to US$25.1 million *(2017: US$35.4 million)*.

In addition, the Group has operating lease commitments with rentals determined in relation to sales. It is not possible to quantify accurately future rentals payable under such leases.

31. Contingent Liabilities

Various Group companies are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the Directors are of the opinion that adequate provisions have been made in the financial statements.

32. Related Party Transactions

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

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

Under the terms of a Management Services Agreement, the Group paid a management fee of US$0.4 million *(2017: US$2.0 million)* to Jardine Matheson Limited ('JML'), a wholly-owned subsidiary of JMH, based on 0.5% of the Group's profit attributable to shareholders in consideration for certain management consultancy services provided by JML. The Group also paid directors' fees of US$0.5 million in 2018 *(2017: US$0.5 million)* to JML.

The Group rents properties from Hongkong Land Holdings Limited ('HKL'), a subsidiary of JMH. The gross annual rentals paid by the Group to HKL in 2018 were US$3.4 million *(2017: US$3.0 million)*. The Group's 50%-owned associate, Maxim's, also paid gross annual rentals of US$13.7 million *(2017: US$11.8 million)* to HKL in 2018.

The Group uses Jardine Lloyd Thompson Limited ('JLT'), an associate of JMH, to place certain of its insurance policies. Brokerage fees and commissions, net of rebates, paid by the Group to JLT in 2018 were US$1.9 million *(2017: US$2.0 million)*.

The Group sources information technology infrastructure and related services from Jardine Technology Holdings Limited ('JTH'), a subsidiary of JMH. The total fees paid by the Group to JTH in 2018 amounted to US$10.5 million *(2017: US$9.9 million)*. Maxim's also paid total fees of US$6.4 million *(2017: US$3.5 million)* to JTH in 2018.

The Group also obtains repairs and maintenance services from Jardine Engineering Corporation ('JEC'), a subsidiary of JMH. The total fees paid by the Group to JEC in 2018 amounted to US$7.2 million *(2017: US$9.3 million)*.

Maxim's supplies ready-to-eat products at arm's length to certain subsidiaries of the Group. In 2018, these amounted to US$33.6 million *(2017: US$30.5 million)*.

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

Balances with group companies of JMH at 31st December 2018 and 2017 are immaterial, unsecured, and have no fixed terms of repayment.

Details of Director's remuneration (being key management personnel compensation) are shown on page 120 under the heading of Directors' Appointment, Retirement, Remuneration and Service Contracts.

Notes to the Financial Statements

33. Summarised Balance Sheet of the Company

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

	2018 US$m	2017 US$m
Subsidiaries, at cost less provision*	**658.3**	645.0
Current assets	**0.5**	–
Current liabilities	**–**	(1.3)
Net operating assets	**658.8**	643.7
Share capital *(note 22)*	**75.1**	75.1
Share premium and capital reserves *(note 24)*	**58.3**	57.9
Revenue and other reserves	**525.4**	510.7
Shareholders' funds	**658.8**	643.7

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

34. Principal Subsidiaries

The Group's principal subsidiaries at 31st December 2018 are set out below:

			Attributable interests		**Proportion of ordinary shares and voting powers at 31st December 2018 held by**	
Company name	Country of incorporation	Nature of business	**2018 %**	2017 %	**the Group %**	**non-controlling interests %**
Dairy Farm Management Limited†	Bermuda	Holding	**100**	100	**100**	**–**
Dairy Farm Management Services Limited†	Bermuda	Group management	**100**	100	**100**	**–**
DFI Treasury Limited†	British Virgin Islands	Treasury	**100**	100	**100**	**–**
DFI (China) Commercial Investment Holding Company Ltd	Mainland China	Investment holding	**100**	100	**100**	**–**
Guangdong Sai Yi Convenience Stores Limited	Mainland China	Convenience stores	**65**	65	**65**	**35**
Mannings Guangdong Retail Company Limited	Mainland China	Health and beauty stores	**100**	100	**100**	**–**
The Dairy Farm Company, Limited	Hong Kong	Investment holding, supermarkets, convenience, health and beauty and home furnishings stores	**100**	100	**100**	**–**

