2020
INTERIM REPORT
中期報告

萬洲國際
WH GROUP

萬洲國際有限公司
WH GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）

Stock code 股份代號：288

CONTENTS

CORPORATE INFORMATION

Legal Name of the Company
WH Group Limited

Place of Listing and Stock Code
The shares of the Company were listed on the Main Board of the Stock Exchange on August 5, 2014

Stock Code: 288

Company Website
www.wh-group.com

Directors
Executive Directors
Mr. WAN Long (Chairman and Chief Executive Officer)
Mr. WAN Hongjian (Deputy Chairman and Vice President)
Mr. GUO Lijun
(Executive Vice President and Chief Financial Officer)
Mr. SULLIVAN Kenneth Marc
(President and Chief Executive Officer of Smithfield)
Mr. MA Xiangjie (President of Shuanghui Development)

Non-executive Director
Mr. JIAO Shuge

Independent Non-executive Directors
Mr. HUANG Ming
Mr. LEE Conway Kong Wai
Mr. LAU, Jin Tin Don

Company Secretary
Mr. CHAU Ho

Audit Committee
Mr. LEE Conway Kong Wai (Chairman)
Mr. HUANG Ming
Mr. LAU, Jin Tin Don

Remuneration Committee
Mr. HUANG Ming (Chairman)
Mr. LEE Conway Kong Wai
Mr. JIAO Shuge

Nomination Committee
Mr. WAN Long (Chairman)
Mr. HUANG Ming
Mr. LAU, Jin Tin Don

Environmental, Social and Governance Committee
Mr. GUO Lijun (Chairman)
Mr. WAN Hongjian
Mr. SULLIVAN Kenneth Marc
Mr. MA Xiangjie
Mr. LAU, Jin Tin Don

Food Safety Committee
Mr. WAN Long (Chairman)
Mr. WAN Hongjian
Mr. SULLIVAN Kenneth Marc
Mr. MA Xiangjie
Mr. LEE Conway Kong Wai

Risk Management Committee
Mr. WAN Long (Chairman)
Mr. GUO Lijun
Mr. SULLIVAN Kenneth Marc
Mr. MA Xiangjie
Mr. LEE Conway Kong Wai

Auditor
Ernst & Young

Legal Advisor
Paul Hastings

Principal Bankers
Bank of America N.A.
Bank of China
DBS Bank
ING Bank N.V.
The Hongkong and Shanghai Banking Corporation

Authorised Representatives

Mr. WAN Long
Mr. CHAU Ho

Share Registrar and Transfer Office

Principal

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Registered Office

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Principal Place of Business and Corporate Headquarters in Hong Kong

Unit 7602B-7604A
Level 76, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

RESULTS HIGHLIGHTS

	Six months ended June 30, 2020	2019
Key operating data		
Hogs produced (thousand heads)	**10,400**	10,582
Hogs processed (thousand heads)	**22,407**	28,233
Packaged meats sold (thousand metric tons)	**1,575**	1,610

	Six months ended June 30, 2020		2019	
	Results before biological fair value adjustments	**Results after biological fair value adjustments**	Results before biological fair value adjustments	Results after biological fair value adjustments
	US$ million (unless otherwise stated) (unaudited)		US$ million (unless otherwise stated) (unaudited)	
Key financial data				
Revenue	**12,481**	**12,481**	11,127	11,127
EBITDA	**1,236**	**930**	1,032	1,163
Operating profit	**925**	**925**	765	765
Profit attributable to owners of the Company	**550**	**317**	463	569
Basic earnings per share (US cents)	**3.73**	**2.15**	3.15	3.87
Interim dividend per share (HK$)	**0.05**	**0.05**	0.05	0.05

- Revenue increased by 12.2%
- Operating profit increased by 20.9%
- Profit attributable to owners of the Company, before biological fair value adjustments, increased by 18.8%

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the interim financial information of the Group, including the related notes, set forth in this report.

I. Industry Overview

The Group operates in China, the U.S. and certain selected markets in Europe ("**Europe**"). Each geographic region is characterised distinctively. To maintain steady performance and maximise profitability, we rely on our seasoned and experienced management team to manage the market dynamics effectively.

China

China is the largest pork producer and consumption market in the world. Such market is expected to expand further. Generally, the development of the pork industry in China is largely dependent on the laws and regulations, as well as the pace of economic growth and improvement of people's living standard of the nation. Nevertheless, the short-term trend is impacted by the industry cycle and animal epidemic.

According to the National Bureau of Statistics of China, the total production of hogs in the Review Period was 251.03 million heads, 19.9% lower than 313.46 million heads in the Comparable Period. The total production of pork was 19.98 million tons, a decrease of 19.1% as compared to 24.70 million tons in the Comparable Period. With reference to the statistics published by the MOA, the average hog price during the Review Period was RMB33.95 (approximately US$4.82) per kg, an increase of 137.0% over that of the Comparable Period. The main driving factor of the industrial trends above was the enduring effect of African Swine Fever ("**ASF**").

The reduction of supplies and elevation of prices as a result of ASF changed the landscape of the industry, harmed the operation of processors and affected the daily consumption and livelihood of the people. To restore production and curb soaring hog (therefore pork) prices, the government adopted various measures. As a result, the number of breeding sows bottomed out since last October as disclosed by MOA. Looking onward, the supplies of market hogs will be subject to the next development of ASF and the progress of industrial consolidation.

During the Review Period, the industry was also challenged by the outbreak of coronavirus disease 2019 ("**COVID-19**") pandemic in terms of prevention of infection and curtailment of business interruptions. On a positive note, the impact of COVID-19 on pork demand was limited given the importance of pork in Chinese diet. Resumption and continuation of production was well supported by the government as stability of food supplies was highly valued during the pandemic.

Amidst the resilient demand and relatively high prices, the importation of pork remained very conducive in the Review Period. According to the statistics of the General Administration of Customs of the People's Republic of China, the total volume of imported pork in the Review Period was 2.82 million tons, 1.0 times higher than that of the Comparable Period. Key importing regions to China were European Union, the U.S. and Brazil in descending order of volume. Benefiting from the U.S.-China Phase One Economic and Trade Agreement, the volume of U.S. imports grew significantly during the Review Period.

Management Discussion and Analysis (Continued)

U.S.

The U.S. is the second largest producer of pork worldwide. In contrast to the pork industry in China, the pork industry in the U.S. is relatively mature and concentrated. As the U.S. is also the largest pork exporter globally, the hog prices and pork value in the U.S. are driven by the supply and demand of its domestic and export markets. For 2020, COVID-19 was a significant factor that impacted the industry.

With reference to the statistics of the USDA, overall animal protein production in the U.S. was slightly up by 0.7% during the Review Period, in which pork rose 2.1%, beef fell 2.7% and broiler rose 3.1%. The increase in overall production was a continuation of the expansion trend that lasted for years but was largely offset by the interruptions caused by COVID-19 in the later half of the Review Period. Over the past few months, capacity utilisation of the processing sector was hindered as meat processors responded to the pandemic by adopting a series of stringent and detailed protocols, processes and protective measures that follow the guidance issued by the Centers for Disease Control and Prevention and the Occupational Safety and Health Administration.

The average hog price, as disclosed by the Chicago Mercantile Exchange, Inc., was US$0.95 per kg during the Review Period due to an abundance of hogs and reduced slaughter activity caused by COVID-19. As a comparison to that of the Comparable Period, it was down by 17.4%. Before the outbreak of COVID-19, hog prices were above the level of previous year as demand outweighed the additional supply brought by expansion of production. Nevertheless, processing capacity was subsequently depressed by the pandemic and the backup of slaughter-ready hogs on farms drove prices down.

As there are global differences in consumer preferences for products and differentials in prices, export markets in the U.S. help to optimise livestock utilisation and maximise value. According to the USDA, the export volume of U.S. pork and offals in the Review Period was up by 28.3%. A portion of such exports were associated with variety meats. Supported by demand, the average pork cutout value for the Review Period, as published by the USDA, decreased slightly by 0.6% over the Comparable Period. Despite the fact that the decrease in pork value lagged the decrease in hog prices, operating margin of processors during the Review Period was negatively impacted by the incremental costs associated with COVID-19.

II. Results of Operations

Our business primarily consists of the following three operating segments, namely packaged meats, fresh pork and hog production.

	Six months ended June 30,		
	2020	2019	Change
	US$ million	US$ million	%
Revenue[1]			
— Packaged meats	**5,836**	5,886	(0.8)
— Fresh pork	**5,497**	4,600	19.5
— Hog production	**639**	329	94.2
— Others	**509**	312	63.1
	12,481	11,127	12.2
Operating profit (loss)			
— Packaged meats	**694**	761	(8.8)
— Fresh pork	**220**	103	113.6
— Hog production	**46**	(45)	N/A
— Others[2]	**(35)**	(54)	(35.2)
	925	765	20.9

Notes:

(1) Revenue refers to net external sales.

(2) Others operating loss includes certain corporate expenses.

The packaged meats segment has always been our core business. It accounted for 46.8% (Comparable Period: 52.9%) of the Group's revenue in the Review Period. Its contribution to the Group's operating profit was 75.0% in the Review Period (Comparable Period: 99.5%).

Geographically, our operations in China contributed 41.8% and 59.5% of the revenue and operating profit of the Group in the Review Period, respectively (Comparable Period: 33.7% and 55.4%). Contribution of our operations in the U.S. to the revenue and operating profit of the Group in the Review Period were 49.0% and 29.8% (Comparable Period: 57.9% and 38.4%), respectively. The rest of the revenue and operating profit of the Group came from our operations in Europe.

Packaged Meats

	Six months ended June 30, 2020 US$ million	2019 US$ million	Change %
Revenue			
China	**1,971**	1,732	13.8
U.S.	**3,407**	3,744	(9.0)
Europe	**458**	410	11.7
	5,836	5,886	(0.8)
Operating profit			
China	**417**	288	44.8
U.S.	**243**	446	(45.5)
Europe	**34**	27	25.9
	694	761	(8.8)

In the Review Period, our packaged meats sales volume decreased by 2.2% to 1,575 thousand metric tons. In China, sales volume in the Review Period was 1.5% lower than that of the Comparable Period as consumer market slowed down and production was suspended at the beginning of the outbreak of COVID-19. Along with the containment of COVID-19, market demand and production level recovered gradually. Meanwhile, we continued to transform our product portfolio by introducing new products and expanding new sales channels. Driven by expanded marketing input and innovations, sales volume of certain new and core products increased during the Review Period. Sales volume in the U.S. was down by 4.3% during the Review Period as restrictions on social and dining activities under COVID-19 affected the demand from food service channel. On the other hand, our sales volume in Europe increased by 4.6% benefiting from the execution of our growth strategy.

Revenue during the Review Period mildly decreased by 0.8% to US$5,836 million. Revenue in China increased by 13.8% as the impact of price and product mix adjustments outweighed the decrease in sales volume. In the U.S., revenue was down by 9.0% as sales volume and prices were lower as compared to those of the Comparable Period due to demand contraction during the pandemic. In Europe, revenue in the Review Period increased by 11.7% in spite of local currency depreciation as a result of growth in both sales volume and prices.

Operating profit was US$694 million in the Review Period, a reduction of 8.8% from that of the Comparable Period. In China, although cost of our dominant raw material, pork, continued to increase due to supply limitation imposed by ASF, operating profit grew substantially by 44.8% as the benefit of price and product mix adjustments outpaced the impact of unfavorable costs structure. In the U.S., operating profit in the Review Period declined notably by 45.5% primarily due to the impact of COVID-19 which included unfavorable sales, incremental charges on employee protection, workforce stabilisation as well as reserves made on the expected losses relating to the closure of food services. In Europe, our operating profit increased by 25.9% as compared to the Comparable Period because the growth in sales countervailed higher costs and negative foreign exchange impact.

Fresh Pork

	Six months ended June 30,		
	2020	2019	Change
	US$ million	US$ million	%
Revenue			
China	**2,905**	1,851	56.9
U.S.	**2,107**	2,400	(12.2)
Europe	**485**	349	39.0
	5,497	4,600	19.5
Operating profit (loss)			
China	**102**	125	(18.4)
U.S.	**116**	(15)	N/A
Europe	**2**	(7)	N/A
	220	103	113.6

Total number of hogs processed in the Review Period was 22,407 thousand heads, a decrease of 20.6% over that of the Comparable Period. The decrease was mainly caused by our slaughtering business in China and the U.S. In China, the number of hogs processed was sharply down by 61.8% to 3,274 thousand heads. During the Comparable Period, we took advantage of our widely established production and logistics facilities to seize the opportunity of the relatively low hog prices to expand our production scale. However, as the impact of ASF manifested, our volume in the Review Period was constrained by the reduction in market supplies of live hog and softening in demand. Our processing volume in the U.S. was also down by 6.0% as capacity utilisation was held back by temporary closure of facilities and implementation of more stringent and detailed protocols, processes and protective measures in response to COVID-19. On the other hand, our processing volume in the Review Period increased by 18.6% in Europe as we integrated the newly acquired capacity.

