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)
(Stock code : 288)

2014 ANNUAL REPORT

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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 Stock Exchange of Hong Kong Limited 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. GUO Lijun (Vice President and Chief Financial Officer)
Mr. YANG Zhijun (Vice President)
Mr. POPE C. Larry (President and Chief Executive Officer of Smithfield)
Mr. ZHANG Taixi (President of Shuanghui Development)

Non-executive Director
Mr. JIAO Shuge (Deputy Chairman)

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. POPE C. Larry
Mr. ZHANG Taixi
Mr. LAU, Jin Tin Don

Food Safety Committee
Mr. WAN Long (Chairman)
Mr. POPE C. Larry
Mr. ZHANG Taixi
Mr. LEE Conway Kong Wai

Auditor
Deloitte Touche Tohmatsu

Legal Advisor
Paul Hastings

Principal Bankers
AgFirst Farm Credit Bank
Bank of America Merrill Lynch
Bank of China
Bank of Communications
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.(Rabobank Nederland)
DBS Bank
Industrial and Commercial Bank of China
Standard Chartered Bank

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
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Registered Office
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Principal Place of Business and Corporate Headquarters in Hong Kong
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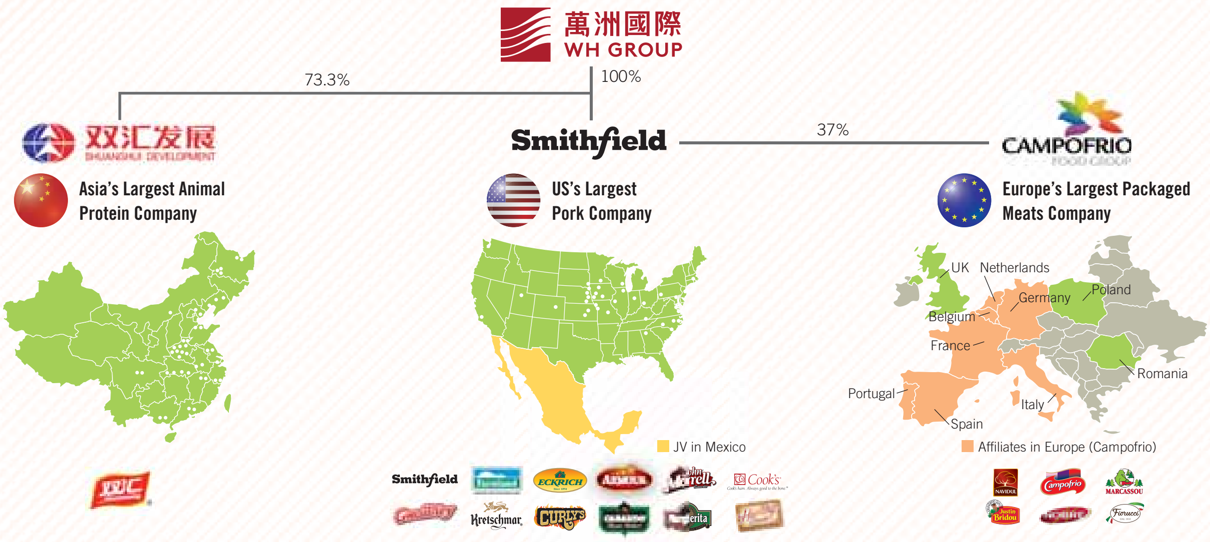
1 Austin Road West
Kowloon
Hong Kong

Compliance Advisor
Guotai Junan Capital Limited
27F Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

CORPORATE PROFILE

We are the world's largest pork company, with global leadership across key segments of the industry value chain, including packaged meats, fresh pork and hog production. We rank number one in terms of market share in China, the United States and key markets in Europe. We own Asia's largest animal protein company, Shuanghui Development, the U.S.'s largest pork company, Smithfield, and a 37% equity stake in the largest packaged meats company in Europe by sales, Campofrio.



Pork consumption in markets where we have a leading position collectively accounted for the majority of world's total pork consumption. China, in particular, accounted for over half of the global pork consumption alone and is expected to represent a majority of global pork consumption growth over the following years. Smithfield is the industry leader in the U.S. pork production and is the world's largest pork exporter, with compelling cost advantages. Our vertically integrated global platform gives us a unique position to efficiently match supply with demand on a global basis and to benefit from the strong industry trends in China and the world's other fast-growing animal protein markets.

We currently operate our business through three main segments, namely packaged meat products segment, fresh pork segment and hog production segment. We also engage in certain other businesses in China that are ancillary to our primary business segments such as manufacturing and sales of packaging materials as well as provision of logistics services.

Our global sales and distribution network provides us with unparalleled access to the largest pork consumption markets in the world. In China, our network has broad geographic reach and covers all key distribution channels, ranging from hypermarkets in first-tier Chinese cities, to mom-and-pop stores in rural regions, to specialty channels such as schools and highway service stations. In the U.S., our network is characterized by strong, long-term relationships with customers in all key distribution channels and extensive use of independent common carriers for deliveries. In Europe, our network covers Poland and Romania, and Campofrio has a network spanning Spain, France, Belgium, the Netherland, Portugal, Italy and Germany. We also have access to Mexico through our joint ventures.

We are committed to providing consumers with high-quality, nutritious and tasty products through our portfolio of trusted and well-known brands. Our brands are synonymous with premium packaged meat and fresh pork products in many parts of the world. In their respective regions, our brands, such as Shuanghui, Smithfield, John Morrell, Farmland and Eckrich, are recognized household names, some with a century-old heritage. We foster a strong culture of innovation, which allows us to nimbly adapt to evolving consumer preferences. We have a proven track record of launching successful new products that help drive our revenue growth and increase our margins in each of our key markets.

Maintaining the highest industry standards for food safety, product quality and sustainability is one of our core values. We have strict quality control systems in each segment of our value chain, from production through sales and distribution. In China, we standardize all processes and operate our facilities using the most advanced technologies. For example, we screen each hog and check each batch of raw materials and finished products of packaged meat products. In the U.S., these objectives are grounded in our sustainability program, which focuses on key areas such as animal care, employee welfare, the environment, food safety and quality, helping communities and value creation. Furthermore, our vertically integrated business model enhances the traceability of our products and helps safeguard product quality.

Looking ahead, we will continue to adhere to our business principles of providing high quality and safe animal protein to consumers globally and promoting social responsibility. We believe that our relentless pursuit of these goals will lead to sustainable growth, solidify our global leadership and create long-term value for our Shareholders, employees and our communities.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Key Financial Information

	2014	2013[4]	Change
	US$ million (unless otherwise stated)		%
Turnover	**22,243**	11,253	+97.7
EBITDA[1]	**2,158**	461	+368.1
Operating profit[2]	**1,614**	886	+82.2
Profit attributable to owners of the Company	**766**	(263)	N/A
Profit attributable to owners of the Company, before biological fair value adjustments	**737**	(289)	N/A
Earnings per share (US$ cents)	**6.44**	(2.62)	N/A
Earnings per share, before biological fair value adjustments (US$ cents)	**6.19**	(2.88)	N/A
Total bank balances, cash and available-for-sale investments[3]	**1,187**	1,026	+15.7
Total assets	**14,720**	14,156	+4.0
Total debt	**4,670**	7,432	-37.2
Total liabilities	**8,670**	11,018	-21.3
Net assets	**6,050**	3,138	+92.8
Net assets attributable to owners of the Company per ordinary share (US$ cents)	**35.88**	21.23	+69.0
Net cash from operating activities	**1,560**	700	+122.9
Capital expenditure	**952**	331	+187.6

Notes:

(1) EBITDA refers to earnings before finance costs, taxation, depreciation and amortisation.

(2) Operating profits refers to total reportable segment profit.

(3) Available-for sale investments are financial products that we purchase as part of our cash management strategy to obtain higher yields than we can receive on regular bank deposits.

(4) Results of 2013 included contribution from Smithfield since September 26, 2013, when the acquisition of Smithfield by WH Group was completed. This statement is applicable for all relevant figures of 2013 in this report, unless otherwise specified.

Key Performance Indicators

		2014	2013	Change % (unless otherwise stated)
Hogs produced	thousand heads	**17,685**	5,460	+223.9
Hogs processed	thousand heads	**47,170**	22,772	+107.1
Fresh pork external sales volume	thousand metric tons	**3,764**	1,800	+109.1
Packaged meat products sales volume	thousand metric tons	**3,227**	2,169	+48.8
Turnover growth rate	%	**97.7**	80.2	+17.5pp
Operating profit margin	%	**7.3**	7.9	-0.6pp
Per unit operating profit (loss) by segments				
– Hog production(1)	US$/head	**23.3**	(1.6)	N/A
– Fresh pork(2)	US$/head	**4.5**	8.8	-48.9
– Packaged meats(3)	US$/metric tons	**370.0**	349.9	+5.7
Current ratio	%	**172.1**	183.1	-11.0pp
Cash conversion cycle	days	**34.2**	35.3	-1.1 days
Net debt to equity ratio	%	**61.0**	209.0	-148.0pp
Return on equity	%	**20.7**	(12.9)	N/A

Notes:

(1) Per unit operating profit (loss) for hog production segment represents the operating profit (loss) on each hog produced.

(2) Per unit operating profit for fresh pork segment represents the operating profit on each hog processed.

(3) Per unit operating profit for packaged meat segment represents the operating profit on each metric ton of packaged meat sold.

(4) Return on equity represents the net profit attributable to owners of the Company for the year divided by the average of the opening and closing balance of equity attributable to owners of the Company.

CHAIRMAN'S STATEMENT

With our dedicated and resourceful people in all positions, WH Group's strategy will continue to deliver sustainable values and returns for Shareholders.

Wan Long
Chairman and Chief Executive Officer

Dear Shareholders,

2014 was a remarkable year for WH Group. On August 5, WH Group was listed on the Stock Exchange. Going public enhanced our capital strength to promote a promising future. 2014 was also a record-breaking year for both our operations in China and the United States. With their contributions, we raised 17.7 million hogs, processed 47.2 million hogs and sold 3.2 million tons of packaged meat products in 2014. The consolidated turnover and net profit of WH Group reached US$22 billion and US$1 billion, respectively.

Inherit Decades of Success

Over the past thirty years we have seen the transformation of our operations in China from a small local slaughtering plant into a capital-market-driven multinational corporation, underpinned by sustainable and rapid growth. Regardless of changes in the environment, from small to large, from infertile to strong, our China operations have withstood the test of time. Acquisition of Smithfield in 2013 enabled us to achieve a global presence and solidified our leading position in the global pork market under the umbrella of WH Group. In 2014, with a common vision, we achieved an increasing level of consistency of management mechanism in the combined Group; we confirmed the earnings potential of our U.S. operations; and we saw the realization of consolidation synergies gradually becoming visible.

Turn Challenges into Opportunities

Although the operating environment is challenging and short-term volatility is hard to eliminate, WH Group remains a growth story. As China's economy enters into a "New Normal" of slower and healthier growth, consumers' purchasing power and consumption patterns will change accordingly. We will sharpen our focus on upgrading of our brand and market position; innovation and development of new products to optimize our product mix as well as expansion and adjustment of our distribution network to achieve scale in China. Our operations in the U.S. comprised a number of independent operating companies and brands in the past. To unlock value and accelerate growth, we will align our internal structure to unify efforts; increase marketing to evolve into a branded packaged meats company as well as enhance efficiency to improve cost structure in the U.S.. We are confident that these strategies will lead to solid performance of WH Group in the future.

Create a Sustainable Future

WH Group is committed to providing quality food in a responsible way and maintains robust policies and practices on food safety, animal care, environmental protection, community involvement and employee safety. We believe our fully integrated operations, coupled with our stringent quality control standards and production safety systems ensure consistent and high quality products. We are in the process of undergoing a voluntary, ten-year program to phase out individual gestation stalls at our company-owned sow farms and replace individual gestation stalls with group pens. We are constantly improving our environmental management systems to reduce the use of key resources, including water, energy and land. Going forward, WH Group will continue its commitment to sustainability.

CORPORATE STRATEGIES

Our principal business objective is to maintain and strengthen our industry leading position as the world's largest pork company, to allocate our global resources to speed up global expansion, and to provide consumers with high-quality, delightful packaged meat products. Key strategies for reaching our goals include:

- **Global expansion strategy to become bigger and stronger.**
- **Global resources consolidation strategy to achieve complementarity and synergies.**
- **Global brand consolidation strategy to improve brand influence and product competitiveness.**
- **Strict controls over food safety to secure sustainable development.**
- **Global talent consolidation strategy to build an elite team.**

Increase Shareholders Engagement

WH Group values open, constructive and effective communication with our Shareholders. We will continue to engage investors to promote greater transparency of our strategies, operations and corporate governance. With our dedicated and resourceful people in all positions, WH Group's strategy will continue to deliver sustainable values and returns for Shareholders.

Finally, on behalf of the Board, I would like to express my appreciation to all employees for their steadfast support to the Company. WH Group is proud to look back on decades of outstanding achievements, while at the same time looking forward to many more years of growing our Group with our Shareholders, employees and communities.

WAN Long
Chairman & CEO, WH Group Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

China

China is the largest pork consumption market in the world. Driven by its economic development, continued urbanization and rising residents' income, the hog market in China is expected to grow further. However, the growth engine of China no longer operates at full throttle. China's GDP grew by 7.4% in 2014 from a year ago, slower than the 7.7% growth experienced in 2013. The gradual slowdown in economic growth, the throes of economic structural change, the government's instruction to curb "extravagance and waste on the tongue tips" weakened the consumption of meat.

On the supply side, hog prices in China reached its peak in 2011, hog production became a lucrative business. As a result, many hog farms introduced more breeding stocks since 2012. The level of breeding stocks remained high throughout most of 2013 and this increased the supply of hogs in 2014. According to the National Bureau of Statistics of the PRC, total pork production volume increased by 3.2% in 2014 compared to 2013.

Hog prices declined from the beginning of 2014 to April 2014 as a result of the oversupply of hogs in the market before and after the Chinese New Year, which was further augmented by the fragmented structure of the hog production industry. Hog prices rebounded sharply in May 2014 as the market speculated a reduction in supply of hogs under the low hog prices. The continued increase in hog prices from May to August 2014 was further driven by the higher corn price due to the impact brought by drought across 12 provinces including Henan, Shandong, Hebei and Anhui in July and August 2014. Despite that the cut back in hog supply progressively came into effect as the level of breeding stocks had been reduced on a yearly basis, hog prices had gradually decreased from September to the end of 2014 as the upward driving force resulting from the low supply level was constrained by the anaemic consumption demand and the descending corn price in the new crop season. The average hog price in China in 2014 was US$2.2 per kilogram ("**kg**"), a decrease of US$0.2 per kg from the previous year.

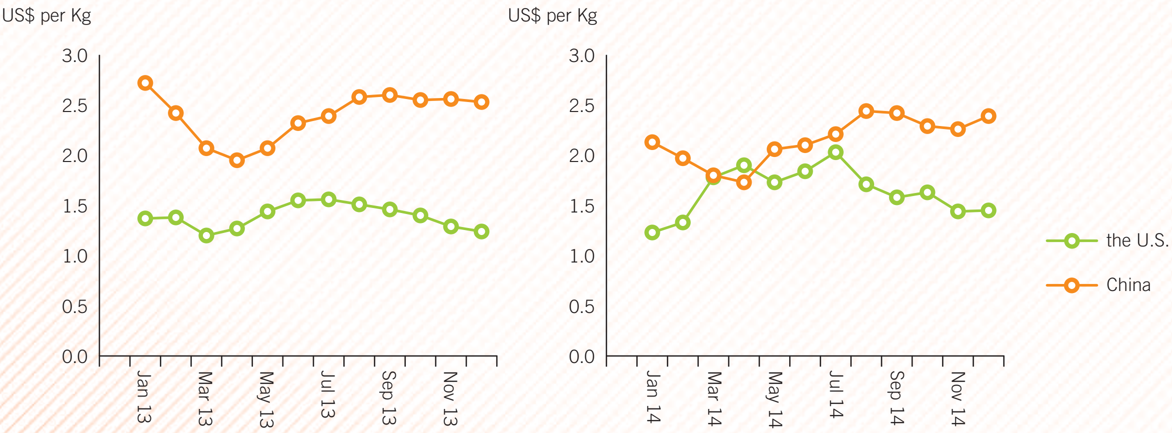
United States

The United States is the second largest producer of pork worldwide and the largest pork exporter globally. In comparison to the pork industry in the PRC, the U.S. pork industry is relatively mature and concentrated.

During the year ended December 31, 2014, the U.S. pork market was significantly impacted by the spreading of Porcine Epidemic Diarrhea Virus ("**PEDv**"), a disease that only infects pigs, not humans or other livestock, which has been an industry-wide issue. The U.S. Department of Agriculture identified PEDv in the U.S. for the first time in 2013. The disease had a significant presence and resulted in fewer hogs in the U.S. market in 2014. As the supply was lowered, the hog prices increased substantially, and reached record high during 2014. Increase in hog prices benefited the hog production business with higher profitability, while higher input cost also impacted the downstream business, values across the entire pork value chain were elevated for most of 2014.

Market fundamentals, including solid domestic demand, solid export demand and moderating feed grains (input) costs on our farms, were largely supportive of our business throughout 2014. Domestic protein demand in the U.S. was stable despite significant price increases in major proteins. The average hog price in the U.S. in 2014 was US$1.64 per kg, an increase of US$0.17 per kg from the previous year.

Average Hog Price, 2013-2014



Source:
USDA and Shunaghui Development internal guidance price

Our management team has continuously deployed effective measures to manage the changes in the evolving market and achieved increases in both scale and profitability.

Results

	2014	2013	Change
	US$ million		(%)
Turnover	**22,243**	11,253	+97.7
Operating profit	**1,614**	886	+82.2
Profit (loss) for the year	**972**	(67)	N/A
Profit (loss) attributable to owners of the Company	**766**	(263)	N/A
Profit (loss) attributable to owners of the Company, before biological fair value adjustments	**737**	(289)	N/A
Underlying profit attributable to owners of the Company, before biological fair value adjustments	**956**	507	+88.6

Our operations delivered solid performances for the year ended December 31, 2014. As a result of the full year effect of contribution from Smithfield and the continued expansion of the operations in China, our results continued to grow in 2014 compared to the previous year.

Sales volume for our packaged meats products increased by 48.8% from 2,169 thousand metric tons in 2013 to 3,227 thousand metric tons in 2014. External sales volume for our fresh pork products increased by 109.1% from 1,800 thousand metric tons in 2013 to 3,764 thousand metric tons in 2014. Total turnover of the Group increased by 97.7% from US$11,253 million in 2013 to US$22,243 million in 2014. Operating profit grew by 82.2% from US$886 million in 2013 to US$1,614 million in 2014.

"Our management in China and the U.S. share their management wisdom and technical expertise under common mission."

The Group's reported profit for the year was US$972 million in 2014 (2013: loss of US$67 million). The reported profit for the year attributable to owners of the Company, before biological fair value adjustments, was US$737 million in 2014 (2013: loss of US$289 million).

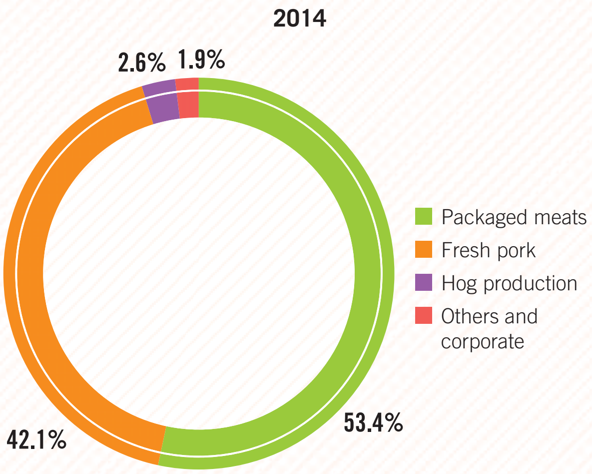
Our other expenses in 2014 included share-based payments of US$78 million and listing expenses of US$31 million. Other expenses in 2013 included share-based payments of US$639 million, listing expenses of US$6 million and legal and professional fees in relation to the acquisition of Smithfield of US$132 million (the "**Merger Costs**").

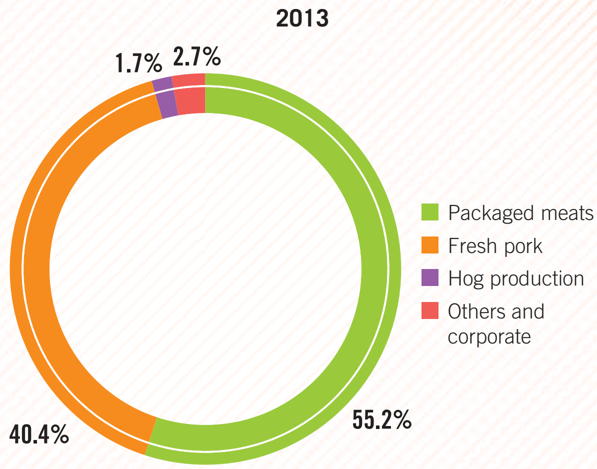
The Syndicated Term Loan of US$ 4,000 million was obtained by the Company to finance the acquisition of Smithfield in 2013. US$2,500 million of the Syndicated Term Loan was repaid subsequent to the listing of the Company in 2014 (the "**Repaid Portion of the Syndicated Term Loan**"). The remaining US$1,500 million of the Syndicated Term Loan was fully refinanced by a new syndicated term loan in 2014 (the "**New Syndicated Term Loan**") (the "**Refinancing**", for more information, please see the section headed "Capital Resources and Liquidity" in this report). As a result, our finance costs in 2014 and 2013 included interest expense and amortisation of transaction costs in respect of the Repaid Portion of the Syndicated Term Loan, which were US$62 million (2013: US$25 million) and US$32 million (2013: US$4 million), respectively. Finance costs in 2014 also included US$30 million of accelerated amortisation expense in relation to the Refinancing (2013: Nil).

Excluding the abovementioned share-based payments, listing expenses, the Merger Costs as well as finance costs in respect of the Repaid Portion of the Syndicated Term Loan and the accelerated amortisation expense in relation to the Refinancing, (1) underlying profit for the year was US$1,205 million in 2014 and US$739 million in 2013; and (2) underlying profit attributable to owners of the Company, before biological fair value adjustments, was US$956 million in 2014 as compared to US$507 million in 2013, representing a year on year increase of 88.6%.