34. Principal Subsidiaries continued

Company name	Country of incorporation	Nature of business	Attributable interests		Proportion of ordinary shares and voting powers at 31st December 2018 held by	
			2018 %	2017 %	**the Group %**	**non-controlling interests %**
Wellcome Company Limited	Hong Kong	Property and food processing	**100**	100	**100**	**–**
San Miu Supermarket Limited	Macau	Supermarkets	**100**	100	**100**	**–**
Wellcome Taiwan Company Limited	Taiwan	Supermarkets	**100**	100	**100**	**–**
DFI Home Furnishings Taiwan Limited	Taiwan	Home furnishings stores	**100**	100	**100**	**–**
GCH Retail (Malaysia) Sdn. Bhd.	Malaysia	Supermarkets and hypermarkets	**85**	85	**70**	**30**
Guardian Health And Beauty Sdn. Bhd.	Malaysia	Health and beauty stores	**100**	100	**100**	**–**
PT Hero Supermarket Tbk	Indonesia	Supermarkets, hypermarkets, health and beauty and home furnishings stores	**86**	84	**86**	**14**
Giant TMC (B) Sdn. Bhd.	Brunei	Hypermarket and health and beauty stores	**100**	100	**100**	**–**
Cold Storage Singapore (1983) Pte Limited	Singapore	Supermarkets, hypermarkets, convenience and health and beauty stores	**100**	100	**100**	**–**
DFI Lucky Private Limited	Cambodia	Supermarkets and health and beauty stores	**70**	70	**70**	**30**
Rose Pharmacy, Inc.	The Philippines	Health and beauty stores	**100**	49	**100**	**–**

All subsidiaries are included in the consolidation.

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

† Directly held by the Company.

Independent Auditors' Report

To the members of Dairy Farm International Holdings Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's affairs as at 31st December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'); and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated Balance Sheet as at 31st December 2018; the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include the Principal Accounting Policies.

Certain required disclosures have been presented in the Corporate Governance section on page 120, rather than in the notes to the financial statements. These disclosures are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Materiality

- Overall Group materiality: US$26 million *(2017: US$28 million)*
- Based on 5% of underlying profit before tax

Audit scope

- A full scope audit was performed on seven entities including six subsidiaries and one associate, Maxim's. These entities, together with procedures performed on central functions and at the Group level, accounted for 90% of the Group's revenue, 86% of the Group's profit before tax, and 80% of the Group's underlying profit before tax.

Key audit matters

- Business restructuring costs
- Impairment of goodwill in subsidiaries
- Buying income
- IT environment

The scope of our audit

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

Key audit matters

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

Independent Auditors' Report

Key audit matter

Business restructuring costs

Refer to note 5 (Operating Profit) and note 10 (Non-trading Items) to the financial statements.

The Group has recognised business restructuring costs of US$467 million in relation to the Southeast Asia Food business for the year ended 31st December 2018.

These costs comprise impairment of intangible assets (US$102 million), impairment of tangible assets (US$186 million), onerous lease provisions (US$83 million) and business correction provisions (US$96 million).

As required by accounting standards, management performed detailed impairment assessments of the tangible assets having identified impairment indicators arising from the financial performance of the Southeast Asia Food business. The determination of the recoverable amount of tangible assets requires significant judgements, particularly management's view on key inputs and assumptions made in the cash flow forecasts including long-term growth rates.

Provisions for onerous lease contracts were recorded in respect of underperforming or loss-making locations, where management identified that the expected future cash inflows were lower than the contractual lease obligations. The provisions were calculated based on the terms of rental agreements and the earlier of the remaining lease term or possible exit date.

Determining the business correction provisions required management to make judgements over the key inputs and assumptions, including the amount and timing of expected costs that will be incurred.

For the impairment of intangible assets, refer to our key audit matter in respect of goodwill in subsidiaries.