Management Discussion and Analysis (Continued)

External sales volume of fresh pork in the Review Period was 1,942 thousand metric tons, 10.2% lower than the level in the Comparable Period. The extent of decrease in fresh pork sales was less than the extent of decrease in hog processing as our business in China achieved remarkable growth of sales of imported pork.

Fresh pork revenue increased by 19.5% to US$5,497 million in the Review Period as revenue in China and Europe grew significantly. In China, revenue rose by 56.9% from that of the Comparable Period because the impact of increase in pork prices surpassed the decrease in sales volume. In Europe, revenue increased by 39.0% as sales volume increased and supply shortage caused by ASF drove up hog prices and therefore meat value. On the other hand, revenue in the U.S. was down by 12.2% primarily due to partial capacity loss and production adjustments between channels as a result of COVID-19.

Our operating profit of fresh pork increased from US$103 million in the Comparable Period to US$220 million in the Review Period. In China, operating profit reduced by 18.4% as we experienced extraordinary market dynamic. Amid the development of ASF, slaughtering scale and operating margin were favorable in the Comparable Period but reversed in the Review Period. Having said that, sales of inventory and imported pork provided important contributions to our performance in the Review Period. In the U.S., operating profit increased during the Review Period primarily due to the widened spread between USDA pork values and costs of live hogs. But such increase was significantly impacted by production inefficiencies and incremental charges related to COVID-19. In Europe, we also turned loss into profit in the Review Period as the increase in raw material costs was compensated by the increase in sales prices.

Hog Production

	Six months ended June 30,		
	2020	2019	Change
	US$ million	US$ million	%
Revenue			
China	**2**	2	—
U.S.	**605**	302	100.3
Europe	**32**	25	28.0
	639	329	94.2
Operating profit (loss)			
China	**(2)**	(7)	(71.4)
U.S.	**(20)**	(62)	(67.7)
Europe	**68**	24	183.3
	46	(45)	N/A

In the Review Period, hog production volume decreased by 1.7% to 10,400 thousand heads. Revenue from hog production increased significantly by 94.2% to US$639 million as hedging revenue increased in the U.S. An operating gain of US$46 million was recorded (Comparable Period: operating loss of US$45 million). The turnaround was the result of reduced loss in the U.S. due to hedging gains and increased profit in Europe due to rising hog prices under ASF.

Others

In addition to packaged meats, fresh pork and hog production, the Group also engages in certain other businesses which are ancillary to our three primary operating segments. Such other businesses include slaughtering and sales of poultry, manufacturing and sales of packaging materials, provision of logistics services, operation of finance, property development companies and a chain of retail grocery stores, production of flavoring ingredients and natural casings, as well as sales of biological pharmaceutical materials.

During the Review Period, revenue generated by our other businesses amounted to US$509 million, an increase of 63.1% as compared to the Comparable Period. Our poultry business in Europe and China and logistics business in China made a respectable contribution to our other businesses. Our poultry business processed approximately 75.64 million heads of broiler, goose and turkey during the Review Period (Comparable Period: 58.54 million heads). The growth of poultry business is an integral part of our strategy in protein diversification. Our logistics business currently owns 18 logistics centers across 15 provinces covering the majority of China. These facilities enable us to deliver our packaged meats and fresh pork to customers timely and safely.

III. Analysis of Capital Resources

Treasury Management

Our treasury function undertakes the responsibility of cash management, liquidity planning and control, procurement of financing which is cost-efficient to the Group, liaison with banks and rating agencies, investment in financial products, corporate finance as well as mitigation of financial risks such as interest and foreign exchange. The design of our treasury function aims at aligning with the long-term and short-term needs of the Group and conforming with good governance standard.

Liquidity

The Group continues to maintain an adequate level of liquidity. As COVID-19 may present unforeseen challenges to our business, we further increased our bank balance and cash as well as unutilised banking facilities during the Review Period to ensure our financial strength and flexibility. As at June 30, 2020, we had bank balances and cash of US$1,463 million (as at December 31, 2019: US$552 million), which were held primarily in RMB, US$, HK$, PLN and RON. From time to time, we also hold certain financial products for yield enhancement purpose. Such financial products are classified as current financial assets at fair value through profit or loss. As at June 30, 2020, the balance was US$387 million (as at December 31, 2019: US$447 million).

Our current ratio (ratio of consolidated current assets to consolidated current liabilities) was 1.8 times as at June 30, 2020 (as at December 31, 2019: 1.7 times). The aggregate amount of unutilised banking facilities as at June 30, 2020 was US$3,862 million (as at December 31, 2019: US$2,874 million).

Cash Flows

We fund our operations principally from cash generated by our operations, bank loans and other debt instruments, as well as equity financing from investors. Our cash requirements relate primarily to production and operating activities, business and asset acquisitions, repayment of liabilities as they become due, capital expenditures, interest and dividend payments and any unexpected cash requirements.

In the Review Period, our net cash from operating activities amounted to US$1,219 million (Comparable Period: US$399 million). The significant increase in cash inflow was mainly caused by the growth in operating profit and reversal of inventory increase. Our net cash used in investing activities in the Review Period amounted to US$137 million (Comparable Period: US$540 million). The decrease in cash outflow was mainly associated with the completion of an acquisition in Poland during the Comparable Period and the reduction in the investment of financial products during the Review Period. Our net cash used in financing activities in the Review Period amounted to US$176 million (Comparable Period: US$1 million). The increase in cash outflow was mainly due to the decrease in loan proceeds, net of repayments, outpaced the decrease in dividends paid. After all, our net increase in cash and cash equivalents was US$906 million in the Review Period (Comparable Period: net decrease of US$142 million).

Major Financing Activities

On May 17, 2020, the board of directors of Shuanghui Development, an indirect non-wholly owned subsidiary of the Company whose shares are listed on the Shenzhen Stock Exchange, resolved to approve the Proposed Non-public Issuance of not more than 331,928,219 new A shares of Shuanghui Development to not more than 35 specific subscribers, to raise a gross proceeds of not more than RMB7,000 million for the primary purpose of expanding our vertical supply chain of poultry and capacity of hog production as well as improving our production process of fresh pork and packaged meats in China. As at the date of this interim report, the Proposed Non-public Issuance has not been completed. For details, please refer to the announcement of the Company dated May 17, 2020.

During the Comparable Period, the Group completed the issuance of 5.200% senior unsecured notes with an aggregate principal amount of US$400 million due 2029 to refinance part of the existing debts and replenish working capital.

Debt Profile

As at the dates indicated below, we had the following outstanding interest-bearing bank and other borrowings:

	At June 30, 2020 US$ million	At December 31, 2019 US$ million
Borrowings by nature		
Senior unsecured notes	1,788	1,787
Bank borrowings	1,309	1,177
Commercial paper	—	125
Loans from third parties	3	3
Bank overdrafts	14	—
	3,114	3,092
Borrowings by geographical region		
U.S.	2,113	2,227
China	912	680
Europe	89	185
	3,114	3,092

The Group's total principal amount of outstanding borrowings as at June 30, 2020 was US$3,132 million (as at December 31, 2019: US$3,110 million). The maturity profile is analysed as follows:

	As a % of total borrowings
In 2020	23%
In 2021	31%
In 2022	13%
In 2023	1%
In 2027	19%
In 2029	13%
	100%

Our borrowings are principally denominated in currencies of the countries of the Group's business, or balanced by assets in the same currency. 67.9% of our borrowings were denominated in US$ as at June 30, 2020 (as at December 31, 2019: 73.5%). The rest of our borrowings was denominated in RMB, RON, PLN and EUR.

As at June 30, 2020, 99.6% of our borrowings were unsecured (as at December 31, 2019: 98.7%). Certain borrowings were secured by pledged bank deposits and other assets. Certain borrowings contained affirmative and negative covenants that are subject to certain qualifications and exceptions. The Group had no default in repayment of bank borrowings, nor did it breach any relevant finance covenants during the Review Period.

Leverage Ratios

As at June 30, 2020, our debt to equity ratio (ratio of consolidated borrowings and bank overdrafts to consolidated total equity) and net debt to equity ratio (ratio of consolidated borrowings and bank overdrafts less bank balances and cash to consolidated total equity) were 31.8% and 16.8%, respectively (as at December 31, 2019: 32.7% and 26.9%, respectively). Our debt to EBITDA ratio (ratio of consolidated borrowings and bank overdrafts to EBITDA before biological fair value adjustments) and net debt to EBITDA ratio (ratio of consolidated borrowings and bank overdrafts less bank balances and cash to EBITDA before biological fair value adjustments) as at June 30, 2020 were 1.1 times and 0.6 times, respectively (as at December 31, 2019: 1.2 times and 1.0 times, respectively).

Finance Costs

Our finance costs were US$68 million in the Review Period, 2.9% lower than that of the Comparable Period. The decrease was mainly due to the benefit of interest rate cuts across different regions.

As at June 30, 2020, the average interest rate of our total borrowings was 3.3% (as at December 31, 2019: 3.7%).

Credit Profile

The Group aims at maintaining a good credit profile that is beneficial to its long-term growth and development. Our IDR and senior unsecured rating are BBB+ according to Fitch. Our long-term corporate credit rating is BBB according to Standard & Poor's. Our issuer rating is Baa2 according to Moody's. The outlook of these ratings is stable.

For our wholly-owned subsidiary, Smithfield, Fitch assigned to it an IDR of BBB with a stable outlook. According to Standard & Poor's, the corporate credit rating of Smithfield is BBB-. The outlook is stable. The corporate family rating of Smithfield assigned by Moody's was Ba1. The outlook is also stable.

IV. Human Resources

We continue to focus on talent management and employee engagement. As at June 30, 2020, we had approximately 102 thousand employees in total, of which approximately 46 thousand employees were with our China operation, approximately 40 thousand and 16 thousand employees were with our U.S. and European operations, respectively. The Group provides training programs to the employees with a view to constantly improve their skills and knowledge. It is also our policy to ensure that remuneration for employees is appropriate and aligns with the goals, objectives and performance of the Group. Total remuneration expenses in the Review Period amounted to US$1,915 million (Comparable Period: US$1,833 million), which comprised fixed compensation such as basic salaries and allowances; variable incentives such as performance bonuses; and long term incentives such as share-based payments as well as retirement benefits schemes.

V. Biological Assets

As at June 30, 2020, we had a total of 13,832 thousand hogs, consisting of 12,755 thousand live hogs and 1,077 thousand breeding stock, an increase of 3.7% from 13,342 thousand hogs as at December 31, 2019. We also had a total of 7,797 thousand poultry, consisting of 7,118 thousand broilers and 679 thousand breeding stock. The fair value of our biological assets was US$991 million as at June 30, 2020, as compared to US$1,244 million as at December 31, 2019.

Our results have been, and we expect they will continue to be, affected by changes in the fair value of our biological assets. Fair value of our biological assets is determined with reference to the market prices, species, growing conditions, cost incurred and the professional valuation. We engaged an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, to measure such fair value for the Group on an annual basis.

For the Review Period, the net impact of biological fair value adjustments on our profit or loss was a loss in the amount of US$232 million, as compared to a gain in the amount of US$105 million in the Comparable Period.

VI. Key Investment Interests

Mexican Joint Ventures

The Group has joint venture interests in two pork companies located in Mexico, GCM and Norson. GCM sells live hogs and fresh pork products into the Mexico City market, one of the largest pork consumption markets in the world. Norson primarily produces hogs for use in its fresh pork operations. During the Review Period, share of losses from these Mexican joint ventures was US$2 million (Comparable Period: share of profits of US$5 million). Share of profits turned into share of losses was mainly driven by the significant decline in hog prices during the Review Period as a result of COVID-19. As at June 30, 2020, GCM and Norson had in aggregate approximately 157 thousand sows on the farms and total processing capacity of 2.6 million hogs in the facilities. It is expected that GCM and Norson will continue to be our important investments in Mexico and bring contributions to the Group.