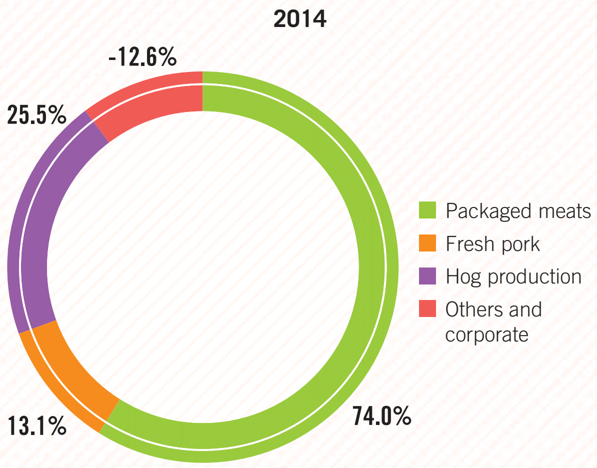
Analyses by Core Business Segments

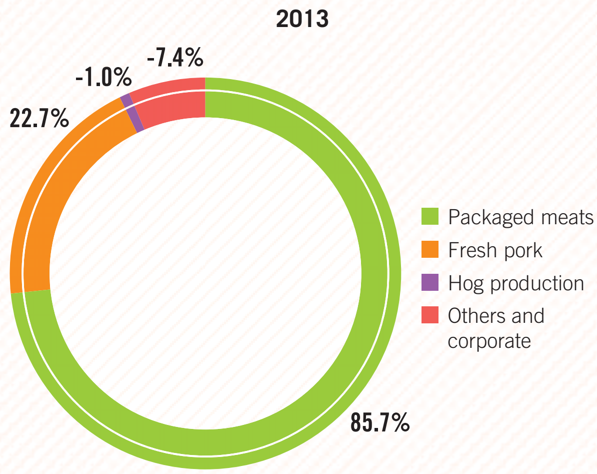
Turnover





Operating Profit

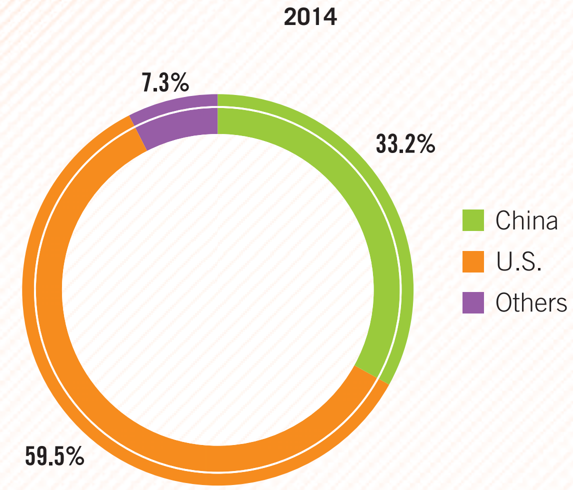


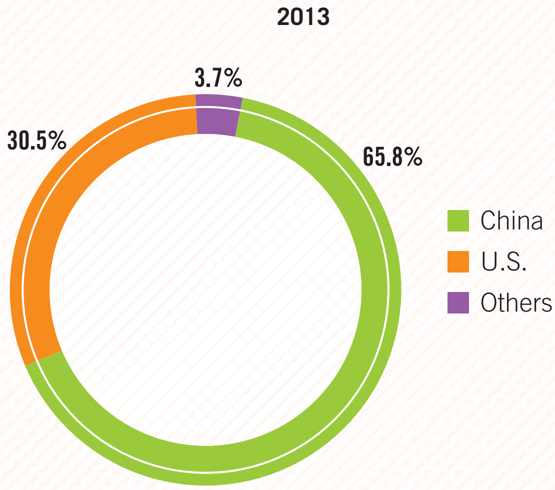


Branded packaged meat products have always been our core business. It contributed 53.4% of the Group's total turnover in 2014 (2013: 55.2%). Its contribution to the Group's operating profit is even higher at 74.0% in 2014 (2013: 85.7%).

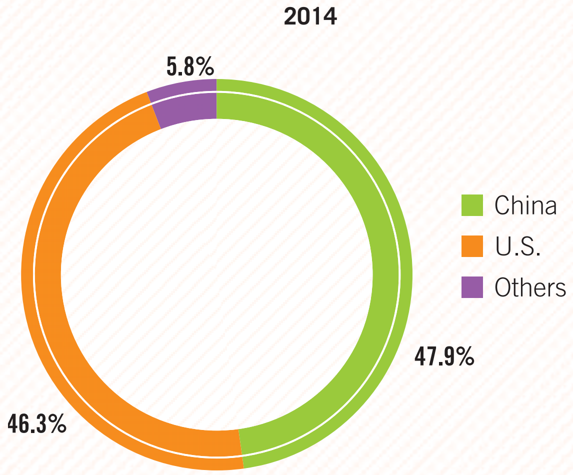
Analyses by Geographical Locations

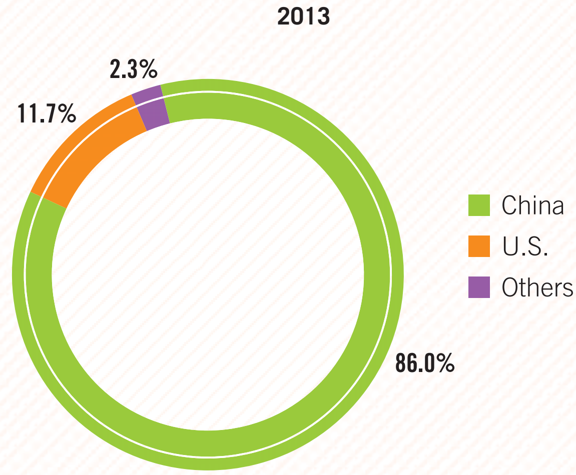
Turnover





Operating Profit





Our businesses in China and the U.S. contributed 33.2% and 59.5% of the total turnover of the Group in 2014, respectively (2013: 65.8% and 30.5%). Our businesses in China and the U.S. also accounted for 47.9% and 46.3% of the Group's operating profit in 2014, respectively (2013: 86.0% and 11.7%).

Operation Review

Our operations consist of three core businesses, namely the packaged meat products, fresh pork and hog production.

	2014	2013	Change
	US$ million		(%)
Turnover			
– Packaged meat products	11,876	6,212	+91.2
– Fresh pork	9,368	4,543	+106.2
– Hog production	587	191	+207.3
– Others and corporate	412	307	+34.2
	22,243	11,253	+97.7
Operating profit (loss)			
– Packaged meat products	1,194	759	+57.3
– Fresh pork	211	201	+5.0
– Hog production	412	(9)	N/A
– Others and corporate	(203)	(65)	N/A
	1,614	886	+82.2
Profit before taxation	1,420	162	+776.5
Profit (loss) for the year	972	(67)	N/A

Packaged meat products

	2014	2013	Change (%)
Sales Volume (thousand metric tons)			
China	1,727	1,716	+0.6
U.S.	1,290	404	+219.3
Others	210	49	+328.6
Total	3,227	2,169	+48.8
Turnover (US$ million)			
China	4,039	4,074	- 0.9
U.S.	7,173	1,969	+264.3
Others	664	169	+292.9
Total	11,876	6,212	+91.2
Operating profit (US$ million)			
China	711	678	+4.9
U.S.	450	79	+469.6
Others	33	2	+1,550.0
Total	1,194	759	+57.3

The Group is the global leader in the packaged meat products market. Sales volume of our packaged meat products was 3,227 thousand metric tons in 2014, an increase of 48.8% from 2,169 thousand metric tons in 2013.

We produce a diverse range of packaged meat products in China, including both low and high temperate products such as ham, sausage as well as Chinese and Western-style meat products. Sales volume in our China operations grew by 0.6% in 2014 from the previous year. The slower pace of growth as compared to the previous year aligned with the moderate growth of China's economy and vanishing extravagant and welfare consumption in 2014. Furthermore, consumers' consumption styles and preferences in China are evolving from predominantly convenient to safe, healthy, tasty, diversified and more personalised products which are of high nutritional value. To cope with these changes, our China operations are in the process of adjusting our product mix by developing more new products and modifying the existing products.

Smithfield also produces a wide variety of packaged meat products, including smoked and boiled hams, bacon, sausage, hot dogs, deli and luncheon meats, specialty products such as pepperoni, dried meat products, and ready-to-eat prepared foods. Smithfield contributed 1,500 thousand metric tons to our packaged meat products sales volume in 2014 (2013: 453 thousand metric tons).

We achieve scale of sales volume through our global sales and distribution network which provides us with unparalleled access to the markets. In China, supported by more than 5,500 committed distributors, our sales network for packaged meat products reached approximately 689 thousand points of sale covering all 31 provinces at the end of 2014, an increase of approximately 38 thousand points from the previous year. In the U.S., we are the leading supplier of packaged meat products to food retail and foodservice companies, which accounted for over 90% of Smithfield's total U.S. sales in 2014 and 2013.

"The diversified, lively and sophisticated marketing and promotion measures keep driving our products and brands closer to consumers."

Our brands are synonymous with premium quality packaged meat products in their respective markets. In China, Shuanghui ("雙滙") is a national leading brand in the industry. In the U.S., we have built a portfolio of powerful brands including two "billion-dollar" brands, Smithfield and Farmland. In March 2014, Smithfield commenced manufacturing and selling under an exclusive 18-year licensing agreement with Nathan's Famous, Inc., the owner of one of the most popular hot dog brands in the U.S..

Packaged meat products turnover of the Group increased by 91.2% from US$6,212 million in 2013 to US$11,876 million in 2014. Turnover in our China operations remained stable and reached US$4,039 million in 2014. Smithfield also contributed US$7,837 million to our packaged meat products turnover in 2014 (2013: US$2,138 million).

Operating profit for packaged meat products of the Group increased by 57.3% from US$759 million in 2013 to US$1,194 million in 2014. Operating profit in our China operations grew by 4.9% from US$678 million in previous year to US$711 million in 2014 primarily as a result of the decrease in the per unit operating costs. Smithfield contributed US$483 million to our operating profit for packaged meat products in 2014 (2013: US$81 million). During the year ended December 31, 2014, per unit selling prices in our operations in the U.S. increased 9.7% year on year to reflect the higher raw material input costs and our continuing effort in consumer marketing.

Fresh pork

	2014	2013	Change (%)
Hogs processed (thousand heads)			
China	**15,010**	13,310	+12.8
U.S.	**27,890**	8,139	+242.7
Others	**4,270**	1,323	+222.8
Total	**47,170**	22,772	+107.1
Production volume (thousand metric tons)			
China	**1,499**	1,300	+15.3
U.S.	**3,100**	850	+264.7
Others	**603**	140	+330.7
Total	**5,202**	2,290	+127.2
External sales volume (thousand metric tons)			
China	**1,201**	1,075	+11.7
U.S.	**2,239**	620	+261.1
Others	**324**	105	+208.6
Total	**3,764**	1,800	+109.1
Turnover (US$ million)			
China	**3,172**	3,010	+5.4
U.S.	**5,540**	1,287	+330.5
Others	**656**	246	+166.7
Total	**9,368**	4,543	+106.2
Operating profit (Loss) (US$ million)			
China	**135**	113	+19.5
U.S.	**90**	93	-3.2
Others	**(14)**	(5)	N/A
Total	**211**	201	+5.0

Our fresh pork segment includes hog slaughtering operations and sales of fresh pork products. Our fresh pork products consist of chilled and frozen meats.

The Group processed 47,170 thousand hogs in 2014, an increase of 107.1% from 22,772 thousand heads in 2013. Hog processing volume in our China operations increased by 12.8% from 13,310 thousand heads in the previous year to 15,010 thousand heads in 2014. We source substantially all of the hogs that we process in China from external suppliers. We purchased approximately 14,722 thousand market hogs for our slaughtering operations in China in 2014 (2013: 13,048 thousand).

In 2014, Smithfield processed 32,160 thousand heads of hogs (2013: 9,462 thousand). We source a significant portion of the hogs for our slaughtering operations in the U.S. from our U.S. hog production operations. In the year ended December 31, 2014, Smithfield produced 14,724 thousand of the 27,890 thousand hogs that it slaughtered in the U.S., or 52.8%, and the remaining 13,166 thousand hogs were purchased from external suppliers.

The Group's external sales volume of fresh pork for the year ended December 31, 2014 was 3,764 thousand metric tons, a 109.1% increase as compared to 1,800 thousand metric tons in previous year. In China, we sell a substantial portion of our fresh pork to our customers as trimmed cuts, such as carcass, picnic shoulder, ham, spare ribs, coins, ribs and offals. We use the remaining fresh pork in our packaged meat production. In 2014, our China's operation accounted for 1,201 thousand metric tons of external sales of fresh pork, an increase of 11.7% from 1,075 thousand metric tons in 2013. The increase was primarily a result of the increase in our production capacity and the expansion of our distribution network.

Smithfield contributed 2,563 thousand metric tons of external sales of fresh pork in 2014 (2013: 725 thousand metric tons). Smithfield is the largest U.S. pork exporter. For the year ended December 31, 2014, Smithfield exported approximately 26% of its external sales of fresh pork, in terms of gross sales, to numerous global markets. Out of which, approximately 21% were exported to China and Hong Kong. Ractopamine-free pork production and processing is crucial to export of pork into China. As at the year end of 2014, Smithfield had daily ractopamine-free hog production capacity of approximately 56,000 hogs and ractopamine-free processing capacity of approximately 64,000 hogs.

Our global sales and distribution network solidifies our leading position in fresh pork sales in various markets. In China, our sales network for fresh pork products reached approximately 37 thousand points of sales covering 29 provinces as at the year end of 2014 (2013: approximately 26 thousand points of sales). In the U.S., we maintain strong relationships with the majority of the top 75 food retailers and with each of the top 10 food retailers.

Fresh pork turnover of the group increased by 106.2% from US$4,543 million in 2013 to US$9,368 million in 2014. Turnover in our China operations increased by 5.4% from US$3,010 million in previous year to US$3,172 million for the year ended December 31, 2014. The increase was due primarily to an increase in our sales volume. Our selling prices for fresh pork in China, which are adjusted in accordance with fluctuations in the market price, decreased in 2014 compared to previous year. Smithfield contributed US$6,196 million to our fresh pork turnover in 2014 (2013: US$1,533 million).

Operating profit for fresh pork increased by 5.0% from US$201 million in 2013 to US$211 million in 2014. Operating profit of our China operations grew by 19.5% from US$113 million in previous year to US$135 million for the year ended December 31, 2014. The increase was due primarily to the increase in our sales volume, effective management of our selling prices, costs and increasing contribution from our higher profit margin sales channels. Smithfield contributed US$76 million to our operating profit for fresh pork in 2014 (2013: US$88 million).

Hog production

	2014	2013	Change (%)
Production volume (thousand heads)			
China	311	311	–
U.S.	14,724	4,459	+230.2
Others	2,650	690	+284.1
Total	17,685	5,460	+223.9
Turnover (US$ million)			
China	7	16	-56.3
U.S.	522	172	+203.5
Others	58	3	+1,833.3
Total	587	191	+207.3
Operating profit (loss) (US$ million)			
China	4	7	-42.9
U.S.	337	(41)	N/A
Others	71	25	+184.0
Total	412	(9)	N/A

We are the world's largest hog producer. In 2014, the Group produced 17,685 thousand hogs, a 223.9% increase as compared to the previous year. The significant increase in hog production volume was primarily due to our acquisition of Smithfield. Our hog production volume in China was 311 thousand heads in 2014, comparable to the previous year. Smithfield contributed 17,374 thousand hogs to our hog production volume in 2014 (2013: 5,149 thousand), including 14,724 thousand heads in the U.S. and an aggregate of 2,650 thousand heads in Poland and Romania.

In 2014, hogs produced by our farms in China accounted for 1.9% of hogs processed (2013: 2.0%). In the U.S., we produced 52.8% of hogs processed on company owned and contract farms (2013: 54.8%). We had approximately 500 company-owned farms and approximately 2,190 contract farms in the U.S. as at December 31, 2014. Under our contract farm arrangements, contract farmers provide the initial facility investment, labor and frontline management in exchange for fixed service fees to raise hogs produced from our breeding stock under agreements typically ranging between five and ten years. We retain ownership of the hogs raised by our contract farmers. In 2014, approximately 76% of Smithfield's hogs produced in the U.S. were finished on contract farms. Feed grains, including corn, soybean meal and wheat used in our hog production operations in the U.S. are purchased through forward purchase contracts.

Turnover from our hog production operations increased from US$191 million in 2013 to US$587 million in 2014 as a result of the full year effect of contribution of Smithfield and the high hog prices in the U.S.. Turnover from hog production operations in China decreased by 56.3% from US$16 million for the year ended December 31, 2013 to US$7 million for the year ended December 31, 2014. Smithfield contributed US$580 million to our hog production turnover in 2014 (2013: US$175 million).

Operating profit of the Group's hog production business turned from a loss of US$9 million in 2013 to a profit of US$412 million in 2014. Operating profit for our operations in China decreased from US$7 million in previous year to US$4 million for the year ended December 31, 2014 which was primarily a result of the decrease in hog prices during the year. Smithfield contributed US$408 million to our operating profit for hog production in 2014 (2013: operating loss of US$16 million) as market fundamentals including hog price, feed grains cost, domestic and export demand in the U.S. were favorable in 2014. More discussion about our management of commodities price is set out in the section headed "Commodities Price Management" of this report.

Others

In addition to packaged meat products, fresh pork and hog production operations, the Group also engages in certain other businesses that are ancillary to our three primary business segments. In China, these mainly include manufacturing and sales of packaging materials, provision of logistics services, operating a chain of retail grocery stores, producing flavoring ingredients and natural casings, and sales of biological pharmaceutical materials. In Europe, these relate primarily to slaughtering and sales of poultry. For the year ended December 31, 2014, turnover generated from our other businesses amounted to US$412 million, a 34.2% increase as compared to US$307 million in 2013.

For our logistics business in China, we have 17 logistics centers across 14 provinces in China, covering not only the majority of economically developed and densely populated areas but also the majority of rural areas. As at December 31, 2014, our logistics network owned over 1,200 refrigerated and 200 ambient temperature transport vehicles, supplemented by approximately 1,500 delivery vehicles owned by third-party contract operators. Our logistics network is also supported by seven dedicated rail lines connecting our operating facilities to the Chinese national railway system, six of which are owned by us.

Currently, the logistics network operated by us is primarily dedicated to provide timely and safe delivery of packaged meat products and fresh pork products to our customers.

Prospects

2014 was a remarkable year for the Group. With a common vision, we achieved solid performance. Although the operating environment ahead is ever-changing and short-term commodities price volatility is hard to eliminate, our Group remains a growth story. We will adhere to our corporate strategies to maintain and strengthen our industry leading position as the world's largest pork company, to allocate our global resources to speed up global expansion, and to provide consumers with safe, high-quality and delightful products.

Capital Resources and Liquidity

Liquidity

The Group continues to maintain a solid and healthy financial position. We had bank balances and cash of US$978 million as at December 31, 2014 (2013: US$875 million). Our bank balances and cash are held primarily in RMB, U.S. dollars, Polish Zloty and Romanian Lei.

We also had available-for-sale investments of US$209 million as at December 31, 2014 (2013: US$151 million). Our available-for-sale investments consist of financial products that we purchase as part of our treasury management strategy to obtain higher yields than we can otherwise receive on regular bank deposits. We will assess, among other things, the return and risks, purchase amount, type of financial product and counter party in each and every investment decision. The investments that we own are primarily principal-guaranteed financial and trust products issued by banks, trust companies and mutual funds of maturity less than 12 months. We invest in financial products primarily through our subsidiary in China, Shuanghui Development. Pursuant to Shuanghui Development's investment policy, Shuanghui Development's investment in financial products cannot exceed 35% of its most recently reported audited net assets.

Our current ratio was 1.7:1 as at December 31, 2014 (2013: 1.8:1).

EBITDA and cash flows

We fund our operations principally from cash generated from our operations, borrowings and 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.

The Group's consolidated EBITDA in 2014 amounted to US$2,158 million (2013: US$461 million). For the year ended December 31, 2014, net cash from operating activities amounted to US$1,560 million (2013: US$700 million).

Our net cash used in investment activities in 2014 amounted to US$721 million, including US$699 million in relation to purchases of property, plant and equipment. In the previous year, net cash used in investing activities was US$5,015 million, including US$295 million in relation to purchases of property, plant and equipment and US$4,652 million as the net cash outflow on acquisition of Smithfield.

Our net cash used in financing activities in 2014 amounted to US$652 million (2013: net cash from financing activities amounted to US$4,411 million), reflecting dividends paid in the amount of US$191 million (2013: US$90 million) to the minority shareholders of Shuanghui Development and its subsidiaries, a net repayment in borrowings of US$2,751 million (2013: net proceed of US$4,505 million) primarily in relation to the prepayment of the Repaid Portion of the Syndicated Term Loan by applying the net IPO Proceeds (as defined below) and internally generated cash.

In 2014, our net increase in cash was US$187 million (2013: US$96 million). For further information of the Group's cash flows, please see the section headed "Consolidated Statement of Cash Flows" in this report.

Use of proceeds from the global offering

On August 5 2014, our Shares were successfully listed on the Main Board of the Stock Exchange. Together with the full exercise of the Over-allotment Option on August 6, 2014, we raised in aggregate US$2,284 million of net proceeds after deducting underwriting fees and other related expenses (the "**net IPO proceeds**").

Up to December 31, 2014, the Group had used the entire amount of the net IPO proceeds for debt repayment in accordance with the proposed usage as set out in the Prospectus.

Key changes in debt financing

To finance our acquisition of Smithfield by way of merger in September 2013, the Group obtained the Syndicated Term Loan, issued senior unsecured notes in aggregate amount of US$900 million and consolidated Smithfield's debt obligations. As at September 26, 2013, upon completion of the acquisition of Smithfield, total borrowings of the Group was US$7,962 million. As at December 31, 2013, total borrowings of the Group was US$7,432 million.

With the net IPO proceeds and the strong cash flow generated by our operations in 2014, we early settled the Repaid Portion of the Syndicated Term Loan. With repayment of debts by operating cash, Smithfield has also returned to its pre-merger debt level. As at December 31, 2014, total borrowings of the Group was US$4,670 million, representing a year on year decrease of US$2,762 million.

On September 30, 2014, the Group completed the Refinancing with 12 banks. The New Syndicated Term Loan lowers the interest rate by as much as 2.02% per annum with reference to the consolidated leverage ratio of the Group.

Subsequently near the year end of 2014, the Group commenced a cash tender offer for our senior notes, subject to a maximum aggregate purchase price of up to US$275 million. As a result, we repurchased US$258 million principal amount of senior notes and replaced them with lower cost financing.

Our treasury will continue to seek opportunities for further improvement of the Group's capital structure and cost of borrowings.

Debt profile

Borrowings of the Group amounted to US$4,670 million as at December 31, 2014 (2013: US$7,432 million), out of which, 98.2% is unsecured. Certain borrowings of the Group were secured by pledged bank deposits and other assets as more particularly disclosed in Note 41 to the consolidated financial statements as at December 31, 2014 and 2013.

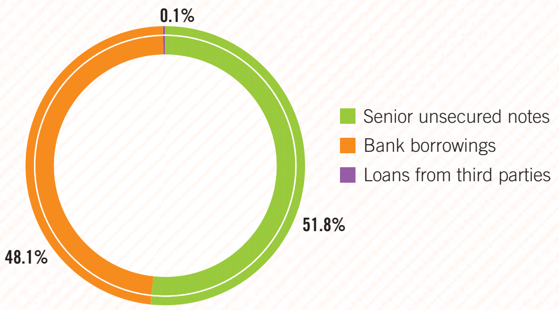
Our borrowings are denominated in currencies either directly related to the Group's businesses in the countries of the currencies concerned, or balanced by assets in the same currencies. As at December 31, 2014, US$4,536 million of our borrowings are denominated in US$, US$80 million are denominated in RMB and US$54 million are denominated in EUR, British Pounds and Polish Zloty.