How our audit addressed the key audit matter

We have considered management's strategic review and the associated restructuring programme for the Southeast Asia Food business, and scrutinised the detailed plans which have been approved by the Board of Directors.

On a sample basis, we agreed the carrying value of tangible assets that were assessed for impairment to underlying financial records and fixed asset registers.

We tested the discounted cash flow models used by management to determine the amount of tangible asset impairment required. We assessed the cash flow forecasts by comparing historical budgeted performance to actual results, agreeing the financial information used to the Board approved budget, and checked the accuracy of the calculations.

We tested the accuracy and completeness of the data used by management in the onerous lease calculations by agreeing key inputs, such as the cash flow forecasts for individual stores, to the detailed budget approved by the Board. In addition, on a sample basis, we agreed the inputs used in the calculations to the underlying lease contracts.

We assessed the key inputs and assumptions used by management in calculating the business correction provisions with reference to actual historical performance and underlying contractual agreements. We evaluated whether the assumptions were appropriate based on the evidence available.

We assessed whether the identification of business correction costs and the recording of provisions, together with the assumptions made, had been consistently applied to each location identified in management's plan. We evaluated the costs and provisions booked against the requirements of the applicable accounting standards.

Based on the work performed, we consider that the key assumptions used, and calculations prepared by management to determine the tangible asset impairments, onerous lease provisions, and business correction provisions to be supportable based on available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill in subsidiaries	
Refer to note 3 (Critical Accounting Estimates and Judgements) and note 11 (Intangible Assets) to the financial statements. As at 31st December 2018, goodwill held in subsidiaries totalled US$436 million. Management undertook impairment assessments, as required by accounting standards, noting certain cash generating units ('CGUs') that were underperforming or loss making. Impairment charges of US$117 million were recognised against goodwill held in subsidiaries during the year ended 31st December 2018 where the recoverable amount was less than the carrying value. The determination of the recoverable amount of CGUs requires significant judgements by management, particularly management's view on key internal inputs and external market conditions which impact future cash flows, the discount rates and long term growth rates.	We have reviewed and understood management's impairment assessment process, including what indicators of impairment had been noted and the appropriateness of the valuation models used. We assessed management's determination of CGUs. Where we identified a risk of impairment we performed the following procedures. We benchmarked and challenged key assumptions in management's valuation models used to determine recoverable amounts, including assumptions of projected profits of businesses, long-term growth rates and discount rates appropriate for the CGUs under review, using our knowledge and experience. We tested the discounted cash flow models used by management in their assessments, checked the accuracy of the calculations, compared historical budgeted performance to actual results and agreed the figures used to the detailed management approved budgets to assess the reasonableness of the cash flows used in the model. Our challenge focused particularly on the discount rates and long term growth rates used. With the support of our valuations specialists, we compared the discount rates used to the range of typical discount rates used in similar businesses and, considered whether management had incorporated all relevant macro-economic and country-specific factors, as well as those specific to those CGUs, in determining their discount rates. For the growth rate we assessed whether management had considered macro-economic and country-specific factors specific to the relevant businesses. We also compared the rate used to the range of growth rates used by similar businesses. We tested management's historical estimation accuracy by comparing previous projected growth rates to the actual growth achieved. Where differences were noted we understood management's rationale and the evidence, such as actual recent performance, to support management's estimates. We evaluated the sensitivity analysis performed by management and performed our independent sensitivity analysis on the key assumptions above and considered a range of alternative outcomes to determine the sensitivity of the valuation models to changes in assumptions. Where the recoverable amount was lower than the carrying amount of the CGU, we checked the calculation of the impairment charge recognised. Based on the work performed, we found that the judgements made by management to determine the discount rate, long term growth rates and valuation models were reasonable.

Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter

Buying income

Refer to note 1 (Principal Accounting Policies) and note 3 (Critical Accounting Estimates and Judgements) to the financial statements.

The Group has arrangements with suppliers whereby volume-based discounts and incentives, promotional and marketing incentives and various other rebates and discounts are earned in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a net deduction from cost of sales as a result of amounts receivable from suppliers.