Joint Ventures in Renewable Gas

The Group has two joint ventures engaged in renewable gas operation in the U.S. Align RNG, LLC ("**Align**") was formed with Dominion Energy RNG Holdings, Inc. and Monarch Bio Energy, LCC ("**Monarch**") was formed with Roeslein Alternative Energy, LLC. Align and Monarch convert waste from our hog farms in Utah and Missouri to natural gas. As the two major projects in renewable resources of our Group, they will generate economic benefits and contribute to our environmental, social and governance goals.

VII. Capital Expenditures

Our capital expenditures are primarily for the construction, renovation and transformation of production plants and ancillary facilities. We fund these capital expenditures with internally generated cash, bank loans and shareholders' capital.

Capital expenditures amounted to US$234 million in the Review Period. The following table sets out our capital expenditures paid by geographical region for the periods indicated.

	Six months ended June 30,	
	2020	2019
	US$ million	US$ million
China	**59**	42
U.S.	**144**	178
Europe	**31**	52
	234	272

During the Review Period, our capital expenditures in China were mainly for the establishment of new poultry production facilities, improvement of processing plants and construction of a new regional headquarter. Our capital expenditures in the U.S. were primarily related to the modernisation of our processing plants and expansion of our value-added packaged meats production capacity. Our capital expenditures in Europe were mainly for plant expansion and improvement projects.

VIII. Key Risks and Their Management

Risk Management

The risk management system of the Group is designed to assist the Group in implementing a sound and consistent risk management and reporting process across the Group. The Risk Management Committee is mainly responsible to oversee the development and implementation of the Group's risk management system. The Group's risk management department assisted the Risk Management Committee to review the effectiveness of risk management process and risk management report submitted by management, in which key risks and mitigation measures were reported to the Risk Management Committee. During the Review Period, the Group conducted enterprise risk assessments to analyse and report key risks, followed by the establishment of respective mitigation controls.

Commodities Price Risk

Commodities comprise a significant part of the Group's inputs (costs) and outputs (sales). The Group uses various raw materials, primarily live hogs, meat, corn, and soybean meal in our packaged meats, fresh pork, and hog production operations. The Group's revenue is primarily driven by the sale of packaged meats and fresh pork, and, to a lesser degree, sales of hogs to third parties. Significant price fluctuations in these commodities affect our results.

In China, we mitigate the effects of price fluctuations through strategic inventory management, effective transfer of raw material prices to end customers and overseas imports, when appropriate. In the U.S., our vertically integrated supply chain helps the natural hedge of commodities price changes. These commodities are also actively traded on the exchanges. We hedge when we determine conditions are suitable to mitigate price risk. The main objectives of hedges are to reduce hog production margin volatility and mitigate commodity price risk associated with forward sales in our packaged meats and fresh pork businesses. While these hedging activities may limit our ability to participate in gains from favorable commodity fluctuations, it also reduces the risk of loss from adverse changes in raw material prices. The Group has robust monitoring procedures in the management of all its derivative activities under the leadership and execution of a dedicated and professional team.

Currency and Interest Rate Risks

The Group generally matches income and expenses, assets and liabilities with the same currency in each geographical location which it operates, to reduce currency risks. Only certain entities of the Group have certain sales, purchases, bank balances and cash and borrowings denominated in currencies other than their functional currencies. We monitor our foreign exchange exposure at any time and hedge significant exposure should the need arise.

Our borrowings carry fixed or floating interest rates. As at June 30, 2020, approximately 87.0% of our borrowings (other than bank overdrafts) were at fixed interest rates (as at December 31, 2019: 77.1%). To manage our interest rate exposure, we optimise our debt portfolio and enter into hedging activities from time to time.

IX. Contingent Liabilities

Our operations are subject to various laws and regulations administered by various specific local authorities. We receive notices and inquiries from them in relation to compliance from time to time. In some instances, litigation ensues or individuals may initiate litigation against the Group. Details and updates on the North Carolina nuisance litigation is set out in Note 18 to the interim financial information of this report. Our management assesses and monitors these contingent liabilities. We believe that their financial and operational impact would not be material to the Group.

X. Sustainability

Sustainability is an important area of the Group's governance framework. The Board has established an ESG Committee at the Group level, which sets sustainability goals and targets and guides our development strategy. During the Review Period, the Group held an ESG Committee meeting. At the meeting, the ESG Committee conducted review on the key environmental, social and governance risks and its risk mitigation controls faced by the Group, as well as approved the 2019 Sustainability Report of the Group. The Group's 2019 Sustainability Report was officially released on July 16, 2020.

The Group is proud to be an engaged and active member of the communities in which we operate and which we help feed. We believe that it is our responsibility to give back to individuals and communities that have supported us over the years and contributed to our success to date. As a leading global operator, we are subject to different laws and legal standards in the markets where we operate, and the expectations of our stakeholders are significantly different between the various markets where we have a presence. Under the guidance of the ESG Committee, each of our business units also has its own sustainability body, which moves local sustainability initiatives forward in accordance with Group principles.

In 2019, the Company was granted A-grade by the Hang Seng Corporate Sustainability Index ratings for a second consecutive year, and was selected as a constituent stock of DJSI (Dow Jones Sustainability Index) Emerging Markets in recognition of the Group's outstanding performance in sustainability.

XI. Outlook

The operating landscape, driven by economic growth, consumers' preference, industry cycle and epidemics, is always impacting our business. In 2020, the overlay effects of COVID-19 pandemic, global economic recession, risky geopolitical relations and continuation of ASF will bring us unprecedented challenges.

In response to COVID-19, we are making every endeavor to protect the safety and health of our employees around the globe. Meanwhile, we are taking various effective measures to minimise the disruption on our daily operations and to assure the continuity of our business. As pork products are consumer staples, the current impact of COVID-19 on the Group is expected to be temporary. Yet we are highly cautious about its latest development and implications.

Facing the other unfavorable factors, we are adequately adjusting our operating strategy to pave way for solid performance and sustainable growth. In China, ASF reshaped the industry. We aim at taking the opportunity of industry consolidation to strengthen our value chain by expanding upstream, upgrading processing capability and diversifying into poultry. Notwithstanding that, packaged meats will remain as our core business. Coupled with our new pricing strategy, we will continue to transform our product portfolio by developing new products and deploying marketing innovations. In the U.S., we concentrate on capitalising our strength in the vertically integrated value chain to enhance profitability. We target to sustain the growth momentum in packaged meats by focusing on the development of value-added product categories. Meanwhile, we will also accelerate the modernisation of processing facilities, manage our risks through effective hedging and enhance our production efficiency and operation quality. In Europe, our operating objective is to strengthen its development by continuous capacity expansion and productivity upgrade.

To conclude, we are a geographically diversified consumer goods company with an integrated value chain and branded packaged meats as our core business. With our stringent quality control and food safety systems, we will provide customers with high quality products. We will also strive to expand globally and further enhance our competitiveness. We believe that the relentless pursuit of our goals will solidify our leadership in the industry and create long-lasting value for its shareholders, employees and communities.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the board of directors of WH Group Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 21 to 56, which comprises the condensed consolidated statement of financial position of WH Group Limited (the "Company") and its subsidiaries as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board (the "IASB"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of this interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
11 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2020

	Notes	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
		Results before biological fair value adjustments US$'million (Unaudited)	Biological fair value adjustments US$'million (Unaudited)	Total US$'million (Unaudited)	Results before biological fair value adjustments US$'million (Unaudited)	Biological fair value adjustments US$'million (Unaudited)	Total US$'million (Unaudited)
Revenue	3	12,481	–	12,481	11,127	–	11,127
Cost of sales		(10,212)	166	(10,046)	(8,967)	302	(8,665)
Gross profit		2,269	166	2,435	2,160	302	2,462
Distribution and selling expenses		(953)	–	(953)	(1,017)	–	(1,017)
Administrative expenses		(405)	–	(405)	(381)	–	(381)
Loss arising from agricultural produce at fair value less costs to sell at the point of harvest		–	(144)	(144)	–	(172)	(172)
Loss arising from changes in fair value less costs to sell of biological assets		–	(324)	(324)	–	(2)	(2)
Other income		40	–	40	33	–	33
Other gains and (losses)		(33)	–	(33)	(3)	–	(3)
Other expenses		(6)	–	(6)	(40)	–	(40)
Finance costs		(68)	–	(68)	(70)	–	(70)
Share of profits of associates		3	–	3	1	–	1
Share of (losses) profits of joint ventures		1	(4)	(3)	2	3	5
PROFIT BEFORE TAX	4	848	(306)	542	685	131	816
Taxation	5	(173)	74	(99)	(120)	(26)	(146)
PROFIT FOR THE PERIOD		675	(232)	443	565	105	670

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the six months ended June 30, 2020

	Note	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
		Results before biological fair value adjustments US$'million (Unaudited)	Biological fair value adjustments US$'million (Unaudited)	Total US$'million (Unaudited)	Results before biological fair value adjustments US$'million (Unaudited)	Biological fair value adjustments US$'million (Unaudited)	Total US$'million (Unaudited)
Other comprehensive income for the period:							
Items that may be reclassified subsequently to profit or loss							
– exchange differences arising on translation of foreign operations				(120)			8
– fair value change in cash flow hedge				149			214
Other comprehensive income for the period, net of tax				29			222
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD				472			892
Profit for the period attributable to:							
– owners of the Company				317			569
– non-controlling interests				126			101
				443			670
Total comprehensive income for the period attributable to:							
– owners of the Company				360			790
– non-controlling interests				112			102
				472			892
EARNINGS PER SHARE							
– Basic	7			US2.15 cents			US3.87 cents
– Diluted	7			US2.14 cents			US3.85 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2020

	Notes	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	5,283	5,406
Right-of-use assets		632	646
Biological assets	9	129	137
Goodwill		1,946	1,955
Intangible assets		1,698	1,712
Interests in associates		42	42
Interests in joint ventures		272	305
Other receivables		58	54
Financial assets at fair value through profit or loss		9	10
Pledged bank deposits		6	4
Deferred tax assets		52	66
Other non-current assets		240	238
Total non-current assets		10,367	10,575
CURRENT ASSETS			
Properties under development	8	101	102
Biological assets	9	862	1,107
Inventories	10	2,479	2,903
Trade and bills receivables	11	919	1,047
Prepayments, other receivables and other assets		600	508
Taxation recoverable		15	—
Financial assets at fair value through profit or loss		387	447
Pledged/restricted bank deposits		43	41
Bank balances and cash		1,463	552
Total current assets		6,869	6,707
CURRENT LIABILITIES			
Trade and bills payables	12	609	1,074
Accrued expenses and other payables	13	1,647	1,686
Lease liabilities		112	108
Taxation payable		123	96
Borrowings	14	1,267	905
Bank overdrafts	14	14	—
Total current liabilities		3,772	3,869

Condensed Consolidated Statement of Financial Position (Continued)

As at June 30, 2020

	Notes	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
NET CURRENT ASSETS		3,097	2,838
TOTAL ASSETS LESS CURRENT LIABILITIES		13,464	13,413
NON-CURRENT LIABILITIES			
Other payables	13	240	189
Lease liabilities		345	357
Borrowings	14	1,833	2,187
Deferred tax liabilities		627	660
Deferred revenue		10	10
Pension liability and other retirement benefits	15	604	558
Total non-current liabilities		3,659	3,961
NET ASSETS		9,805	9,452
CAPITAL AND RESERVES			
Share capital		1	1
Reserves		9,041	8,683
Equity attributable to owners of the Company		9,042	8,684
Non-controlling interests		763	768
TOTAL EQUITY		9,805	9,452

The interim financial information on pages 21 to 56 were approved and authorised for issue by the Board of Directors on August 11, 2020 and are signed on its behalf by:

Mr. Wan Long
Director

Mr. Guo Lijun
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

	Attributable to owners of the Company									
	Share capital US$'million	Share premium US$'million	Capital reserve US$'million (Note (a))	Translation reserve US$'million	Other reserve US$'million (Note (b))	Statutory surplus reserve US$'million (Note (c))	Retained profits US$'million	Total US$'million	Non-controlling interests US$'million	Total equity US$'million
At January 1, 2020 (Audited)	1	2,982	(94)	(222)	(187)	268	5,936	8,684	768	9,452
Profit for the period	–	–	–	–	–	–	317	317	126	443
Exchange differences arising on translation of foreign operations	–	–	–	(106)	–	–	–	(106)	(14)	(120)
Fair value changes in cash flow hedge	–	–	–	–	149	–	–	149	–	149
Total comprehensive income for the period	–	–	–	(106)	149	–	317	360	112	472
Acquisition of additional interests in subsidiaries	–	–	(1)	–	–	–	–	(1)	(2)	(3)
Deemed disposal of subsidiaries	–	–	(8)	–	–	–	–	(8)	12	4
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	(127)	(127)
Issue of shares upon exercise of share options	–*	11	–	–	(4)	–	–	7	–	7
Lapse of share options	–	–	–	–	(–*)	–	–*	–	–	–
	–*	11	(9)	–	(4)	–	–*	(2)	(117)	(119)
At June 30, 2020 (Unaudited)	1	2,993	(103)	(328)	(42)	268	6,253	9,042	763	9,805
At January 1, 2019 (Audited)	1	2,934	(74)	(190)	924	268	3,883	7,746	672	8,418
Profit for the period	–	–	–	–	–	–	569	569	101	670
Exchange differences arising on translation of foreign operations	–	–	–	7	–	–	–	7	1	8
Fair value changes in cash flow hedge	–	–	–	–	214	–	–	214	–	214
Total comprehensive income for the period	–	–	–	7	214	–	569	790	102	892
Acquisition of additional interests in subsidiaries	–	–	(1)	–	–	–	–	(1)	(2)	(3)
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	3	3
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	(73)	(73)
Dividend	–	–	–	–	–	–	(282)	(282)	–	(282)
Share-based payments	–	–	–	–	6	–	–	6	1	7
Issue of shares upon exercise of share options	–*	40	–	–	(12)	–	–	28	–	28
Lapse of share options	–	–	–	–	(1)	–	1	–	–	–
	–*	40	(1)	–	(7)	–	(281)	(249)	(71)	(320)
At June 30, 2019 (Unaudited)	1	2,974	(75)	(183)	1,131	268	4,171	8,287	703	8,990

* Less than US$1 million.