The Group's total principal amount of borrowings as at December 31, 2014 decreased 37.7% to US$4,639 million (2013: US$7,442 million). The maturity profile of the Group's total principal amount of borrowings as at December 31, 2014 is analyzed as below:

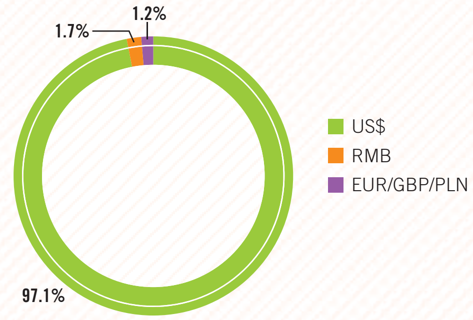
	Total
In 2015	16%
In 2016	5%
In 2017	17%
In 2018	21%
In 2019	11%
In 2020	–
In 2021	9%
In 2022	21%
Total	100%

Certain Group's borrowings contain affirmative and negative covenants that are subject to certain qualifications and exceptions. The Group has no material default in repayment of the bank borrowings, nor did it breach any relevant financial covenants for the year ended December 31, 2014 and 2013.

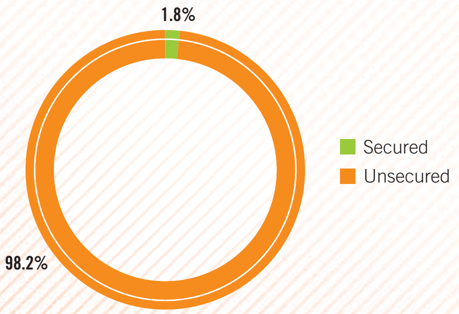
2014 borrowings by types



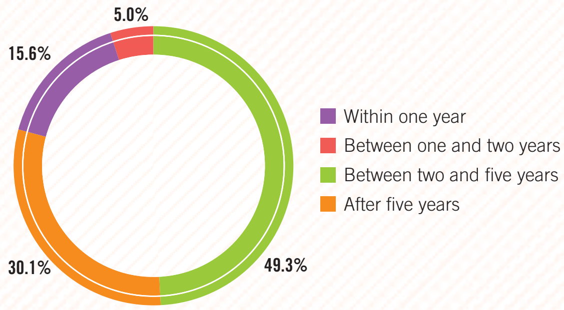
2014 borrowings by currencies



2014 borrowings – secured and unsecured



2014 borrowings by maturity



Credit profile

The Group aims to maintain a capital structure that is appropriate for its long-term growth and development. The current corporate ratings of Smithfield from Moody's and Standard & Poor's are Ba3 and BB, respectively.

Available facilities

As at December 31, 2014, we had aggregate credit facilities in the amount of US$7,196 million (2013: US$6,244 million).

Leverage ratios

The Group's leverage ratios have been improving. Our debt-to-equity ratio decreased from 236.8% as at December 31, 2013 to 77.2% as at December 31, 2014. Our net debt to equity ratio decreased from 209.0% as at December 31, 2013 to 61.0% as at December 31, 2014. Our net debt to EBITDA ratio has also been improved to 1.7 times.

Finance costs

Our finance costs increased from US$120 million in 2013 to US$371 million in 2014. The increase was primarily due to our acquisition of Smithfield. The weighted average interest rate of our borrowings as of December 31, 2014 was 4.8% (2013: 4.7%).

Finance costs in 2014 and 2013 included the amortisation of transaction costs and interest in respect of the Repaid Portion of the Syndicated Term Loan, amounting to US$94 million and US$29 million, respectively. Finance costs in 2014 also included US$30 million of accelerated amortisation expense in relation to the Refinancing (2013: Nil). Excluding such, our finance costs were US$247 million and US$91 million for the year ended December 31, 2014 and 2013, respectively.

Capital Expenditures

Our capital expenditures are primarily in relation to the construction of production plants and factories, the renovation and upgrading of existing facilities as well as the continuous conversion of individual gestation stalls to group pens. We fund these expenditures from internally generated resources, bank loans and capital injections.

In 2014, capital expenditures of the Group amounted to US$952 million (2013: US$331 million). The following table sets out our capital expenditures by geographical region for years indicated:

	2014	2013	Change
China	651	261	+149.4
U.S.	253	65	+289.2
Others	48	5	+860.0
Total	952	331	+187.6

In China, our capital expenditures in 2014 were primarily related to the production plants in Zhengzhou, Xianyang, Nanning and Kunming. In the U.S. our capital expenditures in 2014 were for plants and hog farm improvement projects, including the replacement of gestation stalls with group pens and the introduction of new production line.

The table below sets forth the production capacity per annum and utilisation rates for our production facilities for packaged meat products and slaughtering operations in the years indicated.

	Packaged Meat				Fresh Pork			
	Annual Capacity		Utilisation Rate		Annual Capacity		Utilisation Rate	
	2014	2013	2014	2013	2014	2013	2014	2013
	(million metric tons)		(%)		(million heads)		(%)	
China	2.3	2.1	73.8	84.6	20.4	19.6	73.5	71.9
U.S.	1.5	1.5	84.1	86.7	30.2	30.2	90.7	96.9
Others	0.2	0.2	87.0	92.5	4.7	4.2	90.5	90.0

Notes:

(1) Production capacity relates to the designed annual production capacity of our production facilities in operation at the end of the year, which may not be a constant variable throughout the year.

(2) Production capacity for packaged meat products in China is calculated on a 310-day basis. Each day has three eight-hour working shifts.

(3) Production capacity for slaughtering operation in China is calculated on a 350-day basis. Each day has one eight-hour working shift. Given the (i) perishability and (ii) transportation costs of the live hogs used in our hog slaughtering operation, a single slaughtering facility may only cover the surrounding area within a limited radius, which we believe is in line with the industry norm in China. Considering the highly fragmented hog production industry in China where sub-scale and independent farm breeding is still the prevalent production model, we intend to continue to develop new slaughtering facilities in strategic locations.

(4) Production capacity for hog production in China has been calculated as the designed annual hog production capacity of the given hog production facilities in operation at the end of the year.

(5) Production capacity for packaged meat products, slaughtering and hog production operations in the U.S. and others has been calculated based on the assumption that there are 5 days a week and 52 weeks a year.

(6) Utilisation rate is calculated as the production volume for the relevant year as a percentage of the production capacity as adjusted for changes in production capacity as at each month-end and period length.

(7) Utilisation rate in the U.S. and others has been calculated in full year basis.

Biological Assets

As at December 31, 2014, we had a total of 11.8 million hogs, consisting of 10.7 million live hogs and 1.1 million breeding stock, a 2.7% increase from 11.5 million hogs as at December 31, 2013. The fair value of our biological assets was US$1,234 million as at December 31, 2014 as compared to US$1,320 million as at December 31, 2013.

Our results have been, and we expect will continue to be, affected by changes in the fair value of our biological assets. Fair value of our biological assets is with reference to the market-determined prices, species, growing conditions, cost incurred and the professional valuation. Our cost of sales are adjusted for changes in the fair value of biological assets, with fair value gains increasing our costs of sales and fair value losses decreasing our costs of sales, although the timing of these adjustments are not necessarily the same as the related gains or losses. Our cost of sales in each period/year are adjusted by (i) the change in the fair value of hogs less cost to sell at the point of harvest for hogs slaughtered during that period and (ii) the change in fair value less cost to sell of biological assets recognized in the previous periods. These adjustments increased our cost of sales by US$682 million and US$23 million in 2014 and 2013, respectively. In addition, changes in the fair value arising from agricultural produce at fair value less cost to sell at the point of harvest and changes in fair value less costs to sell of biological assets also resulted in gains of US$635 million and US$92 million, respectively in 2014 (2013: US$17 million and US$47 million). For the year ended December 31, 2014, the net impact of biological fair value adjustments on our profit for the year was a gain in the amount of US$29 million, as compared to a gain in the amount of US$26 million in the previous year.

Key Investment Interests

Mexican joint ventures

The Group has joint venture interests in two pork companies in Mexico, Granjas Carroll de Mexico ("**GCM**") and Norson Holdings ("**Norson**"). GCM sells live hogs into the Mexico City market, one of the largest markets in the world. Norson primarily produces hogs for use in its fresh pork operations. As at December 31, 2014, GCM and Norson had in aggregate approximately a hundred thousand sows on the farms in the states of Veracruz, Puebla and Sonora.

Campofrio

We hold a 37% equity interest in Campofrio, a packaged meat products company headquartered in Madrid, Spain, with operations in Spain, France, the Netherlands, Germany, Belgium, Italy, Portugal and the U.S. and market penetration into 27 European Union countries. Campofrio's portfolio of brands for its packaged meat products have leading positions in numerous European countries, including Spain, Portugal, Italy, France, the Netherlands and Belgium.

These brands include the Campofrio, Fiorucci, Carolli, Cesar Moroni, Revilla, Aoste, Nobre, Stegeman, Marcassou, Navidul and Noere brands. Campofrio has packaged meat products covering all key product segments, with particular focus on dry sausages as well as dried and cooked ham. It has market leading positions in cured and dried hams, hot dogs, bacon, deli meats, dry sausages, chorizo, and cocktail sausage.

On January 1, 2014, we entered into an agreement with Sigma Alimentos S.A. de C.V. ("**Sigma**") and certain of its affiliates to launch a joint tender offer for 100% of the outstanding shares of Campofrio's common stock. Pursuant to the agreement with Sigma, we will continue to own an approximately 37% equity interest in Campofrio upon completion of the joint tender offer, while Sigma, which already beneficially owned an approximately 46.8% equity stake in Campofrio immediately before the launch of the joint tender offer, agreed to fund the purchase of any Campofrio shares that are tendered in the joint tender offer. The agreement also provides for the de-listing of Campofrio. The joint tender offers launched on May 22, 2014 and ended on June 5, 2014. Approximately 13.5 million shares of Campofrio were tendered at a price of 6.90 euros per share. Upon completion of the joint tender offer, Sigma held approximately 61.3% of the equity interest in Campofrio while our stake remained at 37%. On September 19, 2014, Campofrio was delisted from the Madrid and Barcelona Stock Exchanges.

Contingent liabilities

Our wholly owned subsidiary, Smithfield is subject to various laws and regulations administered by the U.S. federal, state and other government entitles, including the United States Environmental Protection Agency and corresponding state agencies, as well as the United States Department of Agriculture, the Grain Inspection, Packers and Stockyard Administration, the United States Food and Drug Administration, the United States Occupational Safety and Health Administration, the Commodities and Futures Trading Commission and similar agencies in foreign countries where it operates like other participants in the industry.

Smithfield receives notices and inquiries from regulatory authorities and others asserting from time to time that Smithfield is not in compliance with the respective laws and regulations. In some instances, litigation ensues and individuals may initiate litigation against Smithfield.

Our management assesses and monitors these contingent liabilities. We believe that their financial and operational impact would not be material to the Group.

Key Risks and Its Management

Treasury Policy

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. Certain entities of the Group have certain sales, purchases, bank balances and cash and borrowings denominated in currencies other than their functional currencies. The carrying amount of our foreign currency denominated monetary assets and monetary liabilities at the year end of 2014 were US$33 million and US$415 million, respectively (2013: US$2 million and US$423 million, respectively). We currently do not have a foreign currency hedging policy. Our management monitors foreign exchange exposure. We enter into foreign exchange forward, currency swaps and options contracts to hedge significant foreign currency exposure should the need arise.

At December 31, 2014, approximately 62.3% of our borrowings were at fixed interest rates (2013: 39.2%) and 37.7% (2013: 60.8%) were at floating interest rates. Our management continue to monitor and regulate our fixed and floating rate debt portfolio from time to time in accordance to the market situation so as to manage our interest rate exposure. We non-periodically enter into interest rate swap contracts for hedging purpose when the interest rate exposure is significant.

Commodities Price Management

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 fresh pork, packaged meat, and hog production operations. The Group's turnover is primary driven by sale of fresh and packaged meats, and, to a lesser degree, sales of hogs to third parties. Significant price fluctuations in these commodities affect our results.

In China, we try to mitigate the effects of price fluctuations through strategic inventory management and by updating the pricing of our fresh pork products promptly following changes in raw material prices.

In the U.S., these commodities are actively traded on commodity exchanges. We hedge these commodities in the U.S. when we determine conditions are appropriate to mitigate price risk. The main objectives of our hedging program are to reduce hog production margin volatility and mitigate commodity price risk associated with forward sales in our fresh pork and packaged meats businesses. While this hedging activity 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. To address the exposures of commodity price, the Group enters into a variety of transactions and the majority of these transactions are consummated through exchange traded futures contracts held with brokers. The Group has robust monitoring procedures in the approval and management of all its derivative activities under the leadership and execution of a dedicated and professional team.

Human Resources

As at December 31, 2014, we had approximately 121 thousand employees, with approximately 73 thousand employees in our China operations and approximately 48 thousand employees in our U.S. and European operations.

We aim to provide employees with resources and an environment that encourages them to develop careers with us. We provide management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge.

We regularly review remuneration and benefits of our employees according to the relevant market practice, employee performance and the financial performance of the Company. We have also adopted share-based incentive schemes to recognize and reward the contribution of our employees, provide incentives to retain them to support our continued growth and to attract suitable personnel for further development. Total remuneration expenses for 2014 amounted to US$2,987 million (2013: US$1,792 million).

Corporate Social Responsibility

Adhering to the highest standards in food safety and product quality is one of our core values. We believe our fully integrated operations, coupled with our stringent quality control standards and production safety systems, ensure consistent and high-quality products. In China, the U.S. and Europe, we operate a platform that seamlessly integrates research and development, production, quality control and distribution. All of our production, processing and distribution facilities have been accredited according to ISO9001, ISO14001, ISO22000, HACCP or other international certification standards.

To ensure product quality in China, we standardize all processes and operate our facilities using the most advanced technologies, following stringent quality control standards in all aspects of our operations. For example, we screen each hog and check each batch of raw materials and finished products of packaged meat products to ensure our products are in compliance with the relevant standards. Our commitment to quality extends beyond production to the transportation and delivery of our products through our ownership of China's largest cold-chain logistics network. Furthermore, our advanced information management systems facilitate the traceability of our products. We also intend to continue to improve our safety and quality monitoring systems across the entire value chain in China by applying industry best practices developed in our U.S. operations and increasing investment in our production facilities.

In the U.S. and Europe, a growing number of our customers prefer suppliers that are vertically integrated and have stringent controls over supply and a commitment to sustainability. All of our major facilities are certified by the Global Food Safety Initiative ("**GFSI**") and utilise industry

lending food safety processes. We have adopted biosecurity systems, stringent supply chain controls and strict protocols to ensure product safety and consistency. Our biosecurity systems safeguard the health of our livestock. Our control systems ensure accurate and efficient product traceability across our integrated production chain. In addition, all Smithfield employees undergo extensive training in food safety policies and procedures – tailored to each of Smithfield's companies – to keep its foods safe. There are also senior-level food safety managers at each of our independent operating companies in each of our U.S. and European operations, and all managers undergo specialized training in food safety issues. We have dozens of food safety and food science professionals (including a team of leading industry microbiologists, two of whom received a prestigious award from the American Meat Institute in 2012), who are responsible for ensuring food safety management and product quality. To better share knowledge and foster continuous improvement in food safety, we also have a senior-level, cross-functional Food Safety Council that represents the major subsidiaries of our U.S. and European operations.

Our operations in the U.S. are also currently in the process of undergoing a voluntary, ten-year program to phase out individual gestation stalls at our company-owned sow farms and replace individual gestation stalls with group pens. This program represents a significant financial commitment and reflects our desire to be more animal friendly. In January 2014, we announced the recommendation that all of our contract sow growers in our U.S. operations join us in converting their facilities to group housing systems for pregnant sows. We asked contract sow growers to convert by 2022 and offered a sliding scale of incentives to accelerate that timetable through the receipt of contract extensions upon completion of the conversion.

We have recently established a Food Safety Committee and an Environmental, Social and Governance Committee under the Board, in order to further strengthen our uniformed management of and control over our food safety and better fulfill our social responsibility.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

The Board consists of nine Directors, of whom five are executive Directors, one is a non-executive Director and the remaining three are independent non-executive Directors.

WAN Long (萬隆)

Executive Director, Chairman and Chief Executive Officer

WAN Long (萬隆) aged 74, was appointed as a Director on October 16, 2007 and has been the Chairman of our Board since November 26, 2010. He was designated as our executive Director on December 31, 2013 and has been the Company's chief executive officer since October 2013. Mr. Wan has been the chairman of the board of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 20, 2012. Mr. Wan joined Henan Luohe Meat Products Processing United Factory (河南省漯河市肉類聯合加工廠) in May 1968 and became the general manager of the factory in 1984. Under Mr. Wan's direction, our business has grown from a local state-owned enterprise in Henan Province into an international company with operations spanning various continents. Mr. Wan has over 40 years of experience in the meat processing industry. He has been a representative of the Ninth to Twelfth China's National People's Congress (中國人民共和國全國人民代表大會) in 1998, 2003, 2008 and 2013 and was appointed as an executive director of the China Meat Association (中國肉類協會) effective until December 2011 and a senior consultant of the China Meat Association (中國肉類協會) in 2001. Mr. Wan obtained his bachelor's degree in business management from the Henan University of Animal Husbandry and Economy (河南牧業經濟學院, previously The Henan Business College (河南商業專科學校)) in May 1991 and was awarded the senior economist professional qualification issued by the Henan Province Advanced Professional Titles Adjudication Committee (Economic Disciplines) (河南省經濟系列高級評審委員會) in July 1999.

JIAO Shuge (焦樹閣)

Non-Executive Director and Deputy Chairman

JIAO Shuge (焦樹閣), aged 49, was appointed as our Director on April 28, 2006 and as the deputy chairman of our Board on November 26, 2010. He was designated as a non-executive Director on December 31, 2013. Mr. Jiao has been a director of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 20, 2012, and was appointed as a director of CDH Shine, CDH Shine II Limited, CDH Shine III Limited and CDH Shine IV Limited, each of which is a Shareholder of the Company, on February 27, 2006, March 9, 2007, July 27, 2009 and December 16, 2009, respectively. Mr. Jiao is also currently a director and managing partner of CDH China Management Company Limited. Mr. Jiao is a member of the remuneration committee of the Company.

Mr. Jiao was a researcher in the China Aerospace Service and Technology Corporation (中國航天科技集團公司第710研究所) from August 1989 to January 1995. He served as the vice general manager of the direct investment department of China International Capital Corporation Ltd. (中國國際金融有限公司) from December 1995 to August 2002. Mr. Jiao has a broad range of experience serving as directors of various listed companies, including as a non-executive director from February 18, 2004 to April 12, 2012 and as an independent non-executive director since April 12, 2012 of China Mengniu Dairy Co., Ltd. (a company listed on the Stock Exchange with stock code 02319). He also served as a non-executive director of China Yurun Food Group Limited (a company listed on the Stock Exchange with stock code 01068) from April 13, 2005 to September 22, 2012, a non-executive director of China Shanshui Cement Group Co., Ltd. (a company listed on the Stock Exchange with stock code 00691) from November 30, 2005 to May 16, 2014 and a director of Joyoung Company Limited (a company listed on the Shenzhen Stock Exchange with stock code 002242) from September 12, 2007. Mr. Jiao graduated from Shandong University (山東大學) with a bachelor of mathematics in July 1986, and obtained his master 's degree in engineering from the No.2 Research Institute of Ministry of Aeronautics and Astronautics of China in October 1989.

GUO Lijun (郭麗軍)

Executive Director, Vice President and Chief Financial Officer

GUO Lijun (郭麗軍), aged 44, was appointed as an executive Director on December 31, 2013. He has also served as a vice president and the chief financial officer of the Company since January 2014. Prior to this, Mr. Guo was our deputy chief executive officer from October 2013. Mr. Guo has over 20 years of experience overseeing the financial operations of various companies. Mr. Guo worked as an accountant in the finance department of the Henan Luohe Meat Products Processing United Factory (河南省漯河市肉類聯合加工廠) from June 1993 to March 1996. Mr. Guo was also the financial controller of Luohe Chinachem Shuanghui Packaging Industry Co., Ltd. (漯河華懋雙匯化工包裝有限公司) and Luohe Chinachem Shuanghui Plastic Processing Co., Ltd. (漯河華懋雙匯塑膠工程有限公司) from April 1996 to February 2001. Mr. Guo held various positions in Shuanghui Group from March 2001 to August 2012, including serving as its deputy director, its director of the finance department and its chief financial officer. In addition, Mr. Guo was also the executive vice president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) from August 2012 to October 2013.

Mr. Guo obtained his adult higher education diploma in financial accounting from Henan Radio and Television University (河南廣播電視大學) in July 1994 and obtained the completion certificate for the master of business administration program of the Graduate School of Renmin University (中國人民大學研究生院) in December 2004. Mr. Guo received his assistant accountant certificate awarded by the PRC Ministry of Personnel (中華人民共和國人事部) in October 1994.

YANG Zhijun (楊摯君)
Executive Director and Vice President

YANG Zhijun (楊摯君), aged 41, was appointed as a Director on October 16, 2007, and designated as an executive Director and a vice president of the Company on January 21, 2014. With over 17 years of experience within the Group, Mr. Yang worked as a workshop employee in Chinachem Shuanghui Industry (Group) Co., Ltd. (華懋雙匯實業(集團)有限公司) from July 1996 to December 1996, and held various positions in Shuanghui Group, including as a chairman secretary from 1997 to 2003, as a deputy director of the project reorganization office from 2004 to 2007 and as a director and the board secretary from 2007 to 2008. Mr. Yang has also served as the managing director of Rotary Vortex since December 2010. Mr. Yang worked as the Company's general manager from January 2012 to July 2013 and as our chief executive officer from July 2013 to October 2013 and our deputy chief executive officer from October 2013 to January 2014.

Mr. Yang graduated from Sichuan University (四川大學) with a Russian literature and language degree in July 1996. In addition, Mr. Yang obtained his EMBA degree from the Henry B. Tippie College of Business, University of Iowa, in the United States in December 2005.

POPE C. Larry
Executive Director, President and Chief Executive Officer of Smithfield

POPE C. Larry, aged 60, was appointed as an executive Director on December 31, 2013. Mr. Pope has served as the chief executive officer of Smithfield, a company previously listed on the New York Stock Exchange and our wholly owned subsidiary, since September 2006 and its president since October 2001. In addition, Mr. Pope served as the director of Smithfield from August 2006 to May 2013 and from September 2013 to the present. Mr. Pope has also served as a director of Campofrio (a company previously listed on the Bolsa de Madrid Exchange with stock code CFG and on the Bolsa de Barcelona Exchange with stock code CFG) since October 24, 2008. Mr. Pope has expertise in corporate strategy, organizational leadership and international operations. Mr. Pope's over 30 year career at Smithfield spans a variety of senior management roles and responsibilities which bring an in-depth knowledge of the Group's U.S. and international business segments. He joined Smithfield in 1980, serving as the controller until 1999; served as its vice president, finance from 1999 to 2000; served as its chief financial officer from October 2000 to June 2001; and served as its president and chief operating officer from 2001 to 2006. He obtained his bachelor of business degree in 1975 and his master of business administration degree in August 1994 from The College of William and Mary in Virginia.