The individual supplier arrangements in place across the Group vary in nature. The majority of buying income is driven by volume-based measures or event-driven schemes, with the remainder being ad-hoc and promotional buying income.

Given the varied types of buying income arrangements as well as various performance criteria which differ by suppliers, and given the fact that buying income is material to the financial statements, we identified buying income as a key audit matter.

The level of judgement in each category of buying income is noted below:

Volume-based income
Volume-based rebates are generally driven by achieving purchase volume targets set with individual suppliers for specific products over a pre-set period of time. In instances where the rebate agreement does not fully coincide with the period-end, the key judgement that we focused on was the estimate of expected purchase volumes in the period covered by the rebate agreement.

Ad-hoc and promotional income
The remainder of the Group's buying income is associated with ad-hoc and promotional income. The nature of this income and the manner in which it is recognised varies depending on the nature of the agreement reached with the individual supplier. The income is earned as the relevant performance criteria are met. Due to the significant number of transactions, individual agreements and potential for manual calculations associated with this type of buying income, we focused a significant amount of effort on assessing the appropriateness of amounts recognised. Our focus is on the underlying agreements associated with the income earned, and assessing whether the income recorded is in accordance with those agreements.

We gained an understanding of and evaluated the key controls in place within the buying income process and tested those controls in certain components of the business. We performed detailed analytical review of buying income by type and location to identify whether any unusual trends were present.

On a sample basis, we traced the reconciliation of supplier deductions or payments recognised in the income statement to cash receipts or supplier contracts.

We selected, on a sample basis, amounts recognised in debtors and creditors and agreed the amounts to supporting documentation. Where amounts were offset we assessed whether there is a right to offset, based on the contractual terms with suppliers.

On a sample basis, we assessed whether the performance criteria of the items selected had been met and where buying income amounts were estimated, that there was appropriate supporting evidence in determining those estimates.

We assessed, on a sample basis, the appropriateness of manual journal entries and adjustments associated with buying income by tracing them to supporting documentation.

Supplier dispute logs and management's supplier statement reconciliations were assessed, on a sample basis, to determine whether material disputes or disagreements with suppliers existed. Where significant disputes or disagreements existed, we understood the nature of these disputes through discussions with management and obtained documentation to assess whether the amounts recognised by management were reasonable.

Key audit matter	How our audit addressed the key audit matter
IT environment	
Refer to page 126 (Principal Risks and Uncertainties) of the Annual Report. The Group is heavily reliant on its IT infrastructure and systems for the daily operations of its business. The IT systems across the Group are complex and there are varying levels of standardisation and integration between new and legacy IT systems. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process.	We updated our understanding of the IT environment through discussions with management and walked-through the key financial processes to understand the relevant IT systems which were integral to the Group's controls over financial reporting. These procedures allowed us to determine which IT systems, processes and controls to rely upon. We tested key controls over user access to programs and data; program development; program changes made to IT systems; and IT operations. The key automated controls operating within IT systems that we rely on were also tested. Where we noted deficiencies which affected IT systems or controls on which we planned to place reliance, we tested mitigating controls or extended the scope of our substantive audit procedures.

How we tailored the audit scope

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

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

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

A full scope audit was performed on seven entities including six subsidiaries and one associate, Maxim's. These entities, together with procedures performed on central functions and at the Group level (on the consolidation and other areas of significant judgement), accounted for 90% of the Group's revenue, 86% of the Group's profit before tax, and 80% of the Group's underlying profit before tax. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Independent Auditors' Report

Materiality

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

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

Overall Group materiality	US$26 million *(2017: US$28 million)*
How we determined it	5% of underlying profit before tax
Rationale for benchmark applied	Profit before tax is a primary measure used in assessing the performance of the Group which has been adjusted by adding back non-trading items of US$346 million incurred in 2018.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was US$5 million to US$25 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$1.3 million *(2017: US$1.4 million)* as well as misstatements below that amount that in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Responsibility Statement set out on page 117, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
28th February 2019