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended June 30, 2020

Notes:

(a) Capital reserve

Capital reserve represents the difference between the amounts by which the non-controlling interests are adjusted for the change in the Group's ownership interests in existing subsidiaries and the fair value of the consideration paid or received.

(b) Other reserve

Other reserve included the fair value of the share options and share awards, remeasurement deficit of the defined benefit pension plans and fair value surplus (deficit) in cash flow hedge attributable to the Group.

(c) Statutory surplus reserve

Pursuant to the relevant regulations in Mainland China and the articles of association of the Group's subsidiaries registered in Mainland China, each of them is required to transfer 10% of its profit, as determined under the China accounting regulations, to the statutory surplus reserve until the reserve aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory surplus reserve shall only be used to make up previous year's losses or to increase the relevant company's capital. Upon approval by a resolution of shareholders' general meeting, each of the relevant companies may convert its statutory surplus reserve into capital, provided the balance of the reserve after such issue is not less than 25% of the registered capital.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020

	Six months ended June 30, 2020 US$'million (Unaudited)	2019 US$'million (Unaudited)
Net cash flows from operating activities	**1,219**	399
INVESTING ACTIVITIES		
Interest received	**3**	1
Purchases of property, plant and equipment	**(226)**	(272)
Additions of right-of-use assets	**(8)**	—
Proceeds from disposal of property, plant and equipment	**1**	2
Net cash outflow on acquisition of subsidiaries	**—**	(115)
Net cash outflow on acquisition of equity interests in an associate	**(—*)**	—
Net cash outflow on acquisition of equity interests in joint ventures	**—**	(22)
Purchase of financial assets at fair value through profit or loss	**(495)**	(411)
Proceeds from disposal of financial assets at fair value through profit or loss	**562**	307
Placement of pledged/restricted bank deposits	**(33)**	(15)
Withdrawal of pledged/restricted bank deposits	**28**	34
Insurance claims on property, plant and equipment	**7**	5
Settlement of contingent considerations	**—**	(2)
Construction of assets to be sold	**(2)**	(55)
Receipt of repayment of loans to a joint venture	**18**	—
Proceeds from sales and leaseback of assets	**8**	16
Proceeds from deemed disposal of a subsidiary	**4**	—
Purchases of other assets	**(4)**	(13)
Net cash flows used in investing activities	**(137)**	(540)
FINANCING ACTIVITIES		
Dividends paid to shareholders and non-controlling interests	**(142)**	(355)
Proceeds from borrowings, net of transaction costs	**2,091**	1,786
Repayment of borrowings	**(2,070)**	(1,404)
Net cash outflow on acquisition of additional interests in subsidiaries	**(3)**	(5)
Proceeds from issue of shares	**7**	28
Capital contributed by non-controlling interests	**—**	3
Lease payments	**(59)**	(54)
Net cash flows used in financing activities	**(176)**	(1)
Net increase (decrease) in cash and cash equivalents	**906**	(142)
Cash and cash equivalents at beginning of period	**552**	484
Effect of foreign exchange rate changes	**(9)**	(1)
Cash and cash equivalents at end of period	**1,449**	341
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**1,463**	358
Bank overdrafts	**(14)**	(17)
	1,449	341

* Less than US$1 million.

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2020

1. Corporate Information and Basis of Preparation

WH Group Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are hog production and production and sales of fresh pork and packaged meats.

The functional currency of the Company is United States Dollar ("US$"), as the majority of the Group's revenue is generated in US$, which is the currency of the primary economic environment in which the Group's major operating subsidiaries operate.

The interim financial information for the six months ended June 30, 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The interim financial information has been prepared under the historical cost convention, except for biological assets which are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, and certain financial instruments which are measured at fair value. This financial information is presented in US$ and all values are rounded to the nearest million except when otherwise indicated.

The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2019.

The accounting policies and methods of computation adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with *International Financial Reporting Standards* ("IFRSs") issued by the IASB, except for adoption of the revised IFRSs as disclosed in note 2 below.

2. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of the following revised IFRSs for the first time for the current period's interim financial information.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to IAS 1 and IAS 8	*Definition of Material*

The application of the amendments to IFRSs in the current period has had no material effect on the amounts reported and disclosures set out in the interim financial information.

3. Segment Information

The Group determines its operating segments based on the reports reviewed by the executive directors who are also the chief operating decision makers that are used to make strategic decisions. The Group's reportable segments, which are also the operating segments, are classified based on their locations including China, the United States and Europe and the nature of operations as (i) packaged meats, (ii) fresh pork, (iii) hog production and (iv) others.

The details of the Group's business activities are as follows:

(i)	Packaged meats	—	represents production, wholesale and retail sales of low temperature and high temperature meat products.
(ii)	Fresh pork	—	represents slaughtering, wholesale and retail sales of fresh and frozen meat.
(iii)	Hog production	—	represents hog farming.
(iv)	Others	—	represents slaughtering and sales of poultry, sales of ancillary products and services such as provision of logistics, sales of flavouring ingredients and internally-produced packaging materials, as well as operating finance companies, retail business and biopharmaceuticals, retail of meat related products, sales of properties and corporate expenses incurred by the Group.

Each reportable segment derives its revenue from the sales of products and provision of services based on the location of operations. They are managed separately because each segment requires different production and marketing strategies.

Segment results represent the profit earned by each segment before biological fair value adjustments without allocation of other income not attributed to the respective segment, other gains and losses, finance costs and share of profits of associates and joint ventures. This is the measure reported to the chief operating decision makers for the purposes of resources allocation and assessment of segment performance.

Inter-segment revenue is charged at cost plus margin basis.

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

3. Segment Information (Continued)

The following is an analysis of the Group's revenue and results by reportable segment:

	For the six months ended June 30, 2020				
	Packaged meats US$'million (Unaudited)	Fresh pork US$'million (Unaudited)	Hog production US$'million (Unaudited)	Others US$'million (Unaudited)	Total US$'million (Unaudited)
China					
Gross segment revenue	1,971	3,423	6	476	5,876
Less: Inter-segment revenue	–	(518)	(4)	(138)	(660)
Revenue	1,971	2,905	2	338	5,216
Reportable segment profit (loss)	417	102	(2)	33	550
United States					
Gross segment revenue	3,408	3,852	1,624	1	8,885
Less: Inter-segment revenue	(1)	(1,745)	(1,019)	–	(2,765)
Revenue	3,407	2,107	605	1	6,120
Reportable segment profit (loss)	243	116	(20)	(63)	276
Europe					
Gross segment revenue	480	725	353	209	1,767
Less: Inter-segment revenue	(22)	(240)	(321)	(39)	(622)
Revenue	458	485	32	170	1,145
Reportable segment profit (loss)	34	2	68	(5)	99
Total					
Gross segment revenue	5,859	8,000	1,983	686	16,528
Less: Inter-segment revenue	(23)	(2,503)	(1,344)	(177)	(4,047)
Revenue#	5,836	5,497	639	509	12,481
Reportable segment profit (loss)	694	220	46	(35)	925
Net unallocated expenses					(13)
Biological fair value adjustments					(306)
Finance costs					(68)
Share of profits of associates					3
Share of profits of joint ventures					1
Profit before tax					542

3. Segment Information (Continued)

	For the six months ended June 30, 2019				
	Packaged meats US$'million (Unaudited)	Fresh pork US$'million (Unaudited)	Hog production US$'million (Unaudited)	Others US$'million (Unaudited)	Total US$'million (Unaudited)
China					
Gross segment revenue	1,732	2,221	19	319	4,291
Less: Inter-segment revenue	–	(370)	(17)	(159)	(546)
Revenue	1,732	1,851	2	160	3,745
Reportable segment profit (loss)	288	125	(7)	19	425
United States					
Gross segment revenue	3,745	3,769	1,500	–*	9,014
Less: Inter-segment revenue	(1)	(1,369)	(1,198)	–*	(2,568)
Revenue	3,744	2,400	302	–*	6,446
Reportable segment profit (loss)	446	(15)	(62)	(75)	294
Europe					
Gross segment revenue	431	559	328	190	1,508
Less: Inter-segment revenue	(21)	(210)	(303)	(38)	(572)
Revenue	410	349	25	152	936
Reportable segment profit (loss)	27	(7)	24	2	46
Total					
Gross segment revenue	5,908	6,549	1,847	509	14,813
Less: Inter-segment revenue	(22)	(1,949)	(1,518)	(197)	(3,686)
Revenue#	5,886	4,600	329	312	11,127
Reportable segment profit (loss)	761	103	(45)	(54)	765
Net unallocated expenses					(13)
Biological fair value adjustments					131
Finance costs					(70)
Share of profits of associates					1
Share of profits of joint ventures					2
Profit before tax					816

* Less than US$1 million.

\# Over 99% of the Group's revenue was recognised at a point in time.

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

3. Segment Information (Continued)

No segment assets and liabilities are disclosed as they are not regularly provided to the chief operating decision makers.

Geographical information

Information about the Group's revenue presented above is based on the geographical locations of operation.

4. Profit Before Tax

The Group's profit before tax is arrived at after charging (crediting):

	Six months ended June 30,	
	2020	2019
	US$'million	US$'million
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**243**	217
Depreciation of right-of-use assets	**73**	56
Amortisation of intangible assets included in administrative expenses	**4**	4
Write-down of inventories included in cost of sales	**128**	12
Impairment loss recognised in respect of property, plant and equipment	**22**	6
Impairment loss recognised in respect of right-of-use assets	**1**	—
Impairment loss recognised in respect of intangible assets	**2**	8
Net allowance on trade receivables	**11**	1
Lease expenses	**42**	38
Research and development expenses	**65**	66
Staff costs (excluding directors' remuneration)	**1,906**	1,821
(Gain) loss on disposal of property, plant and equipment, net	**(1)**	6
Fair value gain on financial assets at fair value through profit or loss	**(10)**	(13)

The cost of sales represented the cost of inventories and services provided recognised in profit or loss during both periods.

5. Taxation

	Six months ended June 30, 2020 US$'million (Unaudited)	2019 US$'million (Unaudited)
China Enterprise Income Tax	108	73
U.S. income tax	44	32
Other income taxes	21	3
Withholding tax	24	12
Deferred taxation	(98)	26
	99	146

Income tax is calculated at the applicable tax rates prevailing in the respective jurisdictions of the Group's operations.

6. Dividends

At the Company's annual general meeting held on June 2, 2020, the shareholders of the Company approved the payment of a final dividend of HK$0.265 per share (year ended December 31, 2018: HK$0.15 per share) of the Company for the year ended December 31, 2019, as recommended by the Board, which was paid in cash to the shareholders of the Company on July 6, 2020, whose names appeared on the register of members of the Company on June 8, 2020.