ZHANG Taixi (張太喜)
Executive Director, President of Shuanghui Development

ZHANG Taixi (張太喜), aged 42, was appointed as an executive Director on December 31, 2013. Mr. Zhang has been appointed as a director of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since March 17, 2014, and has been its president since August 25, 2012. From 1996 to September 2007, Mr. Zhang worked as a workshop manager in Luohe Canned Foods Company Limited (漯河罐頭食品股份有限公司); as the deputy director of the control center, the workshop manager and the deputy factory director of the Shuanghui Development Meat Products Division Factory (雙匯發展肉製品分廠); and as a general manager of the Ham Sausage Factory of Shuanghui Development (雙匯發展火腿腸分廠). He served as the general manager of Tangshan Shineway Food Co., Ltd. (唐山雙匯食品有限責任公司) from July 2008 to September 2008 and Jiangsu Huai'an Shuanghui Food Co., Ltd. (江蘇淮安雙匯食品有限責任公司) from October 2008 to May 2011. From June 2011 to August 2012, Mr. Zhang worked as the general manager of the business division of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary). Mr. Zhang graduated from Luoyang Agricultural College (洛陽農業高等專科學校) and obtained his associate degree of sanitary inspection of foodstuffs (食品衛生檢驗) in July 1995.

HUANG Ming (黃明)
Independent Non-executive Director

HUANG Ming (黃明), aged 51, was appointed as one of our independent non-executive Directors on July 16, 2014 with effect from the Listing Date. Mr. Huang served as an assistant professor of finance at the Graduate School of Business, University of Chicago from April 1996 to June 1998; as an assistant professor of finance from July 1998 to August 2001 and as an associate professor from September 2001 to June 2005 at the Graduate School of Business, Stanford University; and as an associate dean and professor of finance from July 2004 to June 2005 and a professor of finance from July 2008 to June 2010 at the Cheung Kong Graduate School of Business (長江商學院). Mr. Huang was also appointed as the Dean of School of Finance of Shanghai University of Finance and Economics (上海財經大學) from April 2006 to April 2009. He has been a professor of finance with tenure at Cornell University since July 2005, and has been a chair professor of finance at China Europe International Business School (中歐國際工商學院) since July 2010.

Mr. Huang has served as an independent non-executive director of Yingli Green Energy Holding Company Limited (a company listed on New York Stock Exchange with stock code YGE) since August 2008, Fantasia Holdings Group Co., Ltd. (a company listed on the Stock Exchange with stock code 01777) since October 2009 and China Medical System Holdings Limited (a company listed on the Stock Exchange with stock code 00867) since October 2013. In addition, he has served as a non-executive director of Qihoo 360 Technology Co. Ltd. (a company listed on New York Stock Exchange with stock code QIHU) since March 2010, Guosen Securities Co. Ltd. (國信證券股份有限公司) and Tebon Securities Co., Ltd. (德邦證券股份有限公司) since June 2011.

Mr. Huang obtained his bachelor's degree in physics from Peking University in July 1985, his doctor's degree in physics from Cornell University in July 1991 and his doctor's degree in finance from Stanford University in August 1996.

LEE Conway Kong Wai (李港衛)
Independent Non-executive Director

LEE Conway Kong Wai (李港衛), aged 60, was appointed as one of our independent non-executive Directors on July 16, 2014 with effect from the Listing Date. Mr. Lee is currently a non-executive director and the deputy chairman of Merry Garden Holdings Limited (a company listed on the Stock Exchange with stock code 01237). In addition, Mr. Lee has extensive experience as an independent non-executive director of listed companies and currently serves as an independent non-executive director in the following companies listed on the Main Board of the Stock Exchange: Chaowei Power Holdings Limited (with stock code 00951) since July, 2010, West China Cement Limited (with stock code 02233) since July 2010, China Modern Dairy Holdings Ltd. (with stock code 01117) since December, 2010, Gome Electrical Appliances Holding Limited (with stock code 00493) since March 2011, Tibet 5100 Water Resources Holdings Ltd. (with stock code 01115) since March 2011, CITIC Securities Company Limited (with stock code 06030) since November, 2011, NVC Lighting Holding Limited (with stock code 02222) since November 2012, Yashili International Holdings Ltd. (with stock code 01230) since November 2013. Formerly, Mr. Lee also served as an independent non-executive director of China Taiping Insurance Holdings Company Limited (a company listed on the Stock Exchange with stock code 00966) from October 2009 to August 2013, and of Sino Vanadium Inc. (a company listed on the Toronto Stock Exchange with stock code SVX) from October 2009 to December 2011. Mr. Lee had been a partner of Ernst & Young (HK) from September 1980 to September 2009.

Mr. Lee has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2008. He received a bachelor's degree in arts from Kingston University (formerly known as Kingston Polytechnic) in London in July 1980 and subsequently obtained his postgraduate diploma in business from Curtin University of Technology in Australia in February 1988. He is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants.

LAU, Jin Tin Don (劉展天)
Independent Non-executive Director

LAU, Jin Tin Don (劉展天), aged 58, was appointed as one of our independent non-executive Directors on July 16, 2014 with effect from the Listing Date. Mr. Lau is currently a managing director and one of the responsible officers of Spring Asset Management Limited, a company incorporated in Hong Kong for the sole purpose of managing Spring Real Estate Investment Trust (a Hong Kong collective investment scheme listed on the Stock Exchange with stock code 01426). Prior to joining Spring Asset Management Limited in 2013, he was the deputy group financial controller of Yuexiu Property Company Limited (a company listed on the Stock Exchange with stock code 00123). From 2005 to 2010, he was also the deputy chief executive officer, compliance manager and one of the responsible officers of Yuexiu REIT Asset Management Limited which is responsible for managing the assets of Yuexiu Real Estate Investment Trust (a Hong Kong collective investment scheme listed on the Stock Exchange with stock code of 00405).

Mr. Lau obtained a master's degree in applied finance from Macquarie University. He is also a responsible officer licensed under the SFO to carry on type 9 regulated activities.

Senior Management

Our senior management is responsible for the day-to-day management of our business.

QIAO Haili (喬海莉)

QIAO Haili (喬海莉), aged 51, has served in various positions within the Group. She has been the vice president of the production and operations division of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since November 2014, responsible for the production and operations work stream of Shuanghui Development. Ms. Qiao has served as the vice president and general manager of Shuanghui Development's meat processing division from September 2012 to October 2014 and a deputy general manager of its meat product department from August 2009 to August 2012, where she has been primarily responsible for the general operation of meat products production. Ms. Qiao served as a deputy director of the hygiene inspection department and as a workshop manager of Shuanghui Group from August 1986 to September 1995. Ms. Qiao also served as a director of the hygiene inspection department and the third business division of Shuanghui Group from September 1995 to February 1998. In addition, Ms. Qiao served as the general manager in Luohe Shuanghui Canned Foods Company Limited (漯河雙匯罐頭食品股份有限公司) from February 1998 to October 2004; as a director in Shuanghui Development from November 2001 to October 2004; and as the general manager in Shuanghui Development Meat Processing Division Factory (雙匯發展肉製品分廠) from November 2004 to August 2009. Ms. Qiao obtained her associate veterinarian degree from the Zhengzhou Junior College of Animal Husbandry and Veterinary Medicine (鄭州畜牧獸醫專科學校) in July 1986. She also obtained the completion certificate for the master of business administration program from the Graduate School of Renmin University (中國人民大學研究生院) in March 2005. Ms. Qiao received her qualified veterinarian certificate issued by the People's Government of Luohe City in December 1998.

MA Xiangjie (馬相傑)

MA Xiangjie (馬相傑), aged 43, has served as the vice president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) and as the general manager of its fresh food division since August 2012. Mr. Ma has over 17 years of work experience with the Group. Mr. Ma was the deputy director of the fresh meat products department of Shuanghui Development from September 2008 to August 2010. He also served as the general manager of the integrated business department of Shuanghui Group from September 2010 to April 2012. In addition, he has worked as the director of Shuanghui Development Ingredients Factory (雙匯發展香輔料分廠) since May 2001; as general manager of Luohe Shineway Haiying Seasoning Food Co., Ltd. (漯河雙匯海櫻調味料食品有限公司) since August 2003; as general manager of Luohe Tianrui Biochemicals Co., Ltd. (漯河天瑞生化有限公司) since April 2004; as a managing director of Luohe Shuanghui Food Sales Co., Ltd. (漯河雙匯食品銷售有限公司) since October 23 2012; as a director of Fuxin Shuanghui Meat Processing Co., Ltd. (阜新雙匯肉類加工有限公司) since February 22, 2013; as a director of Heilongjiang Baoquanling Shuanghui Beidahuang Food Co., Ltd. (黑龍江寶泉嶺雙匯北大荒食品有限公司) since February 22, 2013 and as a director of Shaanxi Shuanghui Food Co., Ltd. (陝西雙匯食品有限公司) since November 5, 2013. He graduated from the faculty of processing and storage of agricultural products from the Henan Agricultural University (河南農業大學) in July 1996, obtained the completion certificate for the master of business administration program of the Graduate School of Renmin University (中國人民大學研究生院) in March 2005 and received his master's degree in food engineering from the Northwest A&F University (西北農林科技大學) in June 2010. In addition, Mr. Ma obtained his qualification as an engineer of light industries issued by the People's Government of Henan Province in December 2002.

WANG Yufen (王玉芬)

WANG Yufen (王玉芬), aged 47, has served as the vice president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary), being in charge of technology research, since September 2012, and as the chief engineer of Shuanghui Development for over 15 years since March 1998. Ms. Wang has worked with the Group for over 25 years. Ms. Wang served in Henan Luohe Meat Products Processing United Factory Meat Product Branch (河南省漯河肉聯廠肉製品分廠) from October 1987 to August 1991 as a technician, from August 1991 to September 1992 as a director, and from September 1992 to March 1993 as the deputy head. She was the institute director of Henan Luohe Meat Products Processing United Factory Food Institute (河南省漯河肉聯廠食品研究所) from March 1993 to March 1998. Ms. Wang was a director of the technology center of Shuanghui Group from March 1998 to November 2001. Ms. Wang completed her correspondence studies in food engineering in Zhengzhou University of Light Industry (鄭州輕工業學院) in June 1997 and obtained her senior engineer of food research certificate issued by the People's Government of Henan Province in May 2002.

LIU Songtao (劉松濤)

LIU Songtao (劉松濤), aged 38, has served as the vice president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 2012 and is in charge of finance. Previously, Mr. Liu served as a director of the finance department of Shuanghui Group from May 2003 to August 2012, as a director of the finance department of Shuanghui Development Luohe Slaughter Factory (雙匯發展漯河屠宰分廠) from March 2003 to May 2003, and as a director of the finance department of Luohe Huayi Food Co., Ltd. (漯河華意食品有限公司) from March 2002 to March 2003. In addition, Mr. Liu currently serves as the director and/or chairman of the board in various subsidiaries of the Company. Mr. Liu was awarded the bachelor's degree of chrematistics by Henan University (河南大學) in July 2000.

YOU Mu (游牧)

YOU Mu (游牧), aged 47, has served in various positions within the Group. He has been the vice president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) and the general manager of Shuanghui Development's meat products division since November 2014. Previously, he served as the general manager of Shuanghui Group from July 2007 to November 2014 and was appointed as a director of Shuanghui Group since January 14, 2014. In addition, Mr. You served as the manager of the Hangzhou branch of Shuanghui Group Sales Company from March 2002 to February 2003; as the sales manager of Shuanghui Group Sales Company from February 2003 to June 2004; as the general manager from June 2004 to October 2004 and as the general manager of the meat products division from October 2004 to July 2007; and as the director of Shuanghui Development from November 2007 to August 2012. Mr. You graduated from Henan Business College majoring in planning and statistics in July 1991 and obtained the completion certificate for the master of business administration program of the Graduate School of Renmin University (中國人民大學研究生院) in March 2005. Mr. You received his assistant accountant certificate and business marketing economist certificate awarded by the PRC Ministry of Personnel (中華人民共和國人事部) in October 1994 and November 2000, respectively.

SULLIVAN Kenneth M.

SULLIVAN Kenneth M., aged 50, has been the chief financial officer of Smithfield since October 2013, and has assumed the title of Executive Vice President, since March 1, 2015, in addition to his current role as Smithfield's chief financial officer, overseeing consolidated finance, administrative and support services. He has served in various positions within Smithfield and possesses a wealth of accounting and financial management experience. He is responsible for the accounting, tax, treasury, operations analysis, risk management and pension administration departments of Smithfield. Mr. Sullivan joined Smithfield as the vice president of internal audit in June 2003, served as its chief accounting officer from 2007 to 2010, and was the vice president of finance and chief accounting officer from 2010 to 2012. Prior to joining Smithfield, Mr. Sullivan spent twelve years at various large accounting and consulting firms.

Mr. Sullivan has been a Certified Public Accountant in Virginia, U.S. since April 1993. Mr. Sullivan obtained his bachelor of science degree from the School of Business of the Virginia Commonwealth University in August 1988.

MANLY IV Robert W.

MANLY IV Robert W., aged 61, now retired from Smithfield effective from January 30, 2015, has been an executive vice president of Smithfield from August 2006 to January 2015 and its chief synergy officer from October 2013 to January 2015. He has also served as the chief operating officer of Murphy Brown, LLC since 2012. He is responsible for managing the international operations of Smithfield and has a unique mix of financial and operating experience, as well as a broad understanding of the meat industry. Mr. Manly was also a director of Smithfield from 1991 to 1996, the executive vice president of Smithfield from 1986 to 1996, the president and chief operating officer of The Smithfield Packing Company, Incorporated from 1994 to 1995, and the president and chief operating officer of Premium Standard Farms, LLC from 1996 to 2006. Mr. Manly served as the chief financial officer and executive vice president of Smithfield and as the president of Murphy Brown, LLC from 2006 to 2013. Mr. Manly was previously elected the chairman of the American Meat Institute for the 2005 to 2006 term. Mr. Manly received his bachelor's degree of economics from Stanford University in 1975 and his master's degree in business education from Harvard Business School in 1977.

THAMODARAN Dhamu R.

THAMODARAN Dhamu R., aged 60 joined Smithfield in August 1995, and has served as Smithfield's executive vice president and chief commodity hedging officer since July 2011. He is responsible for hedging and mitigating commodity volatilities in the business, and heads the group for research and analysis in global economy and commodities of Smithfield. Dr. Thamodaran joined John Morrell & Co. in August 1990 as director of price risk management. He joined Smithfield as director of price risk management in August 1995, and was promoted to vice president of price risk management in May 1996 and to senior vice president and chief commodity hedging officer in June 2008. Prior to joining John Morrell & Co., he worked for five years at Farmland Industries, which was subsequently acquired by Smithfield.

Dr. Thamodaran obtained his bachelor of science degree in agriculture from the Tamil Nadu Agricultural University in India in 1978, his master of science degree in agricultural economics from the Indian Agricultural Research Institute in India in 1980, and his doctor's in economics from Iowa State University in the U.S. in 1983.

NOWAKOWSKI Dariusz

NOWAKOWSKI Dariusz, aged 61, serves as the president of Smithfield's Europe division and is responsible for all of Smithfield's wholly owned investments in Europe, which comprise the majority of the International Division. Mr. Nowakowski has been a president of Animex Sp. z o.o., our wholly owned subsidiary, since June 2006. He worked in Canada and the U.S. for 25 years and prior to joining Smithfield group in 2006 he worked for major Canadian and U.S. food corporations, including ConAgra Foods and Maple Leaf Foods. Mr. Nowakowski received his master's of science degree in animal sciences from Krakow University of Agriculture in 1980 and his master's of science degree in food science from the University of Saskatchewan, Canada in 1986.

CHAU Ho (周豪)

CHAU Ho (周豪), aged 49, has served as our chief legal officer and as the company secretary since February 2014. Mr. Chau was an assistant to the chairman in China Rongsheng Heavy Industries Group Holdings Limited (listed on the Stock Exchange with stock code 01101) from April 2011 to January 2014 and as assistant to the chairman in Glorious Property Holdings Limited (listed on the Stock Exchange with stock code 00845) from March 2010 to March 2011. Mr. Chau has over 20 years of legal experience. He was an associate and subsequently a partner at the law firm Koo and Partners, which merged with the law firm Paul Hastings Janofsky & Walker (now renamed Paul Hastings), from October 1994 to February 2010. Mr. Chau received his bachelor of laws degree in November 1991 and the postgraduate certificate in laws in November 1992 from the City University of Hong Kong (formerly known as City Polytechnic of Hong Kong). In January 2003, he obtained his bachelor of laws degree from Tsinghua University. Mr. Chau has been qualified to practice as a solicitor in Hong Kong since August 1994 and has been a China-Appointed Attesting Officer since April 2006. He has also been qualified to practice as a solicitor in England and Wales since September 2008.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Company for the Relevant Period.

Commitment to Corporate Governance

As the Company's shares were not yet listed on the Stock Exchange until August 5, 2014, the CG Code contained in Appendix 14 to the Listing Rules was not applicable to the Company for the period before the Listing Date. The Board and the management of the Group are committed to achieving and maintaining high standards of corporate governance, which they consider to be essential to safeguard the integrity of the Group's operations and maintaining investors' trust in the Company. The Group's management also actively observes the latest corporate governance developments in the PRC, Hong Kong and abroad. This Corporate Governance Report explains the Company's corporate governance principles and practices, including how the Board manages the business to deliver long-term shareholder value and to promote the development of the Group.

Corporate governance practices

In the opinion of the Board, the Company has complied with the provisions of the CG Code as set out in Appendix 14 to the Listing Rules throughout the Relevant Period, except for the deviation as disclosed in the section headed "The Board – Board composition – (i) Chairman and chief executive officer" of this report.

Directors' securities transactions

The Company has adopted the 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 under the Code of Conduct during the Relevant Period.

THE BOARD

Roles and Responsibilities

The Board, led by the chairman, Mr. WAN Long, determines and monitors Group-wide strategies and policies, annual budgets and business plans, evaluates the performance of the Company, and supervises the management of the Company.

The Board, which is accountable to the Shareholders for the long-term performance of the Company, is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interests of the Company. It meets these obligations by ensuring the maintenance of high standards of governance in all aspects of the Company's business, setting the strategic direction for the Group and maintaining appropriate levels of review, challenge and guidance in its relationship with Group management. It is also the ultimate decision-making body for all matters considered material to the Group and is responsible for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively.

Board composition

As at December 31, 2014, the Board comprised nine Directors, including five executive Directors, Mr. WAN Long, Mr. GUO Lijun, Mr. YANG Zhijun, Mr. POPE C. Larry and Mr. ZHANG Taixi; one non-executive Director, Mr. JIAO Shuge; and three independent non-executive Directors, Mr. HUANG Ming, Mr. LEE Conway Kong Wai and Mr. LAU, Jin Tin Don. The members of the Board represent a wide background and rich industry experience with appropriate professional qualifications. Please refer to the section headed "Biographies of Directors and Senior Management" for the profiles of the Directors.

Save as disclosed in the section headed "Biographies of Directors and Senior Management", the Directors have no other financial, business, family or other material/relevant relationships with one another.

(i) Chairman and chief executive officer

The roles of the chairman and the chief executive officer of the Company are served by Mr. WAN Long and have not been segregated as required under code A.2.1 of the CG Code. The Company 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.

(ii) Non-executive Director and independent non-executive Directors

During the Relevant Period, the Board had three independent non-executive Directors, being one-third of the Board and at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received annual confirmations from each of the three independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent parties in accordance with the independence guidelines set out in the Listing Rules and free of any relationship that could materially interfere with the exercise of their independent judgments.

Appointment, re-election and removal of Directors

The Company uses a formal and transparent procedure for the appointment of new Directors. Recommendations for the appointment of new Directors are received by the Board from the Nomination Committee. The Board then deliberates over such recommendations prior to approval.

The non-executive Director and independent non-executive Directors have been appointed for a specific term of three years, subject to re-nomination and re-election as required by the Articles of Association of the Company or pursuant to the Listing Rules at the general meetings of the Company.

Meetings

The Board meets on a regular basis, and on an ad hoc basis, as required by business needs. During the Relevant Period, the Board convened two meetings to approve the interim results announcement and financial reports, and to discuss the overall strategy and monitor financial and operation performance of the Company.

The attendance of each individual Director at the board meetings, committee meetings, annual general meeting and extraordinary general meeting during the Relevant Period is set out in the following table:

	Number of meetings attend/held							
Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	ESG Committee Meeting	Food Safety Committee Meeting	Annual General Meeting	Extraordinary General Meeting
WAN Long	2/2	N/A	N/A	0/0	N/A	0/0	N/A	N/A
GUO Lijun	2/2	N/A	N/A	N/A	0/0	N/A	N/A	N/A
YANG Zhijun	2/2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
POPE C. Larry	2/2	N/A	N/A	N/A	0/0	0/0	N/A	N/A
ZHANG Taixi	2/2	N/A	N/A	N/A	0/0	0/0	N/A	N/A
JIAO Shuge	2/2	N/A	0/0	N/A	N/A	N/A	N/A	N/A
HUANG Ming	2/2	2/2	0/0	0/0	N/A	N/A	N/A	N/A
LEE Conway Kong Wai	2/2	2/2	0/0	N/A	N/A	0/0	N/A	N/A
LAU, Jin Tin Don	2/2	2/2	N/A	0/0	0/0	N/A	N/A	N/A

Training for Directors

Upon appointment to the Board, the Directors receive a package of orientation materials on the Group and are provided with a comprehensive induction to the Group's businesses by senior executives.

The Company arranges and provides continuous professional development ("**CPD**") training and relevant reading materials to the Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendance at external forums or briefing sessions (including delivery of speeches) on the relevant topics also counts toward CPD training.

During the Relevant Period, the Directors participated in the following trainings:

Name of Director	Types of Training
Executive Director and Chief Executive Officer	
Mr. WAN Long	A, B
Executive Directors	
Mr. GUO Lijun	A, B
Mr. YANG Zhijun	A, B
Mr. POPE C. Larry	A, B
Mr. ZHANG Taixi	A, B
Non-executive Director	
Mr. Jiao Shuge	A, B
Independent non-executive Directors	
Mr. HUANG Ming	A, B
Mr. LEE Conway Kong Wai	A, B
Mr. LAU, Jin Tin Don	A, B

A: Attending corporate events and/or Board visits and/or executive briefings relevant to the Group's business.
B: Reading or attending briefings and/or seminars and/or conferences relevant to regulatory and governance updates.

Directors' and officers' liability insurance and indemnity
The Company has arranged appropriate liability insurance to indemnify its Directors and officers for their liabilities arising out of corporate activities. During the Relevant Period, no claim had been made against the Directors and the officers of the Company.