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

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

Five Year Summary

	2018 **US$m**	2017 US$m restated‡	2016 US$m	2015 US$m	2014 US$m
Profit and loss					
Sales	**11,749.3**	11,288.7	11,200.7	11,137.3	11,008.3
Sales including associates and joint ventures	**21,957.2**	21,827.0	20,423.6	17,907.0	13,102.8
Profit attributable to shareholders	**92.0**	402.4	469.0	424.4	509.1
Underlying profit attributable to shareholders	**424.3**	402.6*	460.2	428.1	500.1
Underlying earnings per share *(US¢)*	**31.37**	29.77†	34.03	31.66	36.98
Basic earnings per share *(US¢)*	**6.80**	29.75	34.69	31.39	37.65
Dividends per share *(US¢)*	**21.00**	21.00	21.00	20.00	23.00
Balance sheet					
Total assets	**5,389.6**	5,467.2	5,128.9	4,820.9	4,316.3
Total liabilities	**(3,898.7)**	(3,711.5)	(3,549.5)	(3,365.7)	(2,793.8)
Net operating assets	**1,490.9**	1,755.7	1,579.4	1,455.2	1,522.5
Shareholders' funds	**1,447.0**	1,690.0	1,505.3	1,375.8	1,428.7
Non-controlling interests	**43.9**	65.7	74.1	79.4	93.8
Total equity	**1,490.9**	1,755.7	1,579.4	1,455.2	1,522.5
Net (debt)/cash	**(744.0)**	(599.1)	(640.8)	(481.7)	474.8
Net asset value per share *(US¢)*	**106.97**	124.95	111.32	101.75	105.67
Cash flow					
Cash flows from operating activities	**643.4**	671.3	542.9	699.8	675.9
Cash flows from investing activities	**(500.9)**	(280.6)	(428.0)	(1,365.4)	(432.5)
Cash flows before financing activities	**142.5**	390.7	114.9	(665.6)	243.4
Cash flow per share from operating activities *(US¢)*	**47.57**	49.64	40.15	51.76	49.99

* The adjusted underlying profit attributable to shareholders for 2017 was US$467.1 million.

† The adjusted underlying earnings per share for 2017 was US¢34.54.

‡ Figures in 2017 have been restated due to a change in accounting policy upon adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'.

Responsibility Statement

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

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

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

For and on behalf of the Board

Ian McLeod
Neil Galloway
Directors

28th February 2019

Corporate Governance

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

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

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

The Management of the Group

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

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

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

The Board

The Company currently has a Board of 15 Directors. Their names and brief biographies appear on pages 39 and 40 of this Report. The Chairman has been appointed in accordance with the provisions of the Bye-laws of the Company, which provide that the chairman of Jardine Matheson, or any Director nominated by him, shall be the Chairman of the Company. The Board composition and operation helps to provide the Company with the necessary stability as it seeks to grow its business.

The Board continued

The role of the Chairman is to lead the Board as it oversees the Group's strategic and financial direction, while the principal role of the Managing Director is to act as chairman of DFMS and of its finance committee. Ben Keswick is currently appointed to both positions. The responsibility for running the Group's business and all the executive matters affecting the Group rests with the Group Chief Executive, Ian McLeod. The implementation of the Group's strategy is delegated to the Company's executive management, with decision-making authority within designated financial parameters delegated to the DFMS finance committee.

The Board is scheduled to hold four meetings in 2019 and ad hoc procedures are adopted to deal with urgent matters which arise between scheduled meetings. In 2018 one meeting was held in Bermuda and three were held in Asia. The Board receives high quality, up to date information for each of its meetings. In addition, certain Directors of the Company who do not serve on the board of DFMS and who are based outside Asia regularly visit Asia and Bermuda to discuss the Group's business, as well as to participate in the four strategic reviews that precede the regular Board meetings. These Directors are not directly involved in the operational management of the Group's business activities, but their knowledge and close oversight of the Group's affairs, as well as their knowledge and experience of the wider Jardine Matheson group, reinforces the process by which business is reviewed before consideration at Board meetings.