The Board declared an interim dividend of HK$0.05 per share for the six months ended June 30, 2020 (six months ended June 30, 2019: HK$0.05 per share) to the shareholders of the Company whose names appear on the register of members of the Company on August 25, 2020. The dividend is to be paid in cash to the shareholders of the Company on or about October 15, 2020.

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

7. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended June 30,	
	2020	2019
	US$'million	US$'million
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**317**	569

	Six months ended June 30,	
	2020	2019
	million shares	million shares
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**14,727.65**	14,691.64
Effect of dilutive potential ordinary shares: share options	**77.69**	90.46
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**14,805.34**	14,782.10

8. Movements in Property, Plant and Equipment and Properties under Development

During the six months ended June 30, 2020, the Group incurred US$200 million (six months ended June 30, 2019: US$281 million) on the additions of items of property, plant and equipment.

During the six months ended June 30, 2020, the Group incurred US$23 million (six months ended June 30, 2019: US$5 million) on the additions to properties under development.

9. Biological Assets

Nature of the Group's agricultural activities

The biological assets of the Group are live hogs and poultry at various stages of development, including suckling hogs, nursery hogs, finishing hogs and broilers, which are classified as current assets. Biological assets also include breeding stock (hogs and poultry), which are used to produce future live hogs and broilers, are classified as non-current assets of the Group. The quantity of live hogs, broilers and breeding stock owned by the Group at the end of each reporting period are as follows:

	June 30, 2020 Head ('000) (Unaudited)	December 31, 2019 Head ('000) (Audited)
Live hogs		
— suckling	**1,900**	1,826
— nursery	**2,169**	2,136
— finishing	**8,686**	8,296
	12,755	12,258
Breeding stock (hogs)	**1,077**	1,084
	13,832	13,342
Broilers	**7,118**	5,919
Breeding stock (poultry)	**679**	625
	7,797	6,544

9. Biological Assets (Continued)

Nature of the Group's agricultural activities (Continued)

The Group is exposed to a number of risks related to its biological assets. The Group is exposed to the following operating risks:

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates breeding of hogs and poultry. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular review to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

(ii) Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular inspections and disease controls, surveys and insurance.

Carrying value of the Group's biological assets

Changes in fair value less costs to sell of biological assets include changes in the fair value of the hogs and poultry at the end of each of the reporting periods.

Analysed for reporting purpose as:

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Current	**862**	1,107
Non-current	**129**	137
	991	1,244

9. Biological Assets (Continued)

Fair value measurement

The fair values of breeding stock (hogs and poultry) are determined based on the average of the historical selling price of hogs and poultry of similar breed and genetic merit less costs to sell (Level 3). The estimated fair value will increase when there is an increase in the average historical selling price, and vice versa.

The fair values of live hogs and broilers are mainly determined based on the market price of hogs and broilers in the actively traded market, subtracting the breeding costs required to raise the live hogs and broilers to be slaughtered and the margins that would be required by a raiser and less costs to sell (Level 3). The estimated fair value will increase when there is an increase in the market price of hogs and broilers or decrease in the breeding cost required to raise the live hogs and broilers, and vice versa.

10. Inventories

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Raw materials	**763**	904
Work in progress	**106**	97
Finished goods	**1,610**	1,902
	2,479	2,903

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

11. Trade and Bills Receivables

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Trade receivables	937	1,049
Impairment	(22)	(11)
	915	1,038
Bills receivable	4	9
	919	1,047

The general credit term allowed by the Group to its customers is within 30 days in China operations while the credit terms vary depending on the sales channels and customers for the U.S. and other countries' operations.

The following is an ageing analysis of the trade and bills receivables, net of loss allowance, presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Current to 30 days	785	879
31 to 90 days	123	167
91 to 180 days	11	1
	919	1,047

12. Trade and Bills Payables

The average credit period on purchases of goods is about 30 days in China operations and the credit terms vary depending on the vendors for the U.S. and other countries of operations. The Group has financial risk management policies in place to ensure that the payables are paid within the credit timeframe.

The following is an ageing analysis of trade and bills payables based on the invoice date:

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Within 30 days	**590**	1,045
31 to 90 days	**15**	26
91 to 180 days	**3**	2
181 to 365 days	**1**	1
	609	1,074

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

13. Accrued Expenses and Other Payables

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Accrued staff costs	475	491
Deposits received	122	91
Sales rebates payables	210	191
Payables in respect of acquisition of property, plant and equipment	56	89
Insurance payables	142	135
Interest payable	25	24
Balance of contingent consideration in respect of acquisition of subsidiaries	10	10
Growers payables	42	43
Pension liability	18	18
Amounts due to associates and joint ventures	8	15
Derivative financial instruments	100	35
Dividend payables	12	18
Contract liabilities	266	234
Other accrued expenses	275	284
Other payables	126	197
	1,887	1,875
Analysed for reporting purposes as:		
Current liabilities	1,647	1,686
Non-current liabilities	240	189
	1,887	1,875

14. Borrowings

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Senior unsecured notes		
2.650% senior unsecured notes due October 2021	**399**	399
3.350% senior unsecured notes due February 2022	**398**	398
4.250% senior unsecured notes due February 2027	**596**	595
5.200% senior unsecured notes due April 2029	**395**	395
	1,788	1,787
Commercial papers (Note i)	**—**	125
Bank loans (Note ii)		
Secured	**11**	38
Unsecured	**1,298**	1,139
Loans from third parties (Note iii)		
Secured	**1**	1
Unsecured	**2**	2
Total borrowings other than bank overdrafts	**3,100**	3,092
Bank overdrafts (Note iv)	**14**	—
The borrowings other than bank overdrafts are repayable as follows (Note v):		
Within one year	**1,267**	905
One to two years	**807**	421
Two to five years	**33**	773
After five years	**993**	993
	3,100	3,092
Less: Amounts due within one year shown under current liabilities	**(1,267)**	(905)
Amounts due after one year	**1,833**	2,187

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

14. Borrowings (Continued)

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Total borrowings other than bank overdrafts:		
At fixed rates	**2,697**	2,385
At floating rates	**403**	707
	3,100	3,092

Notes:

i. In May 2018, the Group established a commercial paper program to issue short-term notes. The program allows the Group to use the proceeds to fund operating cash requirements. Under the terms of the commercial paper agreement, the Group pays a rate of interest based on, among other factors, the maturity of the issuance and market conditions. The maturities of the issued papers may vary, but may not exceed 397 days from the date of issuance. The issuance of commercial papers has the effect of reducing available liquidity by an amount equal to the principal outstanding amount of the commercial papers. Maximum issuance capacity under the program is US$1,750 million.

ii. Fixed rate bank loans carry interest at fixed rates ranging from 1.85% to 5.80% per annum (December 31, 2019: from 2.25% to 5.80%) and floating rates ranging from WIBOR + 0.5% to ROBOR + 1.0% per annum at June 30, 2020 (December 31, 2019: WIBOR + 0.5% to the U.S. Prime + 0.375%).

iii. Loans from third parties carry interest at fixed rate of 0.90% per annum at June 30, 2020 (December 31, 2019: 0.90% per annum).

iv. Bank overdrafts at June 30, 2020 carry interest at floating rates at 3.45% per annum (December 31, 2019: nil).

v. The amounts due are based on scheduled repayment dates set out in the loan agreements.

Certain borrowings as at June 30, 2020 are secured by the Group's pledged bank deposits of US$3 million (December 31, 2019: US$13 million).

14. Borrowings (Continued)

The Group's borrowings contain affirmative and negative covenants that, among other things, limit or restrict the Group's ability to create liens and encumbrances, incur debt, enter into liquidation, enter into change of control transactions or change the scope of the business, or dispose of or transfer assets, in each case, subject to certain qualifications and exceptions. The Group has no material default in payment of the bank borrowings, nor did it breach any relevant finance covenants for the six months ended June 30, 2020 and the year ended December 31, 2019.

Smithfield Receivables Funding, LLC, a wholly-owned subsidiary of the Group, has a securitisation facility that will mature in November 2021. As part of the arrangement, certain trade receivables are sold to a wholly-owned "bankruptcy remote" special purpose vehicle ("SPV"). The SPV pledges the receivables as security for loans and letters of credit. The SPV is included in the condensed consolidated statement of financial position of the Group. However, trade receivables owned by the SPV are separate and distinct from the other assets and are not available to other creditors of Smithfield if Smithfield were to become insolvent. As at June 30, 2020, the SPV held US$565 million (December 31, 2019: US$651 million) of trade receivables and had no outstanding borrowings on the securitisation facility. No financial or other support to this SPV was provided by the Group as at June 30, 2020 and December 31, 2019.

15. Pension Liability and Other Retirement Benefits

Defined Benefit Plans

Pension benefits provided by the Group are currently organised primarily through Company sponsored defined benefit pension plans which cover the majority of the U.S. employees and certain foreign employees of the Group. Salaried employees are provided benefits based on years of service and average salary levels. Hourly employees are provided benefits of stated amounts for each year of service.

Under the plans, the employees are entitled to retirement benefits based on final average salary on attainment of a retirement age of 65. No other post-retirement benefits are provided to these employees.

Pension plan assets may be invested in cash and cash equivalents, equity securities, debt securities and alternative assets (including alternative investments, limited partnerships and insurance contracts). The investment policy for the pension plans is to balance risk and return through a diversified portfolio of high-quality equity and fixed income securities. Maturity for fixed income securities is managed such that sufficient liquidity exists to meet near-term benefit payment obligations. The plans retain outside investment advisors to manage plan investments within parameters established by the plan trustees.

15. Pension Liability and Other Retirement Benefits (Continued)

Defined Benefit Plans (Continued)

The policy for the plans is consistently applied at December 31, 2019 and June 30, 2020.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2019 by Mercer (US), Inc. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Defined Contribution Plans

The Group's qualifying employees in Hong Kong participate in Mandatory Provident Fund (the "MPF") in Hong Kong. The assets of the MPF are held separately from those of the Group in fund under the control of trustee. Under the MPF scheme in Hong Kong, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

The employees of the Group's subsidiaries in China are members of the state-managed retirement benefits scheme operated by the China government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme are to make the required contributions under the scheme.

The Group has defined contribution plans (401(K) plans) covering substantially all the U.S. employees. The Group's contributions to the plans are primarily based on each participant's contribution and cannot exceed the maximum allowable for tax purposes.

The amount charged to profit or loss of approximately US$32 million during the six months ended June 30, 2020 (six months ended June 30, 2019: US$46 million) represents contribution paid or payable to the plans by the Group at rates specified in the rules of the plans.

16. Business Combinations

Information on prior year acquisition

Step acquisition of Pini Polonia sp. z o.o.

On May 28, 2019, the Group satisfied all conditions precedent under the share purchase agreement for the acquisition of 66.5% equity interest of Pini Polonia sp. z o.o. ("Pini Polonia"). Along with the 33.5% equity interest acquired on July 28, 2017, Pini Polonia became a wholly owned subsidiary of the Group. The results of Pini Polonia are consolidated into the Group's financial statements commencing from the acquisition date (i.e., May 28, 2019).

The Group accordingly remeasured the fair value of its pre-existing interest in Pini Polonia at the date of acquisition and recognised the resulting loss of less than US$1 million on the remeasurement of the Group's pre-existing interest in Pini Polonia to acquisition date fair value.

Details of the carrying value and fair value of the Group's pre-existing interest in Pini Polonia at the date of acquisition are summarised as follows:

	US$'million
Share of net assets	84
Less: Fair value of pre-existing interest	(84)
Loss on remeasurement	—*

* Less than US$1 million.

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

16. Business Combinations (Continued)

Information on prior year acquisition (Continued)

Step acquisition of Pini Polonia sp. z o.o. (Continued)

The fair values of the identifiable assets and liabilities of the acquisition as at the date of acquisition were as follows:

	Fair value recognised on acquisition US$'million
Property, plant and equipment	102
Inventories	9
Trade and bills receivables	72
Prepayments, other receivables and other assets	—*
Bank balances and cash	1
Other non-current assets	44
Trade payables	(65)
Accrued expenses and other payables	(2)
Borrowings and other loans	(13)
Lease liabilities	(3)
Deferred tax liabilities	(14)
Other liabilities	(49)
Total identifiable net assets at fair value	82
Goodwill	114
	196
Satisfied by:	
Cash	112
Fair value of pre-existing interest	84
	196

The Group incurred transaction costs of US$2 million for the acquisition. These transaction costs have been expensed and are included in other expenses in the profit or loss for the year ended December 31, 2019.

* Less than US$1 million.

