Independent Auditors' Report

To the members of Dairy Farm International Holdings Limited

Report on the audit of the financial statements

Opinion

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

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

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

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

Basis for opinion

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

Independence

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

Our audit approach

Overview

Materiality

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

Audit scope

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

Key audit matters

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

The scope of our audit

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill in subsidiaries	
Refer to note 38 (Critical Accounting Estimates and Judgements) and note 9 (Intangible Assets) to the financial statements. As at 31st December 2019, goodwill held in subsidiaries totalled US$444.6 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$4.4 million were recognised against goodwill held in subsidiaries during the year ended 31st December 2019 where the recoverable amount was less than the carrying value. The determination of the recoverable amount of CGUs requires significant judgements by management in preparing their value-in-use models, particularly management's view on key internal inputs and external market conditions which impact future cash flows, the discount rates and long-term growth rates.	We have reviewed and understood management's impairment assessment process, including what indicators of impairment had been noted and the appropriateness of the valuation models used. We assessed management's determination of CGUs. Where we identified a risk of impairment we performed the following procedures. 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 financial information 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 own independent sensitivity analysis on the key assumptions above and considered a range of alternative outcomes to determine the sensitivity of the valuation models to changes in assumptions. 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.

Key audit matter

Buying income

Refer to note 35 (Principal Accounting Policies) and note 38 (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.

How our audit addressed the key audit matter

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.

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

Key audit matter	How our audit addressed the key audit matter
IT environment	
Refer to page 134 (Principal Risks and Uncertainties) of the Annual Report. 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 programmes and data; programme development; programme 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 and mainland China during the audit to review the work of component teams with regular communication throughout the year.

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

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Materiality

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

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

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

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

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

Conclusions relating to going concern

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

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

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
5th March 2020

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

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