

# Corporate Governance

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

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

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

## The Management of the Group

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

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

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

## The Board

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

## The Board *continued*

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Audit Committee**

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

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

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

The terms of reference of the Audit Committee can be found on the Company's website at [www.dairyfarmgroup.com](http://www.dairyfarmgroup.com).

## Risk Management and Internal Control

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

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

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

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

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

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

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

## Directors' Responsibilities in respect of the Financial Statements

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

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### Code of Conduct

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

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

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

### Directors' Share Interests

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

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

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

### Substantial Shareholders

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

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

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

## Governance Principles

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

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

1. When assessing a significant transaction, being a larger transaction which would be classified as a class 1 transaction under the provisions of the UK Listing Rules, the Company will engage an independent financial adviser to provide a fairness opinion on the terms of the transaction.
2. In the event of a related party transaction, being a transaction with a related party which would require a sponsor to provide a fair and reasonable opinion under the provisions of the UK Listing Rules, the Company will engage an independent financial adviser to confirm that the terms of the transaction are fair and reasonable as far as the shareholders of the Company are concerned.
3. Further, as soon as the terms of a significant transaction or a related party transaction are agreed, an announcement will be issued by the Company providing such details of the transaction as are necessary for investors to evaluate the effect of the transaction on the Company.
4. At each annual general meeting, the Company will seek shareholder approval to issue new shares on a non-pre-emptive basis for up to 33% of the Company's issued share capital, of which up to 5% can be issued for cash consideration.
5. The Company will continue to adhere to its Securities Dealing Rules. These rules, which were based on the UK Model Code, have since been revised to follow the provisions of MAR with respect to market abuse and disclosure of interests in shares.
6. The Company will continue its policies and practices in respect of risk management and internal controls.

## Related Party Transactions

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

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### **Securities Purchase Arrangements**

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

### **Takeover Code**

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

### **Annual General Meeting**

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