16. Business Combinations (Continued)

Information on prior year acquisition (Continued)

Step acquisition of Pini Polonia sp. z o.o. (Continued)

An analysis of the cash flows in respect of the acquisition of the above subsidiaries is as follows:

	US$'million
Cash consideration	(112)
Bank balances and cash acquired	1
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(111)
Transaction costs paid during the year included in cash flows from operating activities	(2)
	(113)

Since the completion of acquisition, Pini Polonia contributed US$22 million to the Group's revenue and US$1 million to the consolidated profit before tax for the six months ended June 30, 2019.

Had the acquisition of Pini Polonia taken place at the beginning of the prior year, the revenue and the consolidated profit before tax of the Group for the six months ended June 30, 2019 would have been US$11,333 million and US$816 million, respectively.

During the six months ended June 30, 2020, purchase accounting adjustment with an increase of US$3 million to goodwill was made by the Group upon finalisation of the purchase price allocation of the acquisition of Pini Polonia. The directors of the Company consider the adjustment is insignificant to the consolidated statement of financial position, and as such, did not retrospectively apply the adjustment to restate the balances as at December 31, 2019.

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

17. Capital Commitments

The Group had the following capital commitments at the end of the reporting period:

	June 30, 2020 US$'million (Unaudited)	December 31, 2019 US$'million (Audited)
Contracted but not provided for, in respect of:		
Capital contribution to a joint venture	165	165
Acquisition of property, plant and equipment	108	66
Properties under development	76	14

18. Contingent Liabilities

The Group is subject to various laws and regulations administered by jurisdictional government entities. The Group had notices and inquiries from regulatory authorities and others asserting from time to time that the Group is not in compliance with the respective laws and regulations. In some instances, litigation ensues and individuals may initiate litigation against the Group.

North Carolina Nuisance Litigation

In August, September and October 2014, 25 complaints were filed in the United States District Court for the Eastern District of North Carolina by 515 individual plaintiffs against the Group's wholly owned subsidiary, Murphy-Brown LLC ("Murphy-Brown"), alleging causes of action for nuisance and related claims. The complaints stemmed from the nuisance cases previously filed in the Superior Court of Wake County. Subsequent to this initial filing, certain plaintiffs joined the complaints and in response Murphy Brown has filed its answers and affirmative defense, all the complaints were amended pursuant to the Court's order and some plaintiffs dismissed their claims during the process of discovery. As of December 31, 2017, there were 26 currently pending complaints which included claims on behalf of 511 plaintiffs and relate to approximately 14 company-owned and 75 contract farms. All 26 complaints include causes of action for temporary nuisance and negligence and seek recovery of an unspecified amount of compensatory, special and punitive damages.

In December 2017, an order was issued by the United States District Court for the Eastern District of North Carolina setting a date for the first trial, April 2, 2018, and establishing the protocol for all subsequent trials. These trials related to 5 of the 26 complaints and a total of 82 plaintiffs.

18. Contingent Liabilities (Continued)

North Carolina Nuisance Litigation (Continued)

On April 26, 2018, a verdict was reached in favor of ten plaintiffs in the first trial. For each plaintiff, the jury awarded US$75,000 in compensatory damages and US$5 million in punitive damages. As North Carolina law limits punitive damages to the greater of three times compensatory damages or US$250,000, the court reduced the amount the jury awarded to each plaintiff for punitive damages to US$250,000, resulting in a total award of US$3.25 million for the ten plaintiffs combined. The Group has appealed the verdict of the first trial to the United States Court of Appeals for the Fourth Circuit.

On June 29, 2018, a verdict was reached in favor of two plaintiffs in the second trial. For each plaintiff, the jury awarded US$65,000 in compensatory damages and US$12.5 million in punitive damages. As a result of the limit on punitive damages, the court reduced the amount the jury awarded to each plaintiff for punitive damages to US$250,000, resulting in a total award of US$630,000 for the two plaintiffs combined. The Group has appealed the verdict of the second trial to the United States Court of Appeals for the Fourth Circuit.

On August 3, 2018, a verdict was reached in favor of six plaintiffs in the third trial. For each plaintiff, the jury awarded approximately US$3.9 million in compensatory damages and US$75 million in punitive damages. As a result of the limit on punitive damages, the court reduced the amount the jury awarded to each plaintiff for punitive damages to US$11.75 million, resulting in a total award of US$94 million for the six plaintiffs combined. The Group has appealed the verdict of the third trial to the United States Court of Appeals for the Fourth Circuit.

On December 13, 2018, a verdict was reached in favor of eight plaintiffs in the fourth trial. However, unlike all the previous trials, the damages awarded in this trial were limited to compensatory damages only and varied per plaintiff. In total, compensatory damages awarded were US$102,400; which comprised of US$100 awards for four of the plaintiffs, US$1,000 each to two plaintiffs, US$25,000 to one plaintiff and US$75,000 to the last plaintiff. The court denied, as a matter of law, the plaintiffs' claim for punitive damages.

On March 7, 2019, a verdict was reached in favor of ten plaintiffs in the fifth trial. The jury awarded US$33,000 in compensatory damages and US$67,000 in punitive damages to two of the ten plaintiffs, US$10,000 in compensatory damages and US$20,000 in punitive damages to seven of the plaintiffs, and US$3,000 in compensatory damages and US$7,000 in punitive damages to one plaintiff. The Group will file a post-trial motion seeking a reduction in the award and if denied, will appeal the verdict of the fifth trial to the United States Court of Appeals for the Fourth Circuit.

18. Contingent Liabilities (Continued)

North Carolina Nuisance Litigation (Continued)

On June 3, 2019, the United States District Court for the Eastern District of North Carolina issued an order staying the litigation in its entirety pending the resolution of Murphy-Brown's Fourth Circuit appeal of the verdict in the first trial.

Oral argument on Murphy-Brown's Fourth Circuit appeal of the verdict in the first trial was held on January 31, 2020. As of the date of approval for the issuance of this interim financial information, the appellate court has not announced its ruling on the appeal.

The Group continues to believe that the claims of the plaintiffs are unfounded and is defending these suits vigorously.

The Group's policy for establishing accruals and disclosures for contingent liabilities is set out in the Group's annual financial statements for the year ended December 31, 2019. The Group established a provision for the estimated expenses to defend against these and similar potential claims, which was subsequently re-evaluated.

Expenses and other liabilities associated with these claims will not affect the Group's profits or losses in future periods unless the provision proves to be insufficient or excessive. However, legal expenses incurred in the Group's defense of these claims and any payments made to plaintiffs through unfavorable verdicts or otherwise will negatively impact its cash flows and its liquidity position. The directors of the Company will continue to evaluate and adjust the provision as necessary upon changes in facts and circumstances.

19. Fair Value Measurement of Financial Instruments

The directors of the Company consider that the carrying amounts of current financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim financial information approximate their fair values due to the short-term maturities of these instruments.

The fair values of non-current financial assets and financial liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities and the management of the Company has assessed that the fair values of non-current financial assets and financial liabilities approximately to their carrying amount. The Group's own non-performance risk for non-current financial liabilities as at June 30, 2020 was assessed to be insignificant.

19. Fair Value Measurement of Financial Instruments (Continued)

Fair value measurements recognised in the condensed consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	At June 30, 2020			
	Level 1 US$'million (Unaudited)	Level 2 US$'million (Unaudited)	Level 3 US$'million (Unaudited)	Total US$'million (Unaudited)
Financial assets at fair value through profit or loss	—	9	387	396
Derivative financial assets	310	86	—*	396
Other non-current assets	34	97	27	158
Financial assets included in prepayments, other receivables and other assets	—	15	—	15
	344	207	414	965
Derivative financial liabilities	68	64	16	148

* Less than US$1 million.

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

19. Fair Value Measurement of Financial Instruments (Continued)

Fair value measurements recognised in the condensed consolidated statement of financial position (Continued)

	At December 31, 2019			
	Level 1 US$'million (Audited)	Level 2 US$'million (Audited)	Level 3 US$'million (Audited)	Total US$'million (Audited)
Financial assets at fair value through profit or loss	—	10	447	457
Derivative financial assets	71	17	2	90
Other non-current assets	31	88	26	145
Financial assets included in prepayments, other receivables and other assets	—	15	—	15
	102	130	475	707
Derivative financial liabilities	18	26	7	51

Financial assets at fair value through profit or loss included (a) unlisted investments in equity securities of which fair values are determined by income approach based on discounted cash flow analysis on the expected interest rates (Level 2), and (b) unlisted financial products of which fair values are determined based on significant unobservable inputs (Level 3) including expected rate of return of 3.6% to 4.1% (December 31, 2019: 3.9% to 5.3%).

The fair values of derivative financial assets/liabilities are determined by quoted prices in active markets (Level 1) or using income approach based on discounted cash flow analysis on the expected interest rates (Level 2), as appropriate.

Other non-current assets includes mutual funds and institutional funds which are valued based on its quoted prices in active market (Level 1) or derived from the net asset value per share of the investment (Level 3) as appropriate, and insurance contracts which are valued at their cash surrender value using the daily asset unit value which is based on the quoted market price of the underlying securities and classified within Level 2.

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six months ended June 30, 2020.

19. Fair Value Measurement of Financial Instruments (Continued)

Fair value measurements recognised in the condensed consolidated statement of financial position (Continued)

Sensitivity analysis

The fair value of financial assets and financial liabilities that are classified as Level 3 is determined by using valuation techniques including Monte Carlo simulation. In determining the fair value, specific valuation techniques are used with reference to inputs such as RMB risk-free interest rate, LIBOR and other specific input relevant to those particular financial assets and financial liabilities.

Changing unobservable inputs used in Level 3 valuation to reasonable alternative assumptions would not have significant impact to the Group's profit or loss.

Movements in fair value measurement within Level 3

The movements in fair value measurements within Level 3 during the period are as follows:

	Financial assets at fair value through profit or loss US$'million	Derivative financial instruments US$'million	Other non-current assets US$'million
At January 1, 2019	317	(3)	22
Total gain (loss) recognised in profit or loss included in other gains and (losses)	24	(2)	4
Total loss recognised in other comprehensive income	—	(—*)	—
Purchases	920	—	—
Disposals	(810)	—*	—
Currency realignment	(4)	—	—
At December 31, 2019 and January 1, 2020	447	(5)	26
Total gain (loss) recognised in profit or loss included in other gains and (losses)	10	(14)	1
Purchases	495	—	—
Disposals	(562)	3	—
Currency realignment	(3)	—	—
At June 30, 2020	387	(16)	27

* Less than US$1 million.

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

19. Fair Value Measurement of Financial Instruments (Continued)

Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements

The disclosure set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

The Group currently has a legally enforceable right to set off the derivative financial instruments and the Group intends to settle these balances on a net basis.

As at June 30, 2020

	Gross amounts of recognised financial assets US$'million (Unaudited)	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position US$'million (Unaudited)	Net amounts of financial assets presented in the consolidated statement of financial position US$'million (Unaudited)	Related amounts not set off in the consolidated statement of financial position		Net amount US$'million (Unaudited)
				Financial collateral US$'million (Unaudited)	Cash collateral received US$'million (Unaudited)	
Derivatives	310	(49)	260	(99)	–	161

	Gross amounts of recognised financial liabilities US$'million (Unaudited)	Gross amounts of recognised financial assets set off in the consolidated statement of financial position US$'million (Unaudited)	Net amounts of financial liabilities presented in the consolidated statement of financial position US$'million (Unaudited)	Related amounts not set off in the consolidated statement of financial position		Net amount US$'million (Unaudited)
				Financial collateral US$'million (Unaudited)	Cash collateral pledged US$'million (Unaudited)	
Derivatives	49	(49)	–	–	–	–

19. Fair Value Measurement of Financial Instruments (Continued)

Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements (Continued)

As at December 31, 2019

	Gross amounts of recognised financial assets US$'million (Audited)	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position US$'million (Audited)	Net amounts of financial assets presented in the consolidated statement of financial position US$'million (Audited)	Related amounts not set off in the consolidated statement of financial position: Financial collateral US$'million (Audited)	Related amounts not set off in the consolidated statement of financial position: Cash collateral received US$'million (Audited)	Net amount US$'million (Audited)
Derivatives	71	(16)	55	–	53	108

	Gross amounts of recognised financial liabilities US$'million (Audited)	Gross amounts of recognised financial assets set off in the consolidated statement of financial position US$'million (Audited)	Net amounts of financial liabilities presented in the consolidated statement of financial position US$'million (Audited)	Related amounts not set off in the consolidated statement of financial position: Financial collateral US$'million (Audited)	Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged US$'million (Audited)	Net amount US$'million (Audited)
Derivatives	16	(16)	–	–	–	–

Notes to the Interim Financial Information (Continued)

For the six months ended June 30, 2020

20. Related Party Transactions

(a) The Group had the following significant transactions with associates/joint ventures during both periods:

	Six months ended June 30,	
	2020	2019
	US$'million	US$'million
	(Unaudited)	(Unaudited)
Sales of goods to associates	**3**	3
Sales of goods to joint ventures	**7**	6
Purchase of goods/services from associates	**69**	38
Purchase of goods from joint ventures	**12**	12

(b) Compensation of key management personnel of the Group

The remuneration of key management personnel, representing emoluments of directors of the Company and senior management of the Group paid/payable during the period under review is set out as follows:

	Six months ended June 30,	
	2020	2019
	US$'million	US$'million
	(Unaudited)	(Unaudited)
Director fees	**—***	—*
Basic salaries and allowances	**5**	6
Performance bonuses	**14**	13
Retirement benefits scheme contributions	**—***	—*
Share-based payments	**—**	3
Total compensation paid to key management personnel	**19**	22

* Less than US$1 million.