Directors' Appointment, Retirement, Remuneration and Service Contracts

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

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

Dr George C.G. Koo stepped down from the Board at the Annual General Meeting held on 9th May 2018, and Dr Delman Lee joined the Board on the same day. Sir Henry Keswick retired from the Board with effect from 31st December 2018. On 22nd January 2019 it was announced that Neil Galloway will step down as Group Finance Director on 31st March 2019.

At this year's Annual General Meeting to be held on 8th May 2019, Michael Kok is to retire and will not seek re-election. In accordance with Bye-law 85, George J. Ho, Adam Keswick and Lord Sassoon retire by rotation and, being eligible, offer themselves for re-election. In accordance with Bye-law 92, Dr Delman Lee will also retire and, being eligible, offers himself for re-election. None of the Directors proposed for re-election has a service contract with the Company or its subsidiaries.

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

Directors' Appointment, Retirement, Remuneration and Service Contracts continued

Recommendations and decisions on remuneration and other benefits payable or made available to executive Directors result from consultations between the Chairman and other Directors as he considers appropriate. Directors' fees, which are payable to all Directors other than the Group Chief Executive and the Group Finance Director, are decided upon by shareholders in general meeting as provided for by the Company's Bye-laws. A motion to increase the Directors' fees to US$65,000 each per annum and the fee for the Chairman and Managing Director to US$90,000 per annum with effect from 1st January 2019 will be proposed at the forthcoming Annual General Meeting.

For the year ended 31st December 2018, the Directors received from the Group US$6.9 million *(2017: US$11.4 million)* in Directors' fees and employee benefits, being US$0.9 million *(2017: US$0.9 million)* in Directors' fees, US$4.9 million *(2017: US$10.0 million)* in short-term employee benefits including salary, bonuses, accommodation and deemed benefits in kind, US$0.1 million *(2017: US$0.2 million)* in post-employment benefits and US$1.0 million *(2017: US$0.3 million)* in share-based payments. The information set out in this paragraph forms part of the audited financial statements.

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

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

Audit Committee

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

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

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

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

Risk Management and Internal Control

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

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

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

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

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

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

The principal risks and uncertainties facing the Company are set out on pages 125 and 126.

Directors' Responsibilities in respect of the Financial Statements

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

Corporate Governance

Code of Conduct

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

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

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

Directors' Share Interests

The Directors of the Company in office on 28th February 2019 had interests (within the meaning of the EU Market Abuse Regulation ('MAR'), which applies to the Company as it is listed on the London Stock Exchange) as set out below in the ordinary share capital of the Company. These interests include those notified to the Company in respect of the Directors' closely associated persons (as that term is used under MAR).

George J. Ho	1,818,804
Michael Kok	282,888
Anthony Nightingale	34,183
Percy Weatherall	200,000

In addition, Ian McLeod held deferred share awards in respect of 597,514 ordinary shares, and Neil Galloway held share options in respect of 475,000 ordinary shares, issued pursuant to the Company's share-based long-term incentive plans.

Substantial Shareholders

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

The Company has been informed of the following holdings of voting rights of 5% or more attaching to the Company's issued ordinary share capital: (i) Jardine Strategic Holdings Limited ('Jardine Strategic') and its subsidiary undertakings are directly and indirectly interested in 1,049,589,171 ordinary shares carrying 77.59% of the voting rights and, by virtue of its interest in Jardine Strategic, Jardine Matheson is also interested in the same ordinary shares; and (ii) Commonwealth Bank of Australia and its controlled undertakings are directly and indirectly interested in 74,438,054 ordinary shares carrying 5.50% of the voting rights. Apart from these shareholdings, the Company is not aware of any holders of voting rights of 5% or more attaching to the issued ordinary share capital of the Company as at 28th February 2019.

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

Governance Principles

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

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

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

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

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

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

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

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

Related Party Transactions

Details of transactions with related parties entered into by the Company during the course of the year are included in note 32 to the financial statements on page 105.

Securities Purchase Arrangements

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

Takeover Code

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

Annual General Meeting

The 2019 Annual General Meeting will be held at Rosewood Bermuda, Bermuda on 8th May 2019. The full text of the resolutions and explanatory notes in respect of the meeting are contained in the Notice of Meeting which accompanies this Report. A corporate website is maintained containing a wide range of information of interest to investors at www.dairyfarmgroup.com.

Power to Amend Bye-laws

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

Principal Risks and Uncertainties

The Board has overall responsibility for risk management and internal control. The process by which the Group identifies and manages risk is set out in more detail on page 121 of the Corporate Governance section of this Report. The following are the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the Disclosure Guidance and Transparency Rules issued by the Financial Conduct Authority in the United Kingdom and are in addition to the matters referred to in the Chairman's Statement and Group Chief Executive's Review.

Economic Risk

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

Commercial Risk and Financial Risk

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

A number of the Group's businesses make significant investment decisions in respect of developments or projects and these are subject to market risks. This is especially the case where projects take time to come to fruition and achieve the desired returns.

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

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

The steps taken by the Group to manage its exposure to financial risk are set out in the Financial Review on page 38 and note 2 to the financial statements on pages 60 to 65.

Concessions, Franchises and Key Contracts

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

Principal Risks and Uncertainties

Regulatory and Political Risk

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

Changes in the political environment in the territories where the Group operates could adversely affect the Group's businesses.

Terrorism, Pandemic and Natural Disasters

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

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

Technology Risk

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

Shareholder Information

Financial Calendar

2018 full-year results announced	28th February 2019
Shares quoted ex-dividend	14th March 2019
Share registers closed	18th to 22nd March 2019
Annual General Meeting to be held	8th May 2019
2018 final dividend payable	15th May 2019
2019 half-year results to be announced	1st August 2019*
Shares quoted ex-dividend	22nd August 2019*
Share registers to be closed	26th to 30th August 2019*
2019 interim dividend payable	17th October 2019*

* Subject to change

Dividends

Shareholders will receive their cash dividends in United States Dollars, unless they are registered on the Jersey branch register, in which case they will have the option to elect for their dividends to be paid in Sterling. These shareholders may make new currency elections for the 2018 final dividend by notifying the United Kingdom transfer agent in writing by 18th April 2019. The Sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 2nd May 2019. Shareholders holding their shares through CREST in the United Kingdom will receive their cash dividends in Sterling only. Shareholders holding their shares through The Central Depository (Pte) Limited ('CDP') in Singapore will receive their cash dividends in United States Dollars unless they elect, through CDP, to receive Singapore Dollars.

Registrars and Transfer Agent

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

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

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

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

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

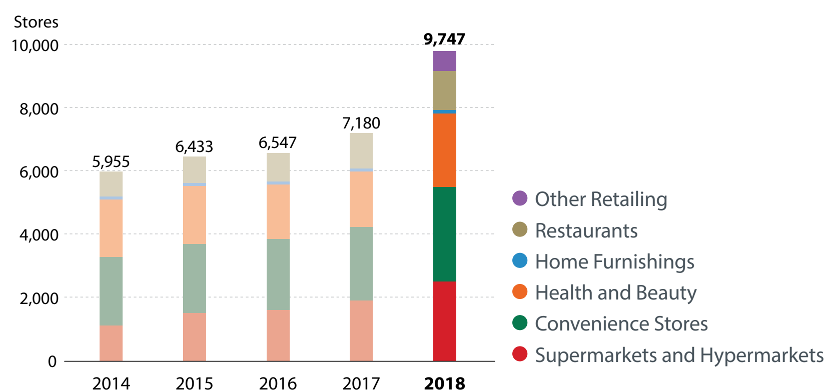
Press releases and other financial information can be accessed through the internet at www.dairyfarmgroup.com.

Retail Outlets Summary

2018	Food			Health and Beauty	Home Furnishings	Restaurants	Other Retailing	Total	Net addition
	Supermarkets	**Hypermarkets**	**Convenience Stores**						
Hong Kong	325	–	959	362	4	818	–	**2,468**	68
Macau	19	–	51	20	–	17	–	**107**	9
Mainland China	943	307	1,074	238	–	247	–	**2,809**	640
Singapore	104	8	393	117	–	145	–	**767**	1
Indonesia	117	57	–	270	1	–	–	**445**	(4)
Malaysia	52	70	–	439	–	1	–	**562**	(4)
Brunei	–	1	–	22	–	–	–	**23**	1
Taiwan	241	–	–	–	5	–	–	**246**	(12)
The Philippines	225	15	496	761	–	18	625	**2,140**	1,816
Vietnam	–	–	–	83	–	46	–	**129**	36
Cambodia	17	–	–	10	–	15	–	**42**	15
Thailand	–	–	–	–	–	9	–	**9**	1
Total	**2,043**	**458**	**2,973**	**2,322**	**10**	**1,316**	**625**	**9,747**	2,567
Net change over 2017	593	(8)	673	578	–	106	625	2,567	

2017	Food			Health and Beauty	Home Furnishings	Restaurants	Other Retailing	Total	Net addition
	Supermarkets	Hypermarkets	Convenience Stores						
Hong Kong	329	–	938	355	4	774	–	2,400	39
Macau	17	–	49	18	–	14	–	98	2
Mainland China	472	307	920	238	–	232	–	2,169	431
Singapore	106	8	393	118	–	141	–	766	109
Indonesia	140	58	–	250	1	–	–	449	1
Malaysia	61	80	–	425	–	–	–	566	(9)
Brunei	–	1	–	21	–	–	–	22	–
Taiwan	253	–	–	–	5	–	–	258	4
The Philippines	61	12	–	251	–	–	–	324	22
Vietnam	–	–	–	60	–	33	–	93	21
Cambodia	11	–	–	8	–	8	–	27	8
Thailand	–	–	–	–	–	8	–	8	5
Total	1,450	466	2,300	1,744	10	1,210	–	7,180	633
Net change over 2016	313	(4)	69	29	1	225	–	633	

Store Network



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

Management and Offices

Leadership Team

Ian McLeod	Group Chief Executive
Choo Peng Chee	Chief Executive Officer – North Asia & Group Convenience
Sam Kim	Chief Executive Officer – Southeast Asia
Neil Galloway	Group Finance & IKEA Director
Simon McDowell	Group Chief Customer Officer and CEO North Asia Health and Beauty
Marcus Spurrell	Chief Digital Officer
Judith Nelson	Group Human Resources Director
Clem Constantine	Group Property Director
Edward Hunter	Group Supply Chain Director
Charlie Wood	Group Counsel

Corporate Office

11/F Devon House, Taikoo Place
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P.O. Box 286, G.P.O.
Tel : (852) 2299 1888
Fax : (852) 2299 4888
Website : www.dairyfarmgroup.com

Brunei

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Giant Hypermarket Tasik Rimba
Lot 58865 Kampong Rimba
Mukim Gadong
Bandar Seri Begawan
BE 3119
Negara Brunei Darussalam
Tel : (673) 246 0820
Fax : (673) 246 0821

Cambodia

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

Hong Kong and Macau

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

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

Indonesia

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

Mainland China

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

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

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

Malaysia

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

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

The Philippines

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

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

Singapore

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

Taiwan

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

DFI Home Furnishings Taiwan Ltd
4/F 1 Zhong Zheng Road
XinZhuang District
New Taipei City 24243
Tel : (886 2) 8069 9005
Fax : (886 2) 2992 0586
Website: www.ikea.com.tw

Vietnam

Pan Asia Trading And Investment One Member Company Limited*
2/F Phuong Long Building
506 Nguyen Dinh Chieu Street
Ward 4, District 3
Ho Chi Minh City
Tel: (84 28) 3832 8272
Fax: (84 28) 3832 8448
Website: www.guardian.com.vn

* Associates or joint ventures

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www.dairyfarmgroup.com