Board Committees

The Company's corporate governance is implemented through a structured hierarchy, which includes the Board and five committees of the Board, namely the Audit Committee, the Remuneration Committee, the Nomination Committee, the Environmental, Social and Governance Committee and the Food Safety Committee (collectively the "**Board Committees**"). The Terms of Reference of the Board Committees are available on the Stock Exchange's and the Company's websites. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

The Board is collectively responsible for performing corporate governance duties including:

(a) to develop, review and implement the Company's policy and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the Code of Conduct applicable to employees and directors; and

(e) to review the Company's compliance with the CG Code which is amended from time to time, and its disclosure in the corporate governance report.

Further details of the roles and functions of the Board Committees are set out below.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. LEE Conway Kong Wai, Mr. HUANG Ming and Mr. LAU, Jin Tin Don. Mr. LEE Conway Kong Wai, who has professional qualifications in accountancy, is the chairman of the Audit Committee. The Audit Committee held two meetings during the Relevant Period. Executive Directors, senior management and the external auditor of the Company were invited to join the discussions at the meetings.

The primary duties performed by the Audit Committee during the year were the oversight of the Group's financial reporting system and internal control procedures, monitoring the integrity of the preparation of the Company's financial information including quarterly business highlights, interim and annual results of the Group, reviewing the Group's financial and accounting policies and practises as well as the whistle-blowing arrangements and monitoring the effectiveness of the internal audit function. The Audit Committee also provided oversight for and management of the relationship with the Group's external auditor, including reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. HUANG Ming (the chairman of the committee), Mr. LEE Conway Kong Wai and Mr. JIAO Shuge. The Remuneration Committee did not hold any meeting during the Relevant Period.

The primary duties of the Remuneration Committee are to make recommendations and proposals to the Board in respect of remuneration policies and to review and approve the remunerations which are determined based on the results and performance of the Company by making reference to the Company's objectives as approved from time to time by the Board. The Remuneration Committee consulted the Chairman and/or chief executive about their remuneration proposals for the executive directors and is provided with sufficient resources enabling it to discharge its duties. The Remuneration Committee would access to independent professional advice if necessary. Their written terms of reference are available on the websites of the Company and the Stock Exchange.

The remuneration of Directors is also determined with reference to their experience, qualifications, responsibilities involved in the Company and prevailing market conditions. Details of emoluments of Directors for the year under review are set out in Note 12 to the consolidated financial statements. The emoluments paid to senior management during the year under review were within the following bands:

	Number of Senior Management
HKD51,000,001 to HKD51,500,000	1
HKD55,000,000 to HKD55,500,000	1
HKD76,500,000 to HKD77,000,000	1
HKD80,500,000 to HKD81,000,000	1
Over HKD100,000,000	1

Nomination Committee

The Nomination Committee comprises three members, being an executive Director, Mr. WAN Long, and two independent non-executive Directors, namely Mr. HUANG Ming and Mr. LAU, Jin Tin Don. Mr. WAN Long is the chairman of the committee. The Nomination Committee did not hold any meeting during the Relevant Period.

The primary duties of the Nomination Committee are to review and make recommendations to the Board on the structure, size composition and diversity of the Board, to oversee the identification and assessment of potential board candidates, to provide oversight and direction in respect of the succession planning for directors and to determine the composition of Board Committees.

The Nomination Committee's procedures and criteria for selecting and making recommendations for appointment of Board members are designed to satisfy high standards of corporate governance. These processes meet or exceed the Stock Exchange requirements to ensure that every Director has the requisite character, experience and integrity and is able to demonstrate a standard of competence, commensurate with his position as a director of a listed issuer, and that where nomination of independent non-executive Directors is under consideration the requirements of Rule 3.13 of the Listing Rules are satisfied.

Environmental, Social and Governance Committee

The ESG Committee comprises four members, namely Mr. GUO Lijun (the chairman of the committee), Mr. POPE C. Larry, Mr. ZHANG Taixi and Mr. LAU, Jin Tin Don. The ESG Committee did not hold any meeting during the Relevant Period.

The primary duties of the ESG Committee are to identify the environment, social and governance matters that are relevant and material to the operations of the Group and/or that affect the Shareholders and other key stakeholders, which shall include workplace quality, environmental protection, operating practices, community involvement and animal welfare.

The Group has a heritage of commitment to the local communities in which it conducts business and is committed to the long-term sustainability of the business. The ESG Committee will continue to formulate guidelines and initiatives that can be implemented on a Group-wide level.

Food Safety Committee

The Food Safety Committee comprises four members, namely Mr. WAN Long (the chairman of the committee), Mr. POPE C. Larry, Mr. ZHANG Taixi and Mr. LEE Conway Kong Wai. The Food Safety Committee did not hold any meeting regarding the effective control over food quality and safety matters during the Relevant Period.

The primary duties of the Food Safety Committee are to review, assess and make recommendations on the Company's policies, practices and performance in relation to food quality and safety to comply with the relevant laws and regulations.

Company Secretary

The Company Secretary is accountable to the Board for ensuring that board procedures comply with all applicable laws, rules and regulations and advising the Board on corporate governance matters. The Company Secretary is responsible for keeping all Directors updated on Listing Rules, regulatory requirements, as well as internal codes of conduct of the Company.

The Company Secretary is also directly responsible for the Group's compliance with all obligations of the Listing Rules and The Codes on Takeovers and Mergers and Share Buy-backs, including the preparation, publication and despatch of annual reports and interim reports within the time limits laid down in the Listing Rules, and the timely dissemination to the Shareholders and the market of information relating to the Group.

During the year ended December 31, 2014, the Company Secretary has taken not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

Accountability and Audit

The Directors acknowledged their responsibility to present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports, other price sensitive announcements and other financial disclosures required under the Listing Rules, and to report to regulators as well as to disclose information required pursuant to statutory requirements. When the Directors become aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties would be clearly and prominently set out and discussed in detail in its corporate governance report.

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the consolidated financial statements of the Company for the year ended December 31, 2014 is set out in the Independent Auditor's Report on page 67 of this report.

Internal Control

The internal controls of the Group are designed to help the Group in protecting its assets and information. The presence of internal controls empowers the Group to implement best business practices in challenging business environments. The Group's internal controls cover a number of in-house procedures and policies comprising, among others, the relevant financial, operational and compliance controls and risk management functions.

The Board has, through the Audit Committee, reviewed and is generally satisfied with the effectiveness of the Group's internal control systems, including the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting and financial reporting function.

Independent auditor

The Group's independent auditor is Deloitte Touche Tohmatsu ("**Deloitte**"). Deloitte is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

The Audit Committee reviews and monitors the external auditor's independence and objectivity and effectiveness of the audit process. It receives each year a planning report from the external auditor confirming its independence and objectivity and holds meetings with representatives of the external auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

Auditor's remuneration

During the year ended December 31, 2014, the total fees paid/payable in respect of services provided by the Group's external auditors are set out below:

Services rendered	**Fees paid/payable** US$'million
Audit services	4
Non-audit services	2

Shareholders' Rights and Communication

As one of the measures to safeguard Shareholders' interests and rights, separate resolutions are proposed at Shareholders' meetings on every substantial matter, including the election of individual Directors, for the Shareholders' consideration and voting. Furthermore, the Company regards the annual general meeting and extraordinary general meetings as important events and Directors, chairman of each Board committee of the Company, senior management and external auditors make an effort to attend the annual general meeting and extraordinary general meetings of the Company to address any Shareholders' queries. All resolutions proposed at Shareholders' meetings will be voted on by poll. The poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.wh-group.com) on the same day of the relevant Shareholder's meeting.

Extraordinary general meetings may be convened by the Board on requisition of the Shareholders holding not less than one-tenth of the paid up capital of the Company pursuant to Article 12.3 of the Company's Articles of Association. Such requisition must specify the objects of the meeting and signed by requisitionists and deposited at the principal office of the Company or the Company's registered office in Hong Kong. Shareholders should follow the requirements and procedures as set out in such Article for convening an extraordinary general meeting.

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the registered office of the Company in Hong Kong for the attention of the Company Secretary.

The Company adheres to high standards with respect to the disclosure of its financial statements. The Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and strengthen the communication with both the shareholders and the public.

Investors Relations

The Company continues to promote investor relations and enhance communications with the Shareholders through various channels, including, among others, the Company's interim and annual reports, notices, announcements and the Company's website at www.wh-group.com. Press and analysts conferences are held twice a year subsequent to the interim and final results announcements at which the Executive Directors and senior management of the Group are available to answer questions regarding the Group's business and performance. Dialogue is also maintained with the media, analysts and investors from time to time through different meetings to keep them abreast of the Company's latest development. During the Relevant Period, there had been no significant change to the Company's Memorandum and Articles of Association.

Constitutional Documents

There was no change to the Company's Memorandum and Articles of Association during the year under review. A copy of the Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

DIRECTOR'S REPORT

The Board is pleased to present its report and the audited financial statements of the Company and of the Group for the year ended December 31, 2014.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The Group is the world's largest pork company, with global leadership across key segments of the industry value chain, including packaged meats, fresh pork and hog production.

Results

Results of the Group for the year ended December 31, 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 68 and 69.

Dividends

The Board does not recommend payment of any dividend for the year ended December 31, 2014.

Share Premium and Reserves

Movements in the share premium and reserves of the Group during the year are set out on pages 72 and 73 to the consolidated statement of changes in equity.

Distributable Reserves

The Company's total distributable reserves as at December 31, 2014 amounted to US$3,000 million.

Donations

Charitable donations made by the Group during the year amounted to less than US$1 million (2013: US$5 million).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 16 to the consolidated financial statements.

Share Capital

Movements in the share capital of the Company during the year and as at December 31, 2014 are set out in Note 36 to the consolidated financial statements.

Borrowings and Capitalization of Interests

Details of borrowings are set out in Note 32 to the consolidated financial statements. Details of the Group's capitalized interest expenses and other borrowing costs during the year are set out in Note 10 to the consolidated financial statements.

Remuneration Policy and Retirement Benefits of the Group

For remuneration policy of the Group, please see the section headed "Human Resources" of the Management Discussion and Analysis.

The Group entities which operate in U.S. operate funded defined benefits scheme for all their qualified employees. Pension benefits provided by the Group are currently organized primarily through defined benefit pension plans which cover virtually all U.S. employees and certain foreign employees of the Group. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2014 by credentialed actuaries who meet the Qualification Standards of the American Academy of Actuaries of Mercer (US), Inc.. As at December 31, 2014, the fair value of plan assets was approximately 68% of our pension benefits obligations under such defined benefits plans. We generally contribute the minimum amount required under U.S. government regulations to such defined benefits plans, plus amounts necessary to maintain an 80% funded status in order to avoid benefit restrictions under the U.S. Pension Protection Act. Given the foregoing, we have exceeded our funding requirements for our obligations under such defined benefits plans for the year ended December 31, 2014.

Please see Note 35 to the consolidated financial statements contained herein for further details relating to such defined benefits plans and the Group's other retirement benefits plans.

Basis of Determining Remuneration to Directors

Apart from benchmarking against the market, the Company looks at individual competence and contributions and the affordability of the Company in determining the exact level of remuneration for each Director. Appropriate benefits schemes are in place for the executive Directors, including the share option scheme, same as those offered to other employees of the Group.

Financial Summary

A financial summary of the Group is set out on page 170.

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 year.

Directors

The table below sets out certain information on the members of the Board during the year and up to the date of this report:

Directors	Position
WAN Long	Executive Director, Chairman and Chief Executive Officer
GUO Lijun	Executive Director, Vice President and Chief Financial Officer
YANG Zhijun	Executive Director and Vice President
POPE C. Larry	Executive Director, President and Chief Executive Officer of Smithfield
ZHANG Taixi	Executive Director, President of Shuanghui Development
JIAO Shuge	Non-executive Director and Deputy Chairman
HUANG Ming	Independent Non-executive Director
LEE Conway Kong Wai	Independent Non-executive Director
LAU, Jin Tin Don	Independent Non-executive Director

In accordance with Article 16.18 of the Company's Articles of Association, Mr. Wan Long, Mr. Jiao Shuge and Mr. Yang Zhijun shall retire from their offices as Directors at the forthcoming annual general meeting ("**AGM**") of the Company. Mr. Wan and Mr. Jiao, being eligible, will offer themselves for re-election at the AGM. Mr. Yang has indicated to the Board that he does not wish to offer himself for re-election at the AGM due to his own decision to devote more time to his personal endeavours and he will retire from his office as an executive Director immediately after the close of the AGM.

Brief biographical details of the Directors and senior management are set out on pages 38 to 45.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the Group within one year without the payment of compensation other than statutory compensation.

Directors' Interests in Significant Contracts

No contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its fellow subsidiaries was a party and in which any Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Directors' Rights to Purchase Shares or Debentures

Save for the share options granted pursuant to the Pre-IPO Share Option Scheme as set out below, at no time during the year, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18, were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

Disclosure of Interests

Directors

As at December 31, 2014, 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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules were as follows:

(i) Interests in shares of the Company

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]	573,099,645	3.9124%
	Beneficiary of a trust[2]	746,452,069	5.0958%
	Personal interest	1,500,000	0.0102%
Mr. Guo Lijun	Beneficiary of a trust[3]	62,785,688	0,4286%
	Personal interest	100,000	0.0007%
Mr. Yang Zhijun	Interest in a controlled corporation[4]	245,614,133	1.6767%
	Beneficiary of a trust[5]	43,850,322	0.2994%
Mr. Zhang Taixi	Beneficiary of a trust[6]	1,013,590	0.0069%

Notes:

(1) Mr. Wan Long owns Sure Pass as to 100%, which in turn owns 573,099,645 Shares. Accordingly, Mr. Wan Long is deemed to have interest in the 573,099,645 Shares held by Sure Pass.

(2) Mr. Wan Long is one of the participants in the Heroic Zone Share Plan, through which he holds approximately 14.98% of the beneficial interest in Rise Grand, which in turn owns 100% of the equity interest of Heroic Zone. Accordingly, Mr. Wan Long is deemed to have interest in the 746,452,069 Shares which Heroic Zone is interested in.

(3) Mr. Guo Lijun is one of the participants in the Heroic Zone Share Plan, through which he holds approximately 1.26% of the beneficial interest in Rise Grand, which in turn owns 100% of the equity interest of Heroic Zone. Accordingly, Mr. Guo Lijun is deemed to have interest in the 62,785,688 Shares which Heroic Zone is interested in.

(4) Mr. Yang Zhijun owns Rich Matrix as to 100%, which in turn owns 245,614,133 Shares. Accordingly, Mr. Yang Zhijun is deemed to have interest in the 245,614,133 Shares held by Rich Matrix.

(5) Mr. Yang Zhijun is one of the participants in the Heroic Zone Share Plan, through which he holds approximately 0.88% of the beneficial interest in Rise Grand, which in turn owns 100% of the equity interest of Heroic Zone. Accordingly, Mr. Yang Zhijun is deemed to have interest in the 43,850,322 Shares which Heroic Zone is interested in.

(6) Mr. Zhang Taixi is one of the participants in the Heroic Zone Share Plan, through which he holds approximately 0.02% of the beneficial interest in Rise Grand, which in turn owns 100% of the equity interest of Heroic Zone. Accordingly, Mr. Zhang Taixi is deemed to have interest in the 1,013,590 Shares which Heroic Zone is interested in.

(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 interest	146,198,889	0.9597%
Mr. Guo Lijun	Beneficial interest	40,000,000	0.2626%
Mr. Pope C. Larry	Beneficial interest	40,000,000	0.2626%
Mr. Zhang Taixi	Beneficial interest	40,000,000	0.2626%

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.

(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 interest	194,490	0.009%
Mr. Zhang Taixi	Shuanghui Development	Beneficial interest	10,000	0.000%

Save as disclosed above, as at December 31, 2014, 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 December 31, 2014, so far as was known to any director or chief executive officer of the Company, the Shareholders (other than the director or chief executive officer of the Company whose interests were disclosed above) who had interests or short positions in the shares or underlying Shares 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:

Interest in the shares of the Company

Name	Capacity/ Nature of Interest	Number of Shares	Approximate Percentage of Shareholding[14]
Rise Grand[1]	Interest in controlled corporation	4,982,991,111	34.017%
Heroic Zone[2]	Beneficial interest	3,181,820,000	21.721%
	Interest in controlled corporation	1,801,171,111	12.296%
CDH Shine	Beneficial interest	1,745,452,290	11.916%
CDH Shine II Limited	Beneficial interest	968,530,000	6.612%
CDH Sunshine Limited[3]	Interest in controlled corporation	968,530,000	6.612%
China Shine Group Limited[4]	Interest in controlled corporation	3,547,954,371	24.221%
CDH PE Fund, L.P.[5]	Interest in controlled corporation	3,547,954,371	24.221%
CDH PE Holdings Company Limited[6]	Interest in controlled corporation	3,547,954,371	24.221%
CDH China Growth Capital Holdings Company Limited[7]	Interest in controlled corporation	3,547,954,371	24.221%
China Diamond Holdings III Limited[8]	Interest in controlled corporation	3,547,954,371	24.221%
CDH V Holdings Company Limited[9]	Interest in controlled corporation	903,056,579	6.165%
China Diamond Holdings V Limited[10]	Interest in controlled corporation	903,056,579	6.165%
China Diamond Holdings Company Limited[11]	Interest in controlled corporation	4,451,010,950	30.386%
Ms. Wang Meixiang (王梅香)[12]	Interest of spouse	1,321,051,714	9.018%
	Interest of spouse	146,198,889	0.9597%[13]

Notes:

1. Rise Grand, as the sole shareholder of Heroic Zone, is deemed to be interested in the 3,181,820,000 Shares held by Heroic Zone. As of July 18, 2014, the beneficial interest of Rise Grand was owned by 325 participants (the "**HSP Participants**") of the Heroic Zone Share Plan. Pursuant to an entrustment agreement dated December 25, 2009, the employee share committee (the "**ESC**"), on behalf of all HSP Participants under the Heroic Zone Share Plan, entrusted three individual trustees, namely Messrs. Zhao Yinzhang, He Xingbao and Lei Yutian, (each being an employee of the Group), to hold the legal title, 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 HSC 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 is 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.

3. CDH Shine II Limited is wholly owned by CDH Sunshine Limited. Therefore, CDH Sunshine Limited is deemed to be interested in all the Shares held by CDH Shine II Limited under the provisions of part XV of the SFO.
4. China Shine Group Limited directly owns the entire interests in each of CDH Shine, CDH Shine III Limited and CDH Shine IV Limited and, through CDH Sunshine Limited, owns the entire interest in CDH Shine II Limited. Therefore, China Shine Group Limited is deemed to be interested in all the Shares held by CDH Shine, CDH Shine II Limited, CDH Shine III Limited and CDH Shine IV Limited under the provisions of Part XV of the SFO.
5. China Shine Group Limited is wholly owned by CDH PE Fund, L.P. Therefore, CDH PE Fund, L.P. is deemed to be interested in all the Shares held by CDH Shine, CDH Shine II Limited, CDH Shine III Limited and CDH Shine IV Limited under the provisions of Part XV of the SFO.
6. The general partner of CDH PE Fund, L.P. is CDH PE Holdings Company Limited. Therefore, CDH PE Holdings Company Limited is deemed to be interested in all the Shares held by CDH Shine, CDH Shine II Limited, CDH Shine III Limited and CDH Shine IV Limited under the provisions of Part XV of the SFO.
7. CDH PE Holdings Company Limited is wholly owned by CDH China Growth Capital Holdings Company Limited. Therefore, CDH China Growth Capital Holdings Company Limited is deemed to be interested in all the Shares held by CDH Shine, CDH Shine II Limited, CDH Shine III Limited and CDH Shine IV Limited under the provisions of Part XV of the SFO.
8. China Diamond Holdings III Limited directly owns approximately 69.5% of CDH China Growth Capital Holdings Company Limited. Therefore, China Diamond Holdings III Limited is deemed to be interested in all the Shares held by CDH Shine, CDH Shine II Limited, CDH Shine III Limited and CDH Shine IV Limited under the provisions of Part XV of the SFO.
9. CDH Shine V Limited is owned as to 69.9% and 30.1% by CDH Fund V L.P. and Tianjin Dinghui Jiapeng Equity Investment Partnership (L.P.) (天津鼎暉嘉鵬股權投資合夥企業(有限合夥)), respectively. CDH V Sunshine I Limited and CDH V Sunshine II Limited are directly wholly-owned by CDH V Co-investment Shine I, L.P. and CDH V Co-investment Shine II, L.P., respectively. The general partners of CDH V Co-investment Shine I, L.P. and CDH V Co-investment Shine II, L.P. are CDH V Shine I Holdings Limited and CDH V Shine II Holdings Limited, respectively. CDH V Holdings Company Limited is the general partner of CDH Fund V L.P. and also owns the entire interests in CDH V Shine I Holdings Limited and CDH V Shine II Holdings Limited. Therefore, CDH V Holdings Company Limited is deemed to be interested in all the Shares held by CDH Shine V Limited, CDH V Sunshine I Limited and CDH V Sunshine II Limited.
10. CDH V Holdings Company Limited is owned as to 80% by China Diamond Holdings V Limited. Therefore, China Diamond Holdings V is deemed to be interested in all the Shares held by CDH Shine V Limited, CDH V Sunshine I Limited and CDH V Sunshine II Limited.
11. Each of China Diamond Holdings III Limited and China Diamond Holdings V Limited is wholly owned by China Diamond Holdings Company Limited. Therefore, China Diamond Holdings Company Limited is deemed to be interested in all the Shares held by the CDH Shareholders.
12. Ms. Wang Meixiang is the spouse of Mr. Wan Long. Therefore, Ms. Wang Meixiang is deemed to have interest in the 1,321,051,714 Shares which Mr. Wan Long is interested in. In addition, Ms. Wang Meixiang is also deemed to be interested in the 146,198,889 underlying Shares subject to the Pre-IPO Share Options which Mr. Wan Long is interested in.
13. This 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.
14. The percentage of shareholding in the table is presented without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Pre-IPO Share Option.

Save as disclosed above, as at December 31, 2014, the Company has not been notified by any person who had any interests or short positions in the shares or underlying Shares 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.

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 as at December 31, 2014.