OTHER INFORMATION

Interim Dividend

The Board has recommended the payment of an interim dividend of HK$0.05 per Share (2019: HK$0.05 per share) for the six months ended June 30, 2020 (the **"2020 Interim Dividend"**), representing a total payment of approximately HK$737 million (equivalent to approximately US$95 million) (2019: approximately HK$736 million, equivalent to approximately US$94 million) to the Shareholders. The 2020 Interim Dividend is expected to be paid in cash to the Shareholders whose names appear on the register of members of the Company on Tuesday, August 25, 2020 on or about Thursday, October 15, 2020. The register of members of the Company was closed from Wednesday, August 26, 2020 to Friday, August 28, 2020, both days inclusive, during which period no transfer of shares would be registered. To ensure their entitlement to the 2020 Interim Dividend, Shareholders had been reminded to lodge their transfers of Shares accompanied by the relevant share certificates and appropriate transfer forms not later than 4:30 p.m. on Tuesday, August 25, 2020 for registration with Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Disclosure of Interests

Directors

As at June 30, 2020, the interests and short positions of the Directors and chief executive officer of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interests in the Shares

Name of Director/ Chief Executive Officer	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Mr. Wan Long	Interest in a controlled corporation(1)	2,230,621,551(L)	15.14%
	Beneficiary of a trust(2)(3)	1,174,725,453(L)	7.98%
	Beneficial owner	1,500,000(L)	0.01%
Mr. Guo Lijun	Trustee(4)	631,580,000(L)	4.29%
	Beneficiary of a trust(4)(5)	178,473,779(L)	1.21%
	Beneficial owner	100,000(L)	0.00%
Mr. Ma Xiangjie	Trustee(6)(7)	5,274,991,111(L)	35.81%
	Beneficiary of a trust(6)(7)	80,835,768(L)	0.55%
	Interest of spouse(8)	3,000(L)	0.00%

Other Information (Continued)

Notes:

(1) Mr. Wan Long owned Sure Pass as to 100%, which in turn owned 573,099,645 Shares, and indirectly owned High Zenith as to 100%, which in turn owned 350,877,333 Shares. Accordingly, Mr. Wan Long was deemed to be interested in the 573,099,645 Shares and 350,877,333 Shares held by Sure Pass and High Zenith, respectively. Mr. Wan Long owned Xing Tong Limited as to 100%. Xing Tong Limited was one of the participants of the Heroic Zone Share Plan, through which it owned approximately 24.77% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone.

(2) Mr. Wan Long was one of the participants of the Heroic Zone Share Plan, through which he held approximately 20.78% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Wan Long was deemed to be interested in the 1,096,216,052 Shares which Heroic Zone was interested in.

(3) Mr. Wan Long was one of the participants of the Chang Yun Share Plan, through which he held approximately 12.43% of the beneficial interest in Auspicious Joy, which in turn owned 100% of the equity interest of Chang Yun. Accordingly, Mr. Wan Long was deemed to be interested in 78,509,401 Shares which Chang Yun was interested in.

(4) Mr. Guo Lijun was one of the participants of the Chang Yun Share Plan, through which he held approximately 14.12% of the beneficial interest in Auspicious Joy, which in turn owned 100% of the equity interest of Chang Yun. Accordingly, Mr. Guo Lijun was deemed to be interested in the 89,149,824 Shares which Chang Yun was interested in. Messrs. Guo Lijun, Ma Xiangjie and Liu Songtao were entrusted to act as the trustees of the Chang Yun Share Plan.

(5) Mr. Guo Lijun was one of the participants of the Heroic Zone Share Plan, through which he held approximately 1.69% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Guo Lijun was deemed to be interested in the 89,323,955 Shares which Heroic Zone was interested in.

(6) Pursuant to an entrustment agreement dated November 5, 2019, the employee share committee, on behalf of all participants of the Heroic Zone Share Plan, entrusted three individual trustees, namely Messrs. Zhang Liwen, Ma Xiangjie and Liu Songtao, to hold the legal title of, and to exercise the voting rights attached to, 100% equity interest in Rise Grand in joint tenancy. Mr. Ma Xiangjie was also one of the participants of the Heroic Zone Share Plan, through which he held approximately 0.34% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Ma Xiangjie was deemed to be interested in 18,121,229 Shares which Heroic Zone was interested in.

(7) Mr. Ma Xiangjie was one of the participants of the Chang Yun Share Plan, through which he held approximately 9.93% of the beneficial interest in Auspicious Joy, which in turn owned 100% of the equity interest of Chang Yun. Accordingly, Mr. Ma Xiangjie was deemed to be interested in 62,714,539 Shares which Chang Yun was interested in. Messrs. Guo Lijun, Ma Xiangjie and Liu Songtao, were entrusted to act as the trustees of the Chang Yun Share Plan.

(8) Ms. Shi Hui Ying is the spouse of Mr. Ma Xiangjie and was the beneficial owner of 3,000 Shares. Mr. Ma Xiangjie was deemed to be interested in such 3,000 Shares within the meaning of Part XV of the SFO.

(L) The letter (L) indicates long position.

(ii) Interests in underlying shares of the Company

Name of Director/ Chief Executive Officer	Capacity/Nature of Interest	Number of Underlying Shares subject to the Pre-IPO Share Options	Approximate Percentage of Shareholding(1)
Mr. Wan Long	Beneficial owner	146,198,889(L)	0.96%
Mr. Guo Lijun	Beneficial owner	40,000,000(L)	0.26%
Mr. Sullivan Kenneth Marc	Beneficial owner	12,000,000(L)	0.08%
Mr. Ma Xiangjie	Beneficial owner	9,922,417(L)	0.07%

Notes:

(1) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue and assuming that all the Pre-IPO Share Options have been exercised in full.

(L) The letter (L) indicates long position.

(iii) Interests in associated corporations

Name of Director/ Chief Executive Officer	Name of Associated Corporation	Capacity/ Nature of Interest	Number of Shares Interested	Approximate Percentage of Shareholding
Mr. Wan Long	Shuanghui Development	Beneficial owner	301,736(L)	0.01%
Mr. Ma Xiangjie	Shuanghui Development	Interest of spouse(1)	16,350(L)	0.00%

Notes:

(1) Ms. Shi Hui Ying is the spouse of Mr. Ma Xiangjie and was the beneficial owner of 16,350 shares of Shuanghui Development. Mr. Ma Xiangjie was deemed to be interested in such 16,350 shares of Shuanghui Development within the meaning of Part XV of the SFO.

(L) The letter (L) indicates long position.

Save as disclosed above, as at June 30, 2020, so far as was known to any Director or chief executive officer of the Company, neither the Directors nor the chief executive officer had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which would fall to be disclosed to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders

As at June 30, 2020, so far as was known to any Director or chief executive officer of the Company, shareholders (other than the Director or chief executive of the Company whose interests were disclosed above) who had interests or short positions in the Shares or underlying shares of the Company which shall be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Interests in the Shares

Name	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Rise Grand[(1)]	Interest in controlled corporation	5,274,991,111[(L)]	35.81%
Mr. Zhang Liwen[(1)]	Trustee	5,274,991,111[(L)]	35.81%
Mr. Liu Songtao[(1)]	Trustee	5,274,991,111[(L)]	35.81%
Heroic Zone[(2)]	Beneficial owner	3,473,820,000[(L)]	23.58%
	Interest in controlled corporation	1,801,171,111[(L)]	12.23%
Xing Tong Limited[(3)]	Beneficiary of a trust	1,306,644,573[(L)]	8.87%
Ms. Wang Meixiang[(4)]	Interest of spouse	3,553,045,893[(L)]	24.12%
Mondrian Investment Partners Limited	Investment manager	743,368,325[(L)]	5.05%

Notes:

(1) Rise Grand, as the sole shareholder of Heroic Zone, was deemed to be interested in the 5,274,991,111 Shares held by Heroic Zone. As of June 30, 2020, the beneficial interest of Rise Grand was owned by 218 participants (the "**HSP Participants**") of the Heroic Zone Share Plan. Pursuant to an entrustment agreement dated November 5, 2019, the employee share committee (the "**ESC**"), on behalf of all HSP Participants, entrusted three individual trustees, namely Messrs. Zhang Liwen, Ma Xiangjie and Liu Songtao, to hold the legal title of, and to exercise the voting rights attached to, 100% equity interest in Rise Grand in joint tenancy (the "**HSP Trustees**"). Under the Heroic Zone Share Plan, the ESC, on behalf of all HSP Participants, is entitled to instruct the HSP Trustees as to how to exercise their rights as the registered shareholders of Rise Grand, which in turn will instruct Heroic Zone, a wholly owned subsidiary of Rise Grand, as to how to exercise its rights, including the voting rights attached to the Shares it holds in the Company. The members of the ESC are selected by the general meeting of the HSP participants. The ESC has been composed of five members since its establishment. For further details of the Heroic Zone Share Plan, please see the section headed "History, Development and Corporate Structure — Shareholding Changes — Shareholding Structure at Beginning of Track Record Period" of the Prospectus.

(2) Chang Yun, High Zenith, Sure Pass and Rich Matrix should exercise the voting rights attached to their Shares respectively held by them in accordance with the direction of Heroic Zone in its absolute discretion. Therefore, Heroic Zone was deemed to be interested in the 1,801,171,111 Shares in aggregate held by Chang Yun, High Zenith, Sure Pass and Rich Matrix. For further details of the voting rights of Chang Yun, High Zenith, Sure Pass and Rich Matrix, please see the sections headed "History, Development and Corporate Structure — Our History — History of Our PRC Business — Share issuance and Transfer to Chang Yun" and "History, Development and Corporate Structure — Shareholding Changes — Shareholding Changes During Track Record Period — High Zenith" of the Prospectus and the sections headed "2010 Share Award Plan" and "2013 Share Award Plan" of the 2019 annual report of the Company.

(3) Xing Tong Limited was one of the participants of the Heroic Zone Share Plan, through which it owned approximately 24.77% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Xing Tong Limited was deemed to be interested in the 1,306,644,573 Shares which Heroic Zone was interested in.

(4) Ms. Wang Meixiang is the spouse of Mr. Wan Long. Therefore, Ms. Wang Meixiang was deemed to have interest in the 3,553,045,893 Shares which Mr. Wan Long was interested in.

(L) The letter (L) indicates long position.

Save as disclosed above, as at June 30, 2020, the Company has not been notified by any person who had any interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Other Information (Continued)

Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on January 21, 2014 as amended on April 4, 2014.

The following table discloses details of the Company's outstanding share options held by the Directors, the connected persons and certain employees of the Company under the Pre-IPO Share Option Scheme and their movements during the Review Period:

		Number of Pre-IPO Share Options				
Grantee	Date of Grant	As at January 1, 2020	Exercised	Cancelled	Lapsed	As at June 30, 2020
Directors						
WAN Long (萬隆)	July 10, 2014	146,198,889	–	–	–	146,198,889
GUO Lijun (郭麗軍)	July 10, 2014	40,000,000	–	–	–	40,000,000
SULLIVAN Kenneth Marc	July 10, 2014	12,000,000	–	–	–	12,000,000
MA Xiangjie (馬相傑)	July 10, 2014	9,922,417	–	–	–	9,922,417
Connected persons						
ZHANG Taixi (張太喜)	July 10, 2014	40,000,000	–	–	–	40,000,000
YOU Mu (游牧)	July 10, 2014	3,674,969	–	–	–	3,674,969
WAN Hongwei (萬宏偉)	July 10, 2014	2,500,000	–	–	–	2,500,000
LI Xianmu (李現木)	July 10, 2014	4,044,957	2,051,500	–	–	1,993,457
HE Jianmin (賀建民)	July 10, 2014	2,859,963	–	–	–	2,859,963
LIU Hongsheng (劉紅生)	July 10, 2014	3,409,963	1,000,000	–	–	2,409,963
YU Songtao (余松濤)	July 10, 2014	3,009,963	–	–	–	3,009,963
PAN Guanghui (潘廣輝)	July 10, 2014	2,425,963	–	–	–	2,425,963
ZHAO Sufang (趙塑方)	July 10, 2014	4,009,963	–	–	–	4,009,963
CAO Xiaojie (曹曉杰)	July 10, 2014	4,409,963	–	–	–	4,409,963

Other Information (Continued)

Grantee	Date of Grant	Number of Pre-IPO Share Options As at January 1, 2020	Exercised	Cancelled	Lapsed	As at June 30, 2020
LI Jun (李駿)	July 10, 2014	2,356,469	–	–	–	2,356,469
ZHAO Guobao (趙國寶)	July 10, 2014	1,029,988	–	–	–	1,029,988
LI Yong (李永)	July 10, 2014	999,976	–	–	–	999,976
SONG Hongliang (宋紅亮)	July 10, 2014	1,939,976	1,939,976	–	–	0
CHAI Wenlei (柴文磊)	July 10, 2014	941,988	–	–	–	941,988
QIAO Haili (喬海莉)	July 10, 2014	9,922,417	–	–	–	9,922,417
WANG Yufen (王玉芬)	July 10, 2014	9,922,417	–	–	–	9,922,417
LIU Songtao (劉松濤)	July 10, 2014	5,879,951	–	–	–	5,879,951
COLE, Michael H.	July 10, 2014	2,000,000	–	–	–	2,000,000
HE Shenghua (賀聖華)	July 10, 2014	1,500,000	–	–	–	1,500,000
THAMODARAN Dhamu R.	July 10, 2014	7,000,000	–	–	–	7,000,000
CHAU Ho (周豪)	July 10, 2014	3,500,000	–	–	–	3,500,000
Other grantees who have been granted the Pre-IPO Share Options to subscribe for 4,500,000 Shares or more						
POPE C. Larry	July 10, 2014	27,250,000	–	–	–	27,250,000
WEN Guoshan (溫國山)	July 10, 2014	1,764,451	1,764,451	–	–	0
LI Hongwei (李紅偉)	July 10, 2014	4,000	–	–	–	4,000

Other Information (Continued)

Grantee	Date of Grant	Number of Pre-IPO Share Options As at January 1, 2020	Exercised	Cancelled	Lapsed	As at June 30, 2020
WANG Yonglin (王永林)	July 10, 2014	4,249,951	–	–	–	4,249,951
FU Zhiyong (付志勇)	July 10, 2014	5,879,951	–	–	–	5,879,951
GUO Xinwen (郭新聞)	July 10, 2014	4,889,951	–	–	–	4,889,951
Senior management and other employees (in aggregate)	July 10, 2014	93,406,773	2,070,279	–	185,291	91,151,203
Total		**462,905,269**	**8,826,206**	**–**	**185,291**	**453,893,772**

Notes:

Each grantee to whom a Pre-IPO Share Option has been granted shall be entitled to exercise his/her Pre-IPO Share Option in such manner as set out below:

(1) to subscribe up to ten (10)% of the Shares that are subject to the Pre-IPO Share Option so granted to him/her (round down to the nearest whole number), exercisable at any time during the period commencing on the first (1st) anniversary of the Listing Date;

(2) to subscribe up to twenty-five (25)% of the Shares that are subject to the Pre-IPO Share Option so granted to him/her less the number of Shares in respect of which the Pre-IPO Share Option has been exercised (rounded down to the nearest whole number), exercisable at any time during the period commencing on the second (2nd) anniversary of the Listing Date;

(3) to subscribe up to forty-five (45)% of the Shares that are subject to the Pre-IPO Share Option so granted to him/her less the number of Shares in respect of which the Pre-IPO Share Option has been exercised (rounded down to the nearest whole number), exercisable at any time during the period commencing on the third (3rd) anniversary of the Listing Date;

(4) to subscribe up to seventy (70)% of the Shares that are subject to the Pre-IPO Share Option so granted to him/her less the number of Shares in respect of which the Pre-IPO Share Option has been exercised (rounded down to the nearest whole number), exercisable at any time during the period commencing on the fourth (4th) anniversary of the Listing Date; and

(5) to subscribe such number of Shares subject to the Pre-IPO Share Option so granted to him/her less the number of Shares in respect of which the Pre-IPO Share Option has been exercised (rounded to the nearest whole number), exercisable at any time commencing on the fifth (5th) anniversary of the Listing Date.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Review Period.

Directors' Securities Transactions

The Company has adopted a Code of Conduct regarding securities transactions by the Directors on terms no less exacting than the required standards set out in the Model Code in Appendix 10 to the Listing Rules. The Company has made specific enquiries with each Director and each of them confirmed that he had complied with all required standards set out in the Model Code and the Code of Conduct during the Review Period.

Corporate Governance Practices

The Board and the management of the Group are committed to the maintenance of good corporate governance practices and procedures. Throughout the Review Period, the Company has complied with all the applicable code provisions set out in the CG Code in Appendix 14 to the Listing Rules on the Stock Exchange, except for the following deviation:

Code Provision A.2.1 of the CG Code — Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Wan Long ("**Mr. Wan**") currently holds both positions.

The Board considers that having Mr. Wan acting as both the Chairman and Chief Executive Officer of the Company will provide a strong and consistent leadership to the Company and allow for more effective planning and management of the Company. Further, in view of Mr. Wan's extensive experience in the industry, personal profile and role in the Group and the historical development of the Group, the Board considers it is beneficial to the business prospects of the Group that Mr. Wan continues to act as both the Chairman and Chief Executive Officer of the Company.

Update on Information of Directors Pursuant to Rule 13.51B(1) of the Listing Rules

Changes in the information of Directors since the date of the 2019 annual report of the Company which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

(i) Mr. Ma Xiangjie obtained the professional light industry senior engineer qualification (vice senior grade) issued by the Human Resources and Social Security Department of Henan Province in April 2020; and

(ii) Mr. Ma Xiangjie has been appointed as a member of the Environmental, Social and Governance Committee and the Food Safety Committee with effect from June 16, 2020.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Lee Conway Kong Wai (Chairman), Mr. Huang Ming and Mr. Lau, Jin Tin Don. The Audit Committee and the Company's management have reviewed the interim results of the Group, together with the internal control and financial reporting matters of the Group, including the interim financial information for the Review Period which has been reviewed by the Company's external auditor, Ernst & Young.

On behalf of the Board
Wan Long
Chairman of the Board and Chief Executive Officer

Hong Kong, August 11, 2020

GLOSSARY

"Audit Committee"	the audit committee of the Board
"Auspicious Joy"	Auspicious Joy Enterprises Limited, a limited liability company incorporated under the laws of BVI on July 8, 2019
"Board"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Chang Yun"	Chang Yun Holdings Limited (運昌控股有限公司) a limited liability company incorporated under the laws of the BVI on April 12, 2010 and one of the Controlling Shareholders
"Chang Yun Share Plan"	the share plan dated December 23, 2019, under which a group of employees of the Group hold 100% of the beneficial interests in Auspicious Joy, which in turn holds 100% of the equity interest in Chang Yun
"China" or "the PRC"	the People's Republic of China excluding, for the purposes of this report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Code of Conduct"	the code of conduct regarding securities transactions by the Directors adopted by the Company
"Company"	WH Group Limited (萬洲國際有限公司), a limited liability company incorporated under the laws of the Cayman Islands the Shares of which are listing on the Main Board of the Stock Exchange
"Comparable Period"	the period from January 1, 2019 to June 30, 2019
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Rise Grand, Heroic Zone, Chang Yun, High Zenith, Sure Pass and Rich Matrix
"Director(s)"	the director(s) of the Company
"EBITDA"	earnings before interest, taxes, depreciation and amortization
"ESG Committee"	the environmental, social and governance committee of the Board

Glossary (Continued)

"EUR"	the Euro, the lawful currency of the member states of the European Union
"Fitch"	Fitch (Hong Kong) Limited or Fitch Ratings, Inc.
"Food Safety Committee"	the food safety committee of the Board
"GCM"	Granjas Carroll de Mexico S. de R.L. de C.V., a Mexican hog farming company incorporated under the laws of Mexico. The Company indirectly held 50% interest in GCM as a joint venture as of June 30, 2020
"Group", "our Group", "our", "we", "us" or "WH Group"	the Company and all of its subsidiaries, or any one of them as the context may require or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it
"Heroic Zone"	Heroic Zone Investments Limited (雄域投資有限公司), a limited liability company incorporated under the laws of the BVI on July 23, 2007 and one of the Controlling Shareholders
"Heroic Zone Share Plan"	the share plan dated December 25, 2009, revised on December 17, 2012 and July 11, 2016 respectively, under which a group of employees of Shuanghui Development and its associated entities hold 100% of the beneficial interests in Rise Grand, which in turn holds 100% of the equity interest in Heroic Zone
"High Zenith"	High Zenith Limited, a limited liability company incorporated under the laws of BVI on September 6, 2013 and one of the Controlling Shareholders
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IDR"	long-term foreign-currency issuer default rating
"kg"	kilogram
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	August 5, 2014, being the date on which the Shares are listed on the Main Board of the Stock Exchange

Glossary (Continued)

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"MOA"	the Ministry of Agriculture of Rural Affairs of the Republic of China
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Moody's"	Moody's Investor Service Limited
"Norson"	Norson Holding, S. de R.L. de C.V., a Mexican meat products manufacturer and hog farming company incorporated under the laws of Mexico. The Company indirectly held 50% interest in Norson as a joint venture as of June 30, 2020
"PLN"	Polish Zloty, the lawful currency of the Republic of Poland
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme approved and adopted by our Company on January 21, 2014 as amended on April 4, 2014, for the benefit of any Director, employee, advisor, consultant, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of the Company or any of our subsidiaries; a summary of the principal terms is set forth in the section headed "Other Information — Pre-IPO Share Option Scheme"
"Pre-IPO Share Options"	the options granted under the Pre-IPO Share Option Scheme
"Proposed Non-public Issuance"	the proposed non-public issuance of not more than 331,928,219 new A shares of Shuanghui Development to not more than 35 subscribers by Shuanghui Development to raise a gross proceeds of not more than RMB7,000,000,000
"Prospectus"	the prospectus of the Company in relation to the Listing dated July 24, 2014
"Review Period"	the period from January 1, 2020 to June 30, 2020
"Rich Matrix"	Rich Matrix Global Limited (裕基環球有限公司), a limited liability company incorporated under the laws of the BVI on September 9, 2013 and one of the Controlling Shareholders
"Rise Grand"	Rise Grand Group Limited (興泰集團有限公司), a limited liability company incorporated under the laws of the BVI on July 3, 2007 and one of the Controlling Shareholders

"Risk Management Committee"	the risk management committee of the Board
"RMB"	Renminbi, the lawful currency of the PRC
"RON"	Romanian Leu, the lawful currency of Romania
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"Share(s)"	ordinary share(s) with nominal value of US$0.0001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shuanghui Development"	Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), an indirect non-wholly owned subsidiary of the Company and a joint stock limited company established under the laws of the PRC on October 15, 1998, the shares of which are listed on the Shenzhen Stock Exchange in the PRC, and as the context may require, all or any of its subsidiaries
"Smithfield"	Smithfield Foods, Inc., a corporation incorporated in the Commonwealth of Virginia, the United States on July 25, 1997 and an indirect wholly-owned subsidiary of the Company and, as the context may require, all or any of its subsidiaries or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were, or any one of them, as the context may require, were or was engaged in and which were subsequently assumed by it
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed thereto under the Listing Rules
"Sure Pass"	Sure Pass Holdings Limited (順通控股有限公司), a limited liability company incorporated under the laws of the BVI on September 25, 2013 and one of the Controlling Shareholders
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

Glossary (Continued)

"USDA"	United States Department of Agriculture
"US$ or "U.S. dollars""	United States dollars, the lawful currency of the United States
"US cent"	one-hundredth of one US$

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Smithfield