Number of Pre-IPO Share Options

Grantee	Date of Grant	Granted	Exercised	Cancelled	Lapsed	As at December 31, 2014	Exercise Price (HK$)	Exercise Period
Directors								
WAN Long (萬隆)	July 10, 2014	146,198,889	–	–	–	146,198,889	6.20	Note
GUO Lijun (郭麗軍)	July 10, 2014	40,000,000	–	–	–	40,000,000	6.20	Note
POPE C. Larry	July 10, 2014	40,000,000	–	–	–	40,000,000	6.20	Note
ZHANG Taixi (張太喜)	July 10, 2014	40,000,000	–	–	–	40,000,000	6.20	Note
Connected persons								
WAN Hongwei (萬宏偉)	July 10, 2014	2,500,000	–	–	–	2,500,000	6.20	Note
YOU Zhaosheng (游召勝)	July 10, 2014	4,115,966	–	–	–	4,115,966	6.20	Note
LI Xianmu (李現木)	July 10, 2014	5,144,957	–	–	–	5,144,957	6.20	Note
You Mu (游牧)	July 10, 2014	3,674,969	–	–	–	3,674,969	6.20	Note
Lei Yonghui (雷永輝)	July 10, 2014	3,674,969	–	–	–	3,674,969	6.20	Note
HE Jianmin (賀建民)	July 10, 2014	4,409,963	–	–	–	4,409,963	6.20	Note
LIU Hongsheng (劉紅生)	July 10, 2014	4,409,963	–	–	–	4,409,963	6.20	Note
YU Songtao (余松濤)	July 10, 2014	4,409,963	–	–	–	4,409,963	6.20	Note
PAN Guanghui (潘廣輝)	July 10, 2014	4,409,963	–	–	–	4,409,963	6.20	Note
ZHAO Sufang (趙朔方)	July 10, 2014	4,409,963	–	–	–	4,409,963	6.20	Note
CAO Xiaojie (曹曉杰)	July 10, 2014	4,409,963	–	–	–	4,409,963	6.20	Note
LI Jun (李駿)	July 10, 2014	3,674,969	–	–	–	3,674,969	6.20	Note
ZHAO Guobao (趙國寶)	July 10, 2014	1,469,988	–	–	–	1,469,988	6.20	Note
LI Yong (李永)	July 10, 2014	2,939,976	–	–	–	2,939,976	6.20	Note
SONG Hongliang (宋紅亮)	July 10, 2014	2,939,976	–	–	–	2,939,976	6.20	Note
YU Guangshan (芋廣山)	July 10, 2014	2,939,976	–	–	–	2,939,976	6.20	Note
YIN Weihua (尹衛華)	July 10, 2014	2,939,976	–	–	–	2,939,976	6.20	Note
ZHU Longhu (朱龍虎)	July 10, 2014	2,939,976	–	–	–	2,939,976	6.20	Note
CHAI Wenlei (柴文磊)	July 10, 2014	1,469,988	–	–	–	1,469,988	6.20	Note
COLE, Michael H.	July 10, 2014	2,000,000	–	–	–	2,000,000	6.20	Note
SCHELLPEPER, Timothy O.	July 10, 2014	9,000,000	–	–	–	9,000,000	6.20	Note
SEBRING, Joseph B.	July 10, 2014	4,500,000	–	–	–	4,500,000	6.20	Note
SCHMIDT Gregg	July 10, 2014	3,000,000	–	–	–	3,000,000	6.20	Note
MIHAIL Bogdan	July 10, 2014	250,000	–	–	–	250,000	6.20	Note
POPE Christopher L.	July 10, 2014	1,000,000	–	–	–	1,000,000	6.20	Note

Grantee	Date of Grant	Granted	Exercised	Cancelled	Lapsed	As at December 31, 2014	Exercise Price (HK$)	Exercise Period
Other grantees who have been granted the Pre-IPO Share Options to subscribe for 4,500,000 Shares or more								
Wen Guoshan (溫國山)	July 10, 2014	5,879,951	–	–	–	5,879,951	6.20	Note
Li Hongwei (李紅偉)	July 10, 2014	5,879,951	–	–	–	5,879,951	6.20	Note
Wang Yonglin (王永林)	July 10, 2014	5,879,951	–	–	–	5,879,951	6.20	Note
Fu Zhiyong (付志勇)	July 10, 2014	5,879,951	–	–	–	5,879,951	6.20	Note
Guo Xinwen (郭新聞)	July 10, 2014	5,879,951	–	–	–	5,879,951	6.20	Note
Liu Qingde (劉清德)	July 10, 2014	5,144,957	–	–	–	5,144,957	6.20	Note
Senior management and other employees (in aggregate)	July 10, 2014	197,416,490	–	–	1,300,000	196,116,490	6.20	Note

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.

2010 Share Award Plan

To recognize and reward the contribution of certain employees to the Group, provide incentives to retain them to support the continued growth of the Group, and attract suitable personnel for further development, the Company adopted the 2010 Share Award Plan on November 26, 2010.

Teeroy Limited, a company incorporated under the laws of Hong Kong, was designated as the trustee administering the 2010 Share Award Plan. Pursuant to a shareholders' resolution of the Company passed on November 26, 2010 and relevant procedures, Chang Yun, a wholly owned subsidiary of the trustee incorporated in the BVI, obtained 631,580,000 Shares, representing 6% of the Company's then enlarged issued share capital. The pool of Shares held by Chang Yun comprised (i) 10,526 shares of a par value of US$1.00 per share that were transferred indirectly from Shine B to the trustee, which were then subdivided into 105,260,000 Shares and (ii) 526,320,000 Shares allotted and issued by the Company in consideration of US$52,632 paid by the trustee.

Under the 2010 Share Award Plan, the Chairman is entitled to select, as the recipient of a share award, any employee of the Company (excluding any non-executive directors), its subsidiaries and entities in which any member of the Group holds any equity interest. The Chairman is also entitled to decide the number of Shares awarded, proposed vesting date, performance target for vesting, lock-up period and other terms and conditions, considering the pre-tax and after-tax net profit of the Company from 2012 to 2014. A recipient shall not transfer or otherwise dispose of any interest in the vested Shares to any third party, unless (i) subject to the Chairman's approval, the purpose of transfer or disposal is to finance any tax payable on account of the vested Shares or (ii) a period of five years from the vesting date has elapsed.

On December 26, 2012, we notified certain employees of the Group, including but not limited to three of our Directors, Messrs. Guo Lijun, Yang Zhijun and Zhang Taixi, that we would consider awarding up to specified numbers of Shares to the relevant employees under the 2010 Share Award Plan, subject to the terms and conditions decided by the Chairman and provided that a set of performance targets of the Company from 2012 to 2014 had been achieved. The notifications confirmed that no right or interest had been conferred on the recipients of the notifications. For each of Messrs. Guo Lijun, Yang Zhijun and Zhang Taixi, to whom the maximum amount of Shares that we might award after December 31, 2014 as specified in the relevant notifications were 34,736,901 Shares, 34,736,901 Shares and 53,684,301 Shares, respectively, depending on the actual performances of the Company from 2012 to 2014. The notifications also required each of the recipients to agree to provide, upon being awarded any Shares under the 2010 Share Award Plan, an irrevocable undertaking authorizing Heroic Zone to exercise the voting rights of any awarded Shares. Each of the recipients, including but not limited to Messrs. Guo Lijun, Yang Zhijun and Zhang Taixi, confirmed and agreed to the requirements of the notifications. We currently expect that all awarding conditions under the 2010 Share Award Plan will be achieved and all relevant Shares will be awarded ultimately.

Before the underlying Shares of the 2010 Share Award Plan are awarded, Chang Yun is obligated to exercise the voting rights in respect of the relevant Shares in accordance with the direction given by the Company from time to time. On November 26, 2010, the Company instructed Chang Yun to exercise such voting rights in accordance with the direction of Heroic Zone, a wholly owned subsidiary of Rise Grand, as given in its absolute discretion.

The 2010 Share Award Plan will terminate on November 26, 2020 or any earlier date determined by our Board. For more details about the share awards made under the 2010 Share Award Plan, please refer to the Prospectus.

2013 Share Award Plan

To incentivize and attract talent for the further development of the Group following the acquisition of Smithfield, the Board adopted the 2013 Share Award Plan on October 23, 2013. Teeroy Limited was designated as the trustee for administering the 2013 Share Award Plan. The pool of 350,877,333 Shares subject to the 2013 Share Award Plan, representing approximately 3% of the Company's then issued share capital on a fully diluted basis, were allotted and issued to High Zenith, the trustee's wholly owned special purpose vehicle incorporated in the BVI, on October 23, 2013 for a consideration of approximately US$35,088.

Under the 2013 Share Award Plan, Mr. Wan Long and Mr. Jiao Shuge, both directors of the Company, are entitled to jointly select the recipients of share awards, who may include (i) any full-time or part-time employees or officers (including but not limited to any executive or non-executive directors) of the Company, its subsidiaries and entities in which any member of the Group holds any equity interest, and (ii) any consultants, agents and advisers of the Company, its subsidiaries and entities in which any member of the Group holds any equity interest. Mr. Wan Long and Mr. Jiao Shuge are also entitled to jointly decide the number of Shares awarded, proposed vesting date, performance target for vesting, lock-up period and other terms and conditions.

High Zenith is contractually obligated to exercise the voting rights in respect of any Shares held under trust for the 2013 Share Award Plan in accordance with the direction given by the Company from time to time. On October 23, 2013, the Company directed High Zenith to exercise such voting rights in accordance with the direction of Heroic Zone as given in its absolute discretion.

The 2013 Share Award Plan will terminate on October 23, 2023 or any earlier date determined by the Board. As of July 18, 2014, no award has been made under the 2013 Share Award Plan.

The Company also undertook the following share-based payment transactions on October 23, 2013:

- *4.9% Share Issuance to Sure Pass.* The Company allotted and issued 573,099,645 Shares, representing approximately 4.9% of the Company's then issued share capital on a fully diluted basis, to Sure Pass, a company organized and existing under the laws of the BVI and wholly owned by Mr. Wan Long.

- *2.1% Share Issuance to Rich Matrix.* The Company allotted and issued 245,614,133 Shares, representing approximately 2.1% of the Company's then issued share capital on a fully diluted basis, to Rich Matrix, a company organized and existing under the laws of the BVI and wholly owned by Mr. Yang Zhijun.

Each of Sure Pass and Rich Matrix has irrevocably undertaken to exercise the voting rights in respect of its Shares in accordance with the direction given by the Company from time to time. On October 23, 2013, the Company instructed Sure Pass and Rich Matrix to exercise such voting rights in accordance with the direction of Heroic Zone as given in its absolute discretion.

For more details about our 2013 Share Award Plan and other share-based payment transactions in 2013, please refer to the Prospectus.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association of the Company or the laws of Cayman Islands, the jurisdiction in which the Company was incorporated, and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Competing Interests

During the Relevant Period, none of the Directors is considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Corporate Governance Measures in Relation to Non-Competition Undertakings

Rise Grand, Heroic Zone, Chang Yun, High Zenith, Sure Pass and Rich Matrix (collectively, the "**Covenantors**") have entered into a deed of non-competition in favour of the Company on July 18, 2014 (the "**Deed of Non-competition**"). China Diamond Holdings Company Limited, CDH Shine, CDH Shine II Limited, CDH Shine III Limited, CDH Shine IV Limited, CDH Shine V Limited, CDH V Sunshine I Limited and CDH V Sunshine II Limited (collectively, the "**CDH Covenantors**") have entered into a deed of non-competition in favour of the Company on July 18, 2014 (the "**CDH Deed of Non-competition**"). Details of the Deed of Non-competition and CDH Deed of Non-competition have been set out in the Prospectus. There has been no change to the terms of the Deed of Non-competition and the CDH Deed of Non-competition during the Relevant Period.

The Company has received confirmations on compliance with the undertakings under the Deed of Non-Competition and the CDH Deed of Non-competition from the Covenantors and the CDH Covenantors, respectively, for the period ended December 31, 2014 (together, the "**Confirmations**"). Upon receiving the Confirmations, the independent non-executive Directors have reviewed the same as part of the annual review process. In view of the above, the independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of the Covenantors and the CDH Covenantors of the non-competition undertakings in the Deed of Non-competition and CDH Deed of Non-competition, respectively.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Relevant Period.

Major Suppliers and Customers

The purchases and turnover attributable to the Group's five largest suppliers and five largest customers combined, respectively, was each less than 30% for the financial year ended December 31, 2014.

As far as the Directors are aware, none of the Directors, their associates, nor the substantial Shareholders had any interest in the five largest customers and suppliers of the Group.

Model Code for 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, on July 17, 2014.

Specific enquiry has been made to all Directors and all Directors have confirmed that they have complied with the applicable code of conduct throughout the Relevant Period.

Corporate Governance Practices

The Company is committed to the principles of corporate governance and corporate responsibility consistent with prudent management. The Board has adopted the CG Code as set out in Appendix 14 to the Listing Rules and the Model Code as the guidelines for the Directors' dealings in the securities of the Company since the Listing Date.

Sufficient Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Use of Proceeds From the Global Offering

Please see the section headed "Use of Proceeds from the Global Offerings" of the Management Discussion and Analysis.

Connected Transactions

During the Relevant Period, there was no connected transaction of the Group as defined in Chapter 14A of the Listing Rules.

Events After the End of the Reporting Period

Details of significant events occurring after the end of the Relevant Period are set out in Note 47 to the consolidated financial statements.

Auditor

The Company has appointed Deloitte as the auditor of the Company for the financial year. A resolution will be proposed for approval by the Shareholders at the forthcoming AGM to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board

Wan Long
Chairman and Chief Executive Officer

Hong Kong, March 25, 2015

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF WH GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of WH Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 68 to 169, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2014, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 25, 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2014

	Notes	2014 Results before biological fair value adjustments US$'million	2014 Biological fair value adjustments US$'million	2014 Total US$'million	2013 Results before biological fair value adjustments US$'million	2013 Biological fair value adjustments US$'million	2013 Total US$'million
Turnover	6	22,243	–	22,243	11,253	–	11,253
Cost of sales		(18,297)	(682)	(18,979)	(9,457)	(23)	(9,480)
Gross profit		3,946	(682)	3,264	1,796	(23)	1,773
Distribution and selling expenses		(1,511)	–	(1,511)	(539)	–	(539)
Administrative expenses		(758)	–	(758)	(335)	–	(335)
Gain arising from agricultural produce at fair value less costs to sell at the point of harvest		–	635	635	–	17	17
Gain arising from changes in fair value less costs to sell of biological assets		–	92	92	–	47	47
Other income	7	102	–	102	84	–	84
Other gains and losses	8	14	–	14	19	–	19
Other expenses	9	(110)	–	(110)	(787)	–	(787)
Finance costs	10	(371)	–	(371)	(120)	–	(120)
Share of profits of associates		18	–	18	6	–	6
Share of profits (losses) of joint ventures		45	–	45	(3)	–	(3)
Profit before taxation	11	1,375	45	1,420	121	41	162
Taxation	13	(432)	(16)	(448)	(214)	(15)	(229)
Profit (loss) for the year		943	29	972	(93)	26	(67)
Other comprehensive (expense) income for the year:	46						
Items that will not be reclassified subsequently to profit or loss:							
– exchange differences arising on translation to presentation currency				–			52
– remeasurement on defined benefit pension plans				(118)			18
				(118)			70

	Notes	2014 Results before biological fair value adjustments US$'million	2014 Biological fair value adjustments US$'million	2014 Total US$'million	2013 Results before biological fair value adjustments US$'million	2013 Biological fair value adjustments US$'million	2013 Total US$'million
Items that may be reclassified subsequently to profit or loss:							
– exchange differences arising on translation of foreign operations				(231)			91
– fair value change in cash flow hedge				29			(5)
				(202)			86
Other comprehensive (expense) income for the year, net of tax				(320)			156
Total comprehensive income for the year				652			89
Profit (loss) for the year attributable to							
– owners of the Company				766			(263)
– non-controlling interests				206			196
				972			(67)
Total comprehensive income for the year attributable to							
– owners of the Company				470			(143)
– non-controlling interests				182			232
				652			89
Earnings (loss) per share	15						
– Basic (US$ cents)				6.44			(2.62)
– Diluted (US$ cents)				6.11			–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2014

	Notes	2014 US$'million	2013 US$'million
Non-current assets			
Property, plant and equipment	16	4,582	4,132
Prepaid lease payments	17	228	208
Biological assets	18	220	204
Goodwill	19	1,815	1,835
Intangible assets	20	1,746	1,780
Interests in associates	21	392	415
Interests in joint ventures	22	147	121
Other receivables	25	40	123
Pledged bank deposits	28	9	9
Deferred tax assets	33	88	42
Other non-current assets		79	120
		9,346	8,989
Current assets			
Biological assets	18	1,014	1,116
Inventories	23	1,900	1,808
Trade and bills receivables	24	845	870
Prepayments, deposits and other receivables	25	263	242
Prepaid lease payments	17	5	5
Taxation recoverable		65	37
Available-for-sale investments	26	209	151
Derivatives financial assets	27	73	6
Pledged bank deposits	28	22	57
Bank balances and cash	28	978	875
		5,374	5,167
Current liabilities			
Trade and bills payables	29	850	851
Accrued expenses and other payables	30	1,457	1,146
Taxation payable		44	44
Derivatives financial liabilities	27	52	21
Borrowings	32	699	684
Bank overdrafts	32	20	76
		3,122	2,822
Net current assets		2,252	2,345
Total assets less current liabilities		11,598	11,334

	Notes	2014 US$'million	2013 US$'million
Non-current liabilities			
Borrowings	32	3,951	6,672
Other payables	30	140	150
Obligations under finance leases	31	24	25
Deferred tax liabilities	33	838	824
Deferred revenue	34	6	9
Pension liability and other retirement benefits	35	589	516
		5,548	8,196
Net assets		6,050	3,138
Capital and reserves			
Share capital	36	1	1
Reserves		5,129	2,274
Equity attributable to owners of the Company		5,130	2,275
Non-controlling interests		920	863
Total equity		6,050	3,138

The consolidated financial statements on pages 68 to 169 were approved and authorised for issue by the Board of Directors on March 25, 2015 and are signed on its behalf by:

Mr. Wan Long
Chairman and Chief Executive Officer

Mr. Guo Lijun
Vice President and Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2014

	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$'million (Note (b))	*China statutory reserve US$'million (Note (c))	Retained profits US$'million	Total US$'million	Non-controlling interests US$'million	Total US$'million
At January 1, 2013	1	581	(55)	151	32	152	927	1,789	761	2,550
(Loss) profit for the year	–	–	–	–	–	–	(263)	(263)	196	(67)
Exchange differences arising on translation to presentation currency	–	–	–	33	–	–	–	33	19	52
Exchange differences arising on translation of foreign operations	–	–	–	74	–	–	–	74	17	91
Remeasurement on defined benefit pension plans	–	–	–	–	18	–	–	18	–	18
Fair value change in cash flow hedge	–	–	–	–	(5)	–	–	(5)	–	(5)
Total comprehensive income for the year	–	–	–	107	13	–	(263)	(143)	232	89
Issue of new shares	–+	–	–	–	–	–	–	–+	–	–+
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(136)	(136)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(4)	(4)
Share-based payments	–	–	–	–	629	–	–	629	10	639
Transfers	–	–	–	–	–	18	(18)	–	–	–
	–+	–	–	–	629	18	(18)	629	(130)	499
At December 31, 2013	1	581	(55)	258	674	170	646	2,275	863	3,138
Profit for the year	–	–	–	–	–	–	766	766	206	972
Exchange differences arising on translation of foreign operations	–	–	–	(207)	–	–	–	(207)	(24)	(231)
Remeasurement on defined benefit pension plans	–	–	–	–	(118)	–	–	(118)	–	(118)
Fair value change in cash flow hedge	–	–	–	–	29	–	–	29	–	29
Total comprehensive income for the year	–	–	–	(207)	(89)	–	766	470	182	652
Issue of shares	–+	2,361	–	–	–	–	–	2,361	–	2,361
Transaction cost attributable to issue of shares	–	(40)	–	–	–	–	–	(40)	–	(40)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(145)	(145)
Capital contribution by non-controlling interests	–	–	–	–	–	–	–	–	6	6
Share-based payments	–	–	–	–	64	–	–	64	14	78
Transfers	–	–	–	–	–	30	(30)	–	–	–
	–+	2,321	–	–	64	30	(30)	2,385	(125)	2,260
At December 31, 2014	1	2,902	(55)	51	649	200	1,382	5,130	920	6,050

+ Less than US$1 million.

* China represents Mainland China.

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

As at December 31, 2014, other reserve included the fair value of the share awards, remeasurement deficit of the defined benefit pension plans and fair value surplus (deficit) in cash flow hedge attributable to the Group of US$725 million, US$100 million and US$24 million respectively (2013: US$661 million, surplus of US$18 million and deficit of US$5 million respectively) (see Notes 37, 35 and 27 respectively).

c. China statutory reserve

Pursuant to the relevant China regulations and the Articles of Association of the companies within the Group, 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 good 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

	Note	2014 US$'million	2013 US$'million
Operating activities			
Profit before taxation		1,420	162
Adjustments for:			
Interest income		(18)	(13)
Finance costs		371	120
Share of profits of associates		(18)	(6)
Share of (profits) losses of joint ventures		(45)	3
Depreciation of property, plant and equipment		353	173
Loss on disposal of property, plant and equipment		5	2
Amortisation of intangible assets		6	1
Gain on maturity of available-for-sale investments		(24)	(14)
Release of prepaid lease payments		8	5
Write-down of inventories		3	3
Gain arising from changes in fair value less costs to sell of biological assets		(92)	(47)
Impairment loss on property, plant and equipment		2	1
Allowances on trade and other receivables		4	3
Share-based payments		78	639
Operating cash flows before movements in working capital		2,053	1,032
Decrease in biological assets		161	130
Increase in inventories		(141)	(146)
Decrease (increase) in trade, bills and other receivables		79	(201)
Increase in trade, bills and other payables		128	169
Cash from operations		2,280	984
Taxation paid		(398)	(209)
Interest paid		(322)	(75)
Net cash from operating activities		1,560	700
Investing activities			
Interest received		11	11
Dividends received from associates		3	5
Purchase of property, plant and equipment		(699)	(295)
Proceeds from disposal of property, plant and equipment		11	17
Prepaid lease payments made		(34)	(14)
Net cash outflow on acquisition of subsidiaries/business	38	(11)	(4,652)
Payments for intangible assets		–	(4)
Purchase of available-for-sale investments		(2,304)	(3,677)
Proceeds from maturity of available-for-sale investments		2,266	3,646
Placement of pledged bank deposits		(30)	(60)
Withdrawal of pledged bank deposits		66	8
Net cash used in investing activities		(721)	(5,015)

	Note	2014 US$'million	2013 US$'million
Financing activities			
Dividends paid to non-controlling interests		(191)	(90)
Proceeds from issue of shares, net of transaction costs		2,284	–[+]
Proceeds from borrowings, net of transaction costs		2,689	5,997
Repayment of borrowings		(5,440)	(1,492)
Cash outflow on acquisition of additional interests in subsidiaries		–	(4)
Capital contribution by non-controlling interests		6	–
Net cash (used in) from financing activities		(652)	4,411
Net increase in cash and cash equivalents		187	96
Effect of foreign exchange rate changes		(28)	29
Cash and cash equivalents at January 1		799	674
Cash and cash equivalents at December 31		958	799
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		978	875
Bank overdrafts		(20)	(76)
		958	799

[+] Less than US$1 million.

1. General

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. Its immediate holding company is Heroic Zone Investments Limited (“Heroic Zone”) which is incorporated in the British Virgin Islands while its ultimate holding company is Rise Grand Group Limited, also incorporated in the British Virgin Islands. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on August 5, 2014.

The address of the registered office of the Company and the address of its principal place of business are disclosed in the section headed “Corporate Information” in the annual report.

The Company acts as an investment holding company. The consolidated financial statements of the Company for the year ended December 31, 2014 comprise the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interests in associates and interests in joint ventures. The Group is primarily involved in hog production, production and sales of packaged meats and fresh pork. The principal activities of its principal subsidiaries are set out in Note 48.

The functional currency of the Company was Renminbi (“RMB”), as the main operation of the Group is located in Mainland China (“China”) before the acquisition of Smithfield Food, Inc. (“Smithfield”) on September 26, 2013 (the “Acquisition”) (see Note 38) while the presentation currency of the Group is United States Dollar (“US$”), as the directors of the Company consider US$, being an internationally well-recognised currency, can provide more meaningful information to the Company’s investors. Given the significance of the acquisition of Smithfield to the Group, the directors of the Company had reassessed the functional currency of the Company and decided to change the functional currency of the Company and certain subsidiaries from RMB to US$ after the Acquisition 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 and the relevant subsidiaries operate after the acquisition of Smithfield.

2. Application of New and Revised International Financial Reporting Standard ("IFRSs")

For the purpose of preparing and presenting the consolidated financial statements of the Group for the year ended December 31, 2014, the Group has consistently adopted the accounting policies which conform with IFRSs that are effective for the financial period beginning on January 1, 2014 throughout the year and the amendments to IAS 36 Recoverable Amounts Disclosures for Non-Financial Assets in advance of its effective date of January 1, 2014.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 1	Disclosure Initiative[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle[5]

1 Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
2 Effective for first annual IFRS financial statements beginning on or after January 1, 2016, with earlier application permitted.
3 Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
4 Effective for annual periods beginning on or after July 1, 2014, with earlier application permitted.
5 Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
6 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions. Earlier application is permitted.

2. Application of New and Revised International Financial Reporting Standard ("IFRSs") (Continued)

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. Application of New and Revised International Financial Reporting Standard ("IFRSs") (Continued)

IFRS 9 Financial Instruments (Continued)

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

  The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue,* IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company do not anticipate that the application of IFRS 15 in the future will have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements.

2. Application of New and Revised International Financial Reporting Standard ("IFRSs") (Continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012–2014 Cycle

The *Annual Improvements to IFRSs 2012–2014 Cycle* include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to IFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after January 1 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 *Interim Financial Reporting*.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to IAS 34 clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

The directors of the Company anticipate that the application of other new and reversed IFRSs will have no material impact on the results and the financial position of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with IFRSs. IFRSs were also fully converged by Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for biological assets and financial instruments which are measured at fair value less costs to sell and certain financial instruments which are measured at fair value, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements are determined on such a basis, except for share-based payments transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the assets or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Significant Accounting Policies (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

3. Significant Accounting Policies (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs"), which are expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in the reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

When the initial allocation of goodwill acquired in a business combination is not completed before the end of the annual period in which the business combination is effected, that initial allocation is to be completed before the end of the first annual period beginning after the acquisition date. When goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

3. Significant Accounting Policies (Continued)

Investments in associates and joint ventures (Continued)

The results and assets and liabilities of associates and joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates or joint ventures used for equity method accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates or joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

3. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Dividend income from investments is recognised when the owners' rights to receive payment have been established (provided that it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income is recognised in accordance with the Group's accounting policy for operating leases (see the accounting policy below).

Leases

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

3. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as lessee (Continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction as described below are stated in the consolidated statement of financial position at cost less in progress subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on the following basis:

Buildings	10 to 40 years
Plants, machinery and equipment	5 to 25 years
Motor vehicles	3 to 10 years

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

3. Significant Accounting Policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Biological assets

Biological assets represent live hogs, which fall into four categories: suckling hogs, nursery hogs, finisher hogs and breeding stock are measured on initial recognition and at each end of the reporting period at their fair value less costs to sell. A gain or loss arising on initial recognition of biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset is included in profit or loss for the period in which it arises.

The agricultural produce (i.e. carcass) harvested from the biological assets are measured at their fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2 Inventories. A gain or loss arising from agricultural produce at the point of harvest at fair value less costs to sell is included in profit or loss for the period in which it arises.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. Significant Accounting Policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets – Research and development expenditure (Continued)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost or the deemed cost for agriculture produce harvested from biological assets and net realisable value. Cost is calculated using the weighted-average method.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. Significant Accounting Policies (Continued)

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income during the year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is include in other income, expenses, gains or losses.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets at FVTPL represented financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses line item in the consolidated statement of profit or loss and other comprehensive income.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL and loans and receivables. The unlisted equity securities are classified as available-for-sale financial assets.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividend is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, loans and other receivables, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bills receivables and other receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against to the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instrument is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense during the year. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities, including borrowings, bank overdrafts, trade and other payables, are subsequently measured at amortised cost, using the effective interest method.

Hedge accounting

The Group designate certain derivatives as hedges against our exposure in relation to changes in prices and rates of commodities (cash flow hedges).

At the inception of a hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group document whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other gains or losses' line item. Amounts previously recognised in other comprehensive income and accumulated in equity (other reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also continue to recognise the relevant liabilities.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognise in profit or loss.

Financial liabilities are derecognised when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

3. Significant Accounting Policies (Continued)

Share-based payments arrangements

The awarded shares granted are provided by the Company. The Group receives services but has no obligation to settle the share-based payments transaction. The Group recognised the expense in compliance with IFRS 2.

For grants of shares that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of shares granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (other reserve).

At the end of the reporting period, the Group revises its estimates of the number of granted shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserve.

For grants of shares that vest immediately at the date of grant, the fair value of the awarded shares is recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting these consolidated financial statements, the foreign currencies denominated assets and liabilities of the Group are translated into the presentation currency of the Group (US$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

The change of functional currency is applied prospectively from the date of change in accordance with IAS 21 *The Effect of Changes in Foreign Exchange Rates*. At the date of the change, all items were translated into the new functional currency using the prevailing exchange rate at that date and the resulting translated amounts for non-monetary items are treated as historical cost.

Advertising expenses

Advertising expenses on supply of goods are recognised as and included in distribution and selling expenses in the profit or loss in which the Group has a right to access those goods.

Advertising expenses on supply of services are recognised as and included in distribution and selling expenses in the profit or loss in which the Group receives the services.

3. Significant Accounting Policies (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in other reserve and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);

- net interest expense or income; and

- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss as employee benefits expense.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds and reductions in future contributions to the plan.

The employees of the Group in China and Hong Kong are members of state-managed retirement benefit schemes and members of the Mandatory Provident Fund Scheme ("MPF") respectively, the obligations of the Group under which are equivalent to those arising in a defined contribution retirement benefit plan. Contributions to state-managed retirement benefit schemes and MPF are recognised as an expense when employees have rendered service entitling them to the contributions.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

4. Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of each reporting period.

Biological assets

The Group's management determines the fair values less costs to sell of biological assets at the end of each reporting period with reference to the market-determined prices, species, growing conditions, cost incurred and the professional valuation. This determination involved the use of significant judgement. If the actual results differ with the original estimates made by the management, such differences from the original estimates will impact the fair value change recognised in profit or loss in the period in which the estimates change and in future periods. The carrying amount of biological assets is US$1,234 million as at December 31, 2014 (2013: US$1,320 million) (see Note 18).

Goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. The recoverable amount of CGUs at the end of each reporting period is based on the higher of the fair value less cost of disposal and the value in use. The value in use calculation require the management of the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of goodwill is US$1,815 million as at December 31, 2014 (2013: US$1,835 million). Details of the recoverable amount calculation are disclosed in Note 19.

Intangible assets

In accounting for intangible assets, management of the Group considers the potential impairment based on the recoverable amount. The intangible assets with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable; the intangible asset with an indefinite useful life are reviewed for impairment annually, irrespective of whether there is any indication that it may be impaired. Factors that would indicate potential impairment may include, but are not limited to, the significant change in technology, and operating or cash flow losses associated with the intangible assets.

Determining whether intangible assets is impaired requires an estimation of the recoverable amount of the CGUs to which intangible assets has been allocated. The recoverable amount of CGUs at the end of each reporting period is based on the higher of the fair value less cost of disposal and value in use. The value in use calculation requires the management of the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment of intangible assets has been made during the year.

The carrying amount of intangible assets is US$1,746 million as at December 31, 2014 (2013: US$1,780 million) (see Note 20).

4. Key Sources of Estimation Uncertainty (Continued)

Inventories

Inventories are stated at the lower of cost or the deemed cost for agriculture produce harvested from biological assets and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Management of the Group periodically reviews inventories for slow moving, obsolescence or declines in market value. This review requires them to estimate the net realisable value based upon assumptions about future demand and market conditions. If the estimate of net realisable value is below the cost of inventory, the Group will record a write-down of inventories for the difference between cost and net realisable value, which will result in a corresponding increase in cost of sales. If the net realisable value is less than the carrying amount, write-down on inventories may be required. The carrying amount of inventories is US$1,900 million as at December 31, 2014 (2013: US$1,808 million) (see Note 23).

Trade and bills receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. In determining whether there is objective evidence of allowances for bad and doubtful debts, the Group takes into consideration the collectability, aged analysis of trade and other receivables and estimation of future cash flows. The amount of the allowances for bad and doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, an allowances for bad and doubtful debts may arise. As at December 31, 2014, the carrying amount of trade and other receivables is US$845 million which is after allowances for bad and doubtful debts (2013: US$870 million) (see Note 24).

Retirement benefit obligations

Obligations for retirement benefit and related net periodic pension costs are determined in accordance with actuarial valuations. These valuations rely on key assumptions including discount rates, expected return on plan assets, expected salary increases, mortality rates and health care trend rates. The discount rates assumptions are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available, discount rates are based on government bonds yields. The expected returns on plan asset assumptions are determined on a uniform methodology, considering long-term historical returns and assets allocations. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in retirement benefit obligations. During the year ended December 31, 2014, actuarial losses after tax effect amounting to US$118 million are recognised directly in equity in the period in which they occur (2013: gains of US$18 million) (see Note 35).

Share-based payments transactions

The Group measures the fair value of shares granted by the Company under pre-IPO share option scheme (as defined in Note 37(c)) in July 2014. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation methodology. This estimate requires determining the most appropriate inputs to the valuation methodology. The Group recognised share-based payments of US$36 million for the pre-IPO share option for the year ended December 31, 2014.

5. Capital Risk Management and Financial Instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of debt and equity balance. The Group's overall strategy remains unchanged during the years.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Note 32, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

Categories of financial instruments

	2014 US$'million	2013 US$'million
THE GROUP		
Financial assets		
Available-for-sale investments	209	151
Derivatives financial assets	73	6
Other non-current assets	69	120
	351	277
Loans and receivables		
Trade, bills and other receivables	901	1,007
Pledged bank deposits	31	66
Bank balances and cash	978	875
	1,910	1,948
Financial liabilities		
At amortised costs:		
Trade and other payables	1,496	1,199
Borrowings (fixed and floating rates)	4,650	7,356
Bank overdrafts	20	76
	6,166	8,631
Derivatives financial liabilities	52	21

5. Capital Risk Management and Financial Instruments (Continued)

Financial risk management objective and policies

The Group's major financial instruments include pledged bank deposits, bank balances and cash, available-for-sale investments, trade, bills and other receivables, other non-current assets, trade, bills and other payables, borrowings and bank overdrafts. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk, liquidity risk and other price risk. The policies on how to mitigate these risks are set out below. Management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

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

Foreign currency risk management

Certain group entities with RMB as the functional currency have certain foreign currency sales, purchases, bank balances and cash and borrowings denominated in US$ and the Euro ("EUR"), which expose the Group to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follow:

	2014 US$'million	2013 US$'million
Assets		
US$		
Bank balances and cash	9	–+
Trade, bills and other receivables	2	2
EUR		
Bank balances and cash	1	–+
Trade, bills and other receivables	21	–+
Liabilities		
US$		
Trade, bills and other payables	17	6
Borrowings	380	413
EUR		
Trade, bills and other payables	16	–+
Borrowings	2	4

+ Less than US$1 million.

5. Capital Risk Management and Financial Instruments (Continued)

Financial risk management objective and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

Sensitivity analysis

The Group is mainly exposed to the effects of US$ against RMB and the directors of the Company consider that the risk exposed to effects of EUR is not material.

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in RMB against US$ which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year end for a 5% (2013: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2013: 5%) against the relevant currency. For a 5% (2013: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2014 US$'million	2013 US$'million
Profit or loss	**14**	14

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the respective year.

Interest rate risk management

The Group's fair value interest rate risk relates primarily to its available-for-sale investments and fixed-rate borrowings (see Notes 26 and 32 respectively for details). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Group will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk relates primarily to floating rates bank balances, borrowings and bank overdrafts (see Notes 28 and 32 respectively for details). The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rates borrowings, bank overdrafts and bank balances, the analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was outstanding for the whole year. A 27 basis points increase or decrease is used for China operations and a 25 basis points increase or decrease is used for operations outside China which represents management's assessment of the reasonably possible change in interest rates.

5. Capital Risk Management and Financial Instruments (Continued)

Financial risk management objective and policies (Continued)

Market risk (Continued)

Sensitivity analysis (Continued)

If interest rates decreased by 27 basis points in China or 25 basis points outside China and all other variables were held constant, the potential effect on profit before taxation is as follow:

	2014 US$'million	2013 US$'million
Increase in profit/decrease in loss before taxation	2	8

There would be an equal and opposite impact on the profit before taxation where they had 27 basis point in China or 25 basis points outside China higher.

Credit risk

The Group's credit risk is primarily attributable to its trade, bills and other receivables, bank balances and pledged bank deposits. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and arising from the carrying amount of the respective recognised financial assets stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk on trade, bills and other receivables, with exposure spread over a large number of counterparties and customers.

The Company's credit risk is primary attributable to its amounts due from subsidiaries. The management of the Company considers that the credit risk on amounts due from subsidiaries is limited because they regularly monitor the financial positions of these subsidiaries and they have a good understanding of their financial background and ability to repay the debt.

The Company has concentration of credit risk in relation to its amounts due from subsidiaries, of which a significant portion is due from a few counterparties.

The credit risk on bank deposits and loan receivables is limited because the counterparties are financial institutions with good reputation in China and the United States of America ("U.S.").

5. Capital Risk Management and Financial Instruments (Continued)

Financial risk management objective and policies (Continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the management, which has built an appropriate liquidity risk management framework for the management of the companies comprising the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at December 31, 2014, the Group has available unutilised banking facilities of approximately US$2,003 million (2013: US$1,164 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest rates are floating, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. The amount of undiscounted cash flows disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

5. Capital Risk Management and Financial Instruments (Continued)

Financial risk management objective and policies (Continued)

Liquidity risk management (Continued)

	Weighted average effective interest rate %	On demand and 6 months or less US$'million	6–12 months US$'million	1–2 years US$'million	2–5 years US$'million	More than 5 years US$'million	Total undiscounted cash flows US$'million	Total carrying amount US$'million
At December 31, 2014								
Trade and bills payables	–	844	6	–	–	–	850	850
Other payables	–	646	–	–	–	–	646	646
Obligations under finance lease	0.30	–+	1	1	3	20	25	25
Bank overdrafts	5.60	20	–	–	–	–	20	20
Fixed-rates borrowings	5.50	2	3	485	1,105	1,498	3,093	2,899
Floating-rates borrowings	3.09	70	224	273	1,313	–	1,880	1,751
		1,582	234	759	2,421	1,518	6,514	6,191
Derivative financial liabilities – net settlement		52	–+	–+	–+	–	52	52
At December 31, 2013								
Trade and bills payables	–	851	–	–	–	–	851	851
Other payables	–	348	–	–+	–	–	348	348
Obligations under finance lease	0.30	–+	1	1	3	21	26	26
Bank overdrafts	5.60	76	–	–	–	–	76	76
Fixed-rates borrowings	5.90	299	114	12	1,190	1,884	3,499	2,887
Floating-rates borrowings	3.97	80	328	445	4,245	–	5,098	4,469
		1,654	443	458	5,438	1,905	9,898	8,657
Derivative financial liabilities – net settlement	–	21	–+	–+	–+	–	21	21

\+ Less than US$1 million.

5. Capital Risk Management and Financial Instruments (Continued)

Financial risk management objective and policies (Continued)

Other price risk

The Group is exposed to other price risk through its derivative instruments. The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date. If the prices of these future contracts had been 5% higher/lower as at December 31, 2014, the other reserve would decreased/increased by US$1 million.

No sensitivity analysis is presented for the year ended December 31, 2013 as the directors of the Company consider that the exposure is insignificant.

Fair value measurement

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statements 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).

5. Capital Risk Management and Financial Instruments (Continued)

Fair value measurement (Continued)

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

	2014			
	Level 1 US$'million	Level 2 US$'million	Level 3 US$'million	Total US$'million
Derivatives financial assets	69	4	–	73
Available-for-sale investments	–	209	–	209
Other non-current assets	16	53	–	69
	85	266	–	351
Derivatives financial liabilities	30	22	–	52

	2013			
	Level 1 US$'million	Level 2 US$'million	Level 3 US$'million	Total US$'million
Derivative financial assets	–	6	–	6
Available-for-sale investments	–	151	–	151
Other non-current assets	54	66	–	120
	54	223	–	277
Derivative financial liabilities	15	6	–	21

The fair values of derivative financial assets/liabilities and available-for-sale investments 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 bonds securities which are valued at quoted market prices and are classified within Level 1 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.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

6. Turnover and Segment Information

Turnover represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers, net of sales tax during the year, and is as follows:

	2014 US$'million	2013 US$'million
Sales of packaged meats	11,876	6,212
Sales of fresh pork	9,368	4,543
Hog production	587	191
Others	412	307
	22,243	11,253

Segment information

The Group determines its operating segments based on the reports reviewed by the executive directors who are also the chief operation decision makers that are used to make strategic decisions. The Group's reportable segments, which are also the operating segments, are classified as (i) packaged meats, (ii) fresh pork, (iii) hog production and (iv) others which based on their location of the operations. The details of the Group's reportable segments 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 services, sales of flavouring ingredients, internally-produced packaging materials, imported meat products as well as retail business and biopharmaceuticals, retail of meat related products and expenses incurred by the Group.

Each reportable segment derives its turnover 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.

Segments 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 operation decision makers for the purposes of resources allocation and assessment of segment performance.

Inter-segment sales were charged at cost plus margin basis.

6. Turnover and Segment Information (Continued)

Segment information (Continued)

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

For the year ended December 31, 2014

	Packaged meats US$'million	Fresh pork US$'million	Hog production US$'million	Others US$'million	Total US$'million
China					
Segment revenue	4,039	3,913	72	410	8,434
Less: Inter-segment sales	–	(741)	(65)	(233)	(1,039)
Net external sales	4,039	3,172	7	177	7,395
Reportable segment profit (loss)	711	135	4	(77)	773
U.S.					
Segment revenue	7,173	8,202	3,385	–	18,760
Less: Inter-segment sales	–	(2,662)	(2,863)	–	(5,525)
Net external sales	7,173	5,540	522	–	13,235
Reportable segment profit (loss)	450	90	337	(129)	748
Others					
Segment revenue	705	1,042	561	307	2,615
Less: Inter-segment sales	(41)	(386)	(503)	(72)	(1,002)
Net external sales	664	656	58	235	1,613
Reportable segment profit (loss)	33	(14)	71	3	93
Total					
Segment revenue	11,917	13,157	4,018	717	29,809
Less: Inter-segment sales	(41)	(3,789)	(3,431)	(305)	(7,566)
Net external sales	11,876	9,368	587	412	22,243
Reportable segment profit (loss)	1,194	211	412	(203)	1,614
Unallocated income					102
Unallocated expenses					(33)
Biological assets fair value adjustments					45
Finance costs					(371)
Share of profits of associates					18
Share of profits of joint ventures					45
Profit before taxation					1,420

6. Turnover and Segment Information (Continued)

Segment information (Continued)

For the year ended December 31, 2013

	Packaged meats US$'million	Fresh pork US$'million	Hog production US$'million	Others US$'million	Total US$'million
China					
Segment revenue	4,074	3,644	82	526	8,326
Less: Inter-segment sales	–	(634)	(66)	(219)	(919)
Net external sales	4,074	3,010	16	307	7,407
Reportable segment profit (loss)	678	113	7	(36)	762
U.S.					
Segment revenue	1,969	1,949	889	–	4,807
Less: Inter-segment sales	–	(662)	(717)	–	(1,379)
Net external sales	1,969	1,287	172	–	3,428
Reportable segment profit (loss)	79	93	(41)	(27)	104
Others					
Segment revenue	180	384	156	–	720
Less: Inter-segment sales	(11)	(138)	(153)	–	(302)
Net external sales	169	246	3	–	418
Reportable segment profit (loss)	2	(5)	25	(2)	20
Total					
Segment revenue	6,223	5,977	1,127	526	13,853
Less: Inter-segment sales	(11)	(1,434)	(936)	(219)	(2,600)
Net external sales	6,212	4,543	191	307	11,253
Reportable segment profit (loss)	759	201	(9)	(65)	886
Unallocated income					84
Unallocated expenses					(732)
Biological assets fair value adjustments					41
Finance costs					(120)
Share of profits of associates					6
Share of losses of joint ventures					(3)
Profit before taxation					162

6. Turnover and Segment Information (Continued)

Segment information (Continued)

During the current year, management has changed the presentation of the information on inter-segment sales in U.S. and Others when provided to the Board of Directors, in order to present a more meaningful representation of its business operations, consistent with the Group's long-term business strategy, and with how performance is assessed by the Board of directors.

No customers are individually accounted for more than 10% of the total turnover during both years.

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

No further analysis is presented for certain items included or excluded in the measure of segment result as such information is 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.

Information about the Group's non-current assets is presented below based on the geographical locations of operation.

	2014 US$'million	2013 US$'million
Non-current assets		
– China	2,850	2,449
– U.S.	5,254	5,226
– Others	1,036	1,020
	9,140	8,695

7. OTHER INCOME

	2014 US$'million	2013 US$'million
Franchise fee	–+	–+
Government subsidy directly credited to income	55	51
Interest income	18	13
Income on sales of raw materials	15	16
Rental income	4	–+
Others	10	4
	102	84

+ Less than US$1 million.

8. Other Gains and Losses

	2014 US$'million	2013 US$'million
Gain on maturity of available-for-sale investments	24	14
Loss on disposal of property, plant and equipment	(5)	(2)
Net exchange (loss) gain	(8)	7
Others	3	–
	14	19

9. Other Expenses

	2014 US$'million	2013 US$'million
Share-based payments	(78)	(639)
Legal and professional fees	–	(132)
Listing expenses	(31)	(6)
Donations	–+	(5)
Others	(1)	(5)
	(110)	(787)

The above legal and professional fees were incurred in relation to the acquisition of Smithfield.

For the year ended December 31, 2013, included in share-based payments was an expense of US$597 million which represented recognition and reward for the contribution to the acquisition of Smithfield by the directors of the Company, Messrs. Wan Long and Yang Zhijun.

\+ Less than US$1 million.

10. Finance Costs

	2014 US$'million	2013 US$'million
Amortisation of transaction costs (Note)	(72)	(7)
Interests on senior unsecured notes	(135)	(44)
Interest on bank and other borrowings – wholly repayable within five years	(165)	(70)
Less: Amounts capitalised in the cost of qualifying assets	1	1
	(371)	(120)

Note: The above amortisation of transaction costs included the amortisation of transaction costs related to syndicated bank loans.

11. Profit Before Taxation

	2014 US$'million	2013 US$'million
Profit before taxation has been arrived at after charging:		
Auditor's remuneration		
– audit services	4	3
– non-audit services	2	–+
Depreciation of property, plant and equipment	353	173
Amortisation of intangible assets included in administrative expenses	6	1
Impairment loss recognised in respect of property, plant and equipment	2	1
Release of prepaid lease payments	8	5
Write-down of inventories included in cost of sales	3	3
Allowances on trade receivables	4	3
Operating leases rentals in respect of rented premises	76	60
Research and development expenses	75	36
Staff costs	2,939	1,192

The cost of sales represented the cost of inventories recognised as expenses during both years.

+ Less than US$1 million.

12. Directors' and Employees' Emoluments

Messrs. Wan Long, Yang Zhijun, Guo Lijun, C. Larry Pope and Zhang Taixi are the executive directors of the Company as at December 31, 2014. On December 31, 2013, Messrs. Cao Junsheng and Chou Tse Young David resigned as directors of the Company and Messrs. Guo Lijun, C. Larry Pope and Zhang Taixi were appointed as directors of the Company.

After the listing of the Company on August 5, 2014, Messrs. Lee Kong Wai Conway, Huang Ming and Lau Jin Ting Don are appointed as the independent non-executive directors of the Company, and Messrs. Jiao Shuge resigned as executive director and was appointed as non-executive director of the Company.

Directors' and chief executive's emoluments comprise remuneration paid or payables to the following directors, which include the chief executive of the Company, by the Group in connection with the management of the affairs of the Group:

Name of director	Fees US$ million	Basic salaries and allowances US$ million	Performance bonus US$ million (Note (i))	Retention bonus US$ million	Share-based payments US$ million	Retirement benefit scheme contributions US$ million	2014 Total US$ million
Executive/Non-executive directors							
Mr. Wan Long	–	2	–	–	9	–	11
Mr. Guo Lijun	–	–+	–	–	5	–	5
Mr. Jiao Shuge	–+	–	–	–	–	–+	–+
Mr. Yang Zhijun	–	–+	–	–	2	–+	3
Mr. C. Larry Pope	–	4	9	1	3	6	23
Mr. Zhang Taixi	–	–+	–	–	6	–+	6
	–+	7	9	1	25	6	48
Independent Non-executive directors							
Mr. Lee Conway Kong Wai	–+	–	–	–	–	–+	–+
Mr. Huang Ming	–+	–	–	–	–	–+	–+
Mr. Lau Jin Tin Don	–+	–	–	–	–	–+	–+
	–+	–	–	–	–	–+	–+
Total for the year ended December 31, 2014	–+	7	9	1	25	6	48

+ Less than US$1 million.

12. Directors' and Employees' Emoluments (Continued)

Name of director	Fees US$ million	Basic salaries and allowances US$ million	Performance bonus US$ million (Note (i))	Retention bonus US$ million	Shares-based payments US$ million	Retirement benefit scheme contributions US$ million	2013 Total US$ million
Executive/Non-executive directors							
Mr. Wan Long	–+	–+	–	–	418	–	418
Mr. Guo Lijun	–	–	–	–	–	–	–
Mr. Jiao Shuge	–+	–	–	–	–	–+	–+
Mr. Yang Zhijun	–+	–+	–	–	182	–+	182
Mr. C. Larry Pope	–	–	–	–	–	–	–
Mr. Zhang Taixi	–	–	–	–	–	–	–
Mr. Cao Junshen	–+	–	–	–	–	–+	–+
Mr. Chou Tse Young David	–+	–	–	–	–	–+	–+
Total for the year ended December 31, 2013	–+	–+	–	–	600	–+	600

Notes:

(i) Performance related incentive payments is recommended by the remuneration committee of the Company and is approved by the board of directors, with reference to the Group's operating results, individual performance and comparable market statistics.

(ii) No director nor the chief executive waived any emoluments in respect of the years ended December 31, 2014 and December 31, 2013.

(iii) Mr. Wan Long is also the Chief Executive for the years ended December 31, 2014 and December 31, 2013.

+ Less than US$1 million.

12. Directors' and Employees' Emoluments (Continued)

The five highest paid individuals for the year ended December 31, 2014 included two directors of the Company (2013: two), details of whose emoluments are set out above. The emoluments of the remaining three (2013: three) highest paid individuals during the year were as follows:

	2014 US$ million	2013 US$ million
Employees		
– basic salaries and allowances	2	1
– performance bonus	9	2
– retention bonus	3	–+
– share-based payments	–+	6
– retirement benefits scheme contributions	9	–+
	23	9

The emoluments of the remaining highest paid individuals were within the following bands:

	Number of employees	
	2014	2013
HK$20,500,001 to HK$21,000,000	–	1
HK$25,000,001 to HK$25,500,000	–	1
HK$30,000,001 to HK$30,500,000	–	–
HK$31,000,001 to HK$31,500,000	–	1
HK$51,000,001 to HK$51,500,000	1	–
HK$55,000,001 to HK$55,500,000	1	–
HK$76,500,001 to HK$77,000,000	1	–

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

+ Less than US$1 million.

13. Taxation

	2014 US$'million	2013 US$'million
China Enterprise Income Tax	(183)	(180)
U.S. and other overseas income tax	(154)	(2)
Withholding tax	(26)	(40)
Deferred taxation	(85)	(7)
	448	(229)

Under the China law on Enterprise Income Tax (the "EIT Law") and implementation regulation of the EIT Law, the tax rate of the China subsidiaries is 25%, except for the following:

(i) According to the Implementation Regulation of the EIT Law and the EIT exemptions regulation set out in the Circular of the Ministry of Finance and the State Administration on Releasing the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from various China subsidiaries of the Company in primary processing for agriculture products are exempted from EIT.

(ii) Pursuant to related regulations in respect of the Implementation Regulation of the EIT Law, the income from various China subsidiaries of the Company engaging in projects of Animal-Husbandry and poultry feeding, are entitled to exemption from EIT during both years.

(iii) Pursuant to the related regulations in respect of the Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Region (Cai Shui [2012] No. 58) jointly issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation, various China subsidiaries of the Company, are entitled to a preferential income tax rate of 15% during both years.

(iv) According to the Implementation Regulation of the EIT Law and Circular of State Administration of Taxation on Issues Concerning Implementation of Preferential Income Tax Enjoyed by High-and-new-tech Enterprises (Guo Shui Han [2009] No. 203), high-and-new-tech enterprises are levied enterprise income tax at 15%. Various China subsidiaries of the Company are entitled to enjoy a preferential income tax rate at 15% during both years.

13. Taxation (Continued)

According to a joint circular of Ministry of Finance and the State Administration of Taxation, Cai Shui [2008] No. 1, only the profits earned by China subsidiaries prior to January 1, 2008, when distributed to foreign investors, can be grandfathered with the exemption from withholding tax. Whereas, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Implementation Rules, dividend distributed out of the profit generated thereafter, shall be subject to EIT at 10% or reduced tax rate if tax treaty or arrangement applies. Under the relevant tax arrangement, withholding tax rate on dividend distribution to the qualifying Hong Kong resident companies is 5%. Deferred tax liability on the undistributed profits earned by the China subsidiaries have been accrued at the tax rate of 10% for the years ended December 31, 2008 and December 31, 2009 and at the tax rate of 5% starting from January 1, 2010 onwards.

The US income tax charge comprises federal income tax calculated at 35% and state income tax calculated at the rates ranging from 0% to 9.8% on the estimated assessable profits of the subsidiaries of the Company which were incorporated in U.S..

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during both years.

13. Taxation (Continued)

The taxation charge for both years is reconciled to the profit before taxation as follows:

	2014 US$'million	2014 %	2013 US$'million	2013 %
Profit before taxation	1,420		162	
Tax at the applicable rates (Note)	(429)	(30.2)	(41)	(25.0)
Tax effect of share of profits of associates	5	0.3	2	1.2
Tax effect of share of profits (losses) of joint ventures	12	0.8	(1)	(0.6)
Tax effect of income that are not taxable in determining current year taxable profit	37	2.6	1	0.6
Tax effect of expenses that are not deductible in determining current year taxable profit	(41)	(2.9)	(181)	(111.8)
Tax effect of tax losses not recognised	(3)	(0.2)	(3)	(1.9)
Utilisation of tax losses not previously recognised	3	0.2	–	–
Effect of tax exemptions and preferential tax rates granted to China subsidiaries	35	2.5	38	23.5
Effect of tax exemptions and preferential tax rates granted to U.S. subsidiaries	7	0.5	3	1.9
Increase in opening deferred tax liability resulting from increase in applicable tax rate	(2)	(0.1)	(4)	(2.6)
Withholding tax on undistributed earnings of China subsidiaries	(22)	(1.6)	(21)	(13.0)
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	–	5	3.0
Withholding tax on undistributed earnings of China subsidiaries previously not recognised	(2)	(0.1)	(27)	(16.7)
Withholding tax on interest income	(42)	(3.0)	–	–
Underprovision in prior years	(6)	(0.4)	–	–
Tax charge and effective tax rate for the year	(448)	(31.6)	(229)	(141.4)

Note: For the year ended December 31, 2014, given the significance of Smithfield to the Group and as the Group's revenue is generated in several jurisdictions, the directors of the Company consider it is more meaningful to aggregate the separate reconciliations prepared using the domestic rate in each individual jurisdiction.

For the year ended December 31, 2013, the rate applied is applicable tax rate in China where the operation of the Group is substantially based.

Details of recognised and unprovided deferred taxation are set out in Note 33.

14. Dividends

No dividend was proposed or paid during the years ended December 31, 2013 and December 31, 2014.

15. Earnings (Loss) Per Share

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

	2014 US$'million	2013 US$'million
Earnings (loss)		
Profit (loss) for the year attributable to owners of the Company		
For the purpose of basic and diluted earnings (loss) per share	766	(263)
Number of shares	'million	'million
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share (Note 1)	11,904.31	10,051.75
Effect of dilutive potential ordinary shares:		
Incentive shares (Note 2)	631.58	–
Over-allotment options	0.01	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	12,535.90	10,501.75

Notes:

1. The number of ordinary shares for basic earnings per share excludes shares held by Chang Yun Holdings Limited ("Chang Yun") and High Zenith Limited ("High Zenith") under the Company's share incentive schemes (see Note 37(a) and 37(b)).
2. The computation of diluted loss per share for the year ended December 31, 2013 does not assume the vesting of the shares award as the effect is anti-dilutive.

The computation of diluted earnings per share for the year ended December 31, 2014 does not assume the exercise of the Company's share options (see Note 37(c)) because the exercise price of those options was higher than the average market price for shares.

16. Property, Plant and Equipment

	Freehold land US$'million	Buildings US$'million	Motor vehicles US$'million	Plant, machinery and equipment US$'million	Construction in progress US$'million	Total US$'million
COST						
At January 1, 2013	–	812	72	772	62	1,718
Currency realignment	2	38	3	34	3	80
Additions	–	16	9	132	160	317
Arising on acquisition of subsidiaries (Note 38)	497	830	66	997	140	2,530
Transfer from construction in progress	–	104	–	72	(176)	–
Eliminated on disposals	(2)	(10)	(4)	(24)	–	(40)
At December 31, 2013	497	1,790	146	1,983	189	4,605
Currency realignment	(9)	(48)	(3)	(42)	(5)	(107)
Additions	–	40	5	186	687	918
Arising on acquisition of subsidiaries	1	4	–	3	–	8
Transfer from construction in progress	–	280	3	341	(624)	–
Eliminated on disposals	(3)	(15)	(3)	(20)	–	(41)
At December 31, 2014	486	2,051	148	2,451	247	5,383
DEPRECIATION AND IMPAIRMENT						
At January 1, 2013	–	112	28	167	–	307
Currency realignment	–	5	1	7	–	13
Provided for the year	–	49	17	107	–	173
Impairment loss recognised	–	–+	–+	1	–	1
Eliminated on disposals	–	(3)	(3)	(15)	–	(21)
At December 31, 2013	–	163	43	267	–	473
Currency realignment	–	(1)	1	(2)	–	(2)
Provided for the year	–	92	18	243	–	353
Impairment loss recognised	–	2	–	–	–	2
Eliminated on disposals	–	(13)	(3)	(9)	–	(25)
At December 31, 2014	–	243	59	499	–	801
CARRYING VALUES						
At December 31, 2014	486	1,808	89	1,952	247	4,582
At December 31, 2013	497	1,627	103	1,716	189	4,132

+ Less than US$1 million.

16. Property, Plant and Equipment (Continued)

Certain of the Group's buildings of US$1,007 million as at December 31, 2014 (2013: US$792 million) are erected on land held under medium-term land use rights in China while the rest are erected on freehold land situated in U.S..

As at December 31, 2014, the application of obtaining the ownership certificates of buildings with an aggregate carrying value of approximately US$273 million (2013: US$240 million) are still in process.

Included in the carrying value of property, plant and equipment as at December 31, 2014, there was an amount of US$25 million (2013: US$26 million) in respect of assets held under finance leases.

Property, plant and equipment with carrying amount of approximately US$2 million has been fully impaired and recognised in profit or loss for the year ended December 31, 2014 (2013: US$1 million).

17. Prepaid Lease Payments

	2014 US$'million	2013 US$'million
COST		
At January 1	236	213
Currency realignment	(6)	9
Additions	34	14
At December 31	264	236
AMORTISATION		
At January 1	23	17
Currency realignment	–[+]	1
Released for the year	8	5
At December 31	31	23
CARRYING VALUE		
At December 31	233	213
Analysed for reporting purposes as:		
Current	5	5
Non-current	228	208
	233	213

The amount mainly represents the prepayment of rentals for land use rights situated in China for unexpired lease periods between 14 and 50 years.

[+] Less than US$1 million.

18. Biological Assets

Nature of the Group's agricultural activities

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

	2014 Head ('000)	2013 Head ('000)
Live hogs		
– suckling	1,484	1,336
– nursery	2,132	2,010
– finishing	7,086	7,057
	10,702	10,403
Breeding stock	1,061	1,047
	11,763	11,450

In general, once a sow is inseminated it will gestate for a period of 114 days. New born hogs are classified as "suckling". The suckling hogs will stay with their mother for three to four weeks at which time they will be weaned. Once the suckling hogs are weaned, at approximately 15 pounds, they are transferred to the "nursery".

The nursery facilities are designed to meet the needs of newly weaned pigs. They are fed a series of specially formulated diets to meet their changing nutritional needs. The pigs will stay in the nursery for approximately 7 weeks where they will grow to approximately 50 pounds and then be transferred to the "finishing" farm.

Finishing hogs typically stay in this phase for 14 to 20 weeks. During that time they will grow to 260 pounds and be considered as a live hog with market value. Once the hog reaches the ideal weight, they are loaded onto specially designed trucks for transport to the processing facility.

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. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews 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, disease controls, surveys and insurance.

18. Biological Assets (Continued)

Carrying value of the Group's biological assets

	Live hogs		Breeding stock		Total	
	2014 US$'million	2013 US$'million	2014 US$'million	2013 US$'million	2014 US$'million	2013 US$'million
Carrying value at January 1	1,116	16	204	7	1,320	23
Currency realignment	(15)	5	(2)	–+	(17)	5
Add: Breeding costs	7,807	1,290	209	35	8,016	1,325
Arising on acquisition of subsidiaries (Note 38)	–	1,184	–	196	–	1,380
Gain arising from changes in fair value less costs to sell of biological assets	70	39	22	8	92	47
Transfer to inventories at the point of harvest	(7,752)	(1,362)	(182)	(32)	(7,934)	(1,394)
Decrease due to depreciation	–	–	(3)	(2)	(3)	(2)
Decrease due to culling	(212)	(56)	(28)	(8)	(240)	(64)
Carrying value at December 31	1,014	1,116	220	204	1,234	1,320

Changes in fair value less costs to sell of biological assets include changes in the fair value of the hogs at the end of both years. The Group's biological assets were independently valued by the independent qualified valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited situated at 6/F, Three Pacific Place, 1 Queen's Road East, Hong Kong.

Analysed for reporting purpose as:

	2014 US$'million	2013 US$'million
Current	1,014	1,116
Non-current	220	204
	1,234	1,320

+ Less than US$1 million.

18. Biological Assets (Continued)

Fair value measurement

	Level 1 US$'million	Level 2 US$'million	Level 3 US$'million	Total US$'million
At December 31, 2014				
Biological assets				
– live hogs	–	–	1,014	1,014
– breeding stock	–	–	220	220
	–	–	1,234	1,234
At December 31, 2013				
Biological assets				
– live hogs	–	–	1,116	1,116
– breeding stock	–	–	204	204
	–	–	1,320	1,320

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

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

18. Biological Assets (Continued)

Fair value measurement (Continued)

Set forth below are the key assumptions and inputs adopted in the valuation process of biological assets:

	2014	2013
China		
Breeding stock Per head market price(1) (RMB)	2,141	2,357
Suckling hogs Per head cost(2) (RMB)	67	69
Finishing hogs Per head market price(3) (RMB)	1,328	1,564
Per head weekly average breeding costs required to raise to finishing hogs(4) (RMB):	42	50
U.S.		
Breeding stock – Sow Per head market price(1) (US$)	206	225
Breeding stock – Boar Per head market price(1) (US$)	109	139
Suckling hogs Per head cost(2) (US)	30	34
Finishing hogs Per head market price(3) (US$)	173	182
Per head weekly average breeding costs required to raise to finishing hogs(4) (US$):	5.9	6.5

Notes:

1. Market prices of breeding stock — Breeding stock is assumed to be sellable to the market as at the corresponding Stock valuation date. The prices adopted refer to the average historical selling prices transacted to local slaughter house. As the Group never sells its breeding stock before the end of its useful life, no historical actual sales figures are available.
2. Costs of suckling hogs — As there is insignificant biological transformation that takes place between the birth of these animals until they become finishing hogs, the cost approach was adopted. As the hogs are only 4 weeks' old at most, the recent cost incurred approximates the replacement cost.
3. Market prices of finishing hogs — The adopted selling prices of finishing hogs (which is old enough to be sold to the market) are determined using their market price at the actively traded local spot and/or future market as reference. The prices used in the valuation are in line with the actual prices recorded.
4. Costs required to complete — The costs to complete used as an assumption in valuation are based on the historical average feeding cost, medication and vaccination, grower payment, production housing, production overhead, the freight-to-slaughter and selling costs that would be incurred for sales. The estimated profits that would be required by a raiser are also applied in the valuation.

19. Goodwill

	2014 US$'million	2013 US$'million
COST		
At January 1	1,835	205
Currency realignment	(17)	8
Addition (Note 38)	5	1,622
Purchase accounting adjustments (Note 38(a))	(8)	–
At December 31	1,815	1,835
ACCUMULATED IMPAIRMENT LOSSES		
At January 1 and December 31	–	–
CARRYING VALUE		
At December 31	1,815	1,835

Impairment testing on goodwill

Based on the Group's business units, goodwill has been allocated for impairment testing purpose to the following CGUs:

- Fresh pork
- Packaged meats

The carrying amount of goodwill allocated to CGUs and unallocated is as follows:

	2014 US$'million	2013 US$'million
Allocated to		
Fresh pork – China	53	55
Packaged meats – China	153	158
Fresh pork – U.S.	31	–
Packaged meats – U.S.	1,504	–
Fresh pork and packaged meats – Others	74	–
	1,815	213
Unallocated – U.S. and others (Note)	–	1,622
	1,815	1,835

Note: The initial allocation of goodwill arisen from the Acquisition was not completed before December 31, 2013 in which the business combination is effected.

19. Goodwill (Continued)

Impairment testing on goodwill (Continued)

An impairment review of these CGUs is undertaken annually or when events or circumstances indicate that the carrying amount of CGUs may not be recoverable. The recoverable amounts of these CGUs have been determined by value in use method using cash flow projection performed by the management for both years ended December 31, 2014 and December 31, 2013.

For the purpose of impairment testing, the Group prepares cash flow projection and the recoverable amounts of these CGUs are calculated by using pre-tax cash flow projections based on a 3-year/5-year financial budget approved by management and extrapolation of cash flows beyond the 3-year/5-year budget period.

Key assumptions used in the cash flow projection of fresh pork in China/U.S. covering a 3-year/5-year budget period and extrapolated cash flow beyond the budget period are as follows:

	China		U.S.
	2014	2013	2014
	%	%	%
Revenue growth rate (Note i)	13.20–32.01	13.49–40.93	0.1–0.7
Long-term growth rate (Note ii)	2	2	2
Discount rate (Note iii)	9	10	9

Key assumptions used in the cash flow projection of packaged meats in China/U.S. covering a 3-year/5-year budget period and extrapolated cash flow beyond the budget period are as follows:

	China		U.S.
	2014	2013	2014
	%	%	%
Revenue growth rate (Note i)	8.64–21.39	12.66–13.06	0.8–4.4
Long-term growth rate (Note ii)	2	2	2
Discount rate (Note iii)	9	10	9

Key assumptions used in the cash flow projection of fresh pork and packaged meats in other locations outside China and U.S. covering a 5-year budget period and extrapolated cash flow beyond the budget period are as follows:

	2014
	%
Revenue growth rate (Note i)	2.1–4.4
Long-term growth rate (Note ii)	3
Discount rate (Note iii)	10

Notes:

i. Management determined revenue growth rate over a 3-year/5-year budget period with reference to the past performance and its expectations for the market development.

ii. The long-term growth rate used does not exceed the long-term growth rate for the meat production business in which it operates.

iii. The discount rate used is pre-tax discount rate applied to the cash flow projections which reflects specific risks relating to the CGUs.

No impairment loss is recognised at the end of both years based on the impairment assessment performed. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGUs to exceed the aggregate recoverable amount of the CGUs.

20. Intangible Assets

	Trademarks US$'million	Distribution network US$'million	Patents US$'million	Customers relations US$'million	Contract farm relations US$'million	Rights and permits US$'million	Total US$'million
COST							
At January 1, 2013	356	5	1	–	–	–	362
Currency realignment	13	–	–	–	–	–	13
Arising on acquisition of subsidiaries (Note 38)	1,305	–	–	55	40	3	1,403
Additions	4	–	–	–	–	–	4
At December 31, 2013	1,678	5	1	55	40	3	1,782
Currency realignment	(27)	–	–	(1)	–	–	(28)
At December 31, 2014	1,651	5	1	54	40	3	1,754
AMORTISATION AND IMPAIRMENT							
At January 1, 2013	–	–	1	–	–	–	1
Currency realignment	–	–	–+	–	–	–	–+
Provided for the year	–	–	–+	1	–+	–+	1
At December 31, 2013	–	–	1	1	–+	–+	2
Currency realignment	–	–	–+	–	–	–	–+
Provided for the year	–	–	–+	4	2	–+	6
At December 31, 2014	–	–	1	5	2	–+	8
CARRYING VALUES							
At December 31, 2014	1,651	5	–	49	38	3	1,746
At December 31, 2013	1,678	5	–+	54	40	3	1,780

Patents, customers relations, contract farm relations and rights and permits are amortised over their estimated useful lives of 10 to 20 years.

Trademarks and distribution network acquired in the business combination are identified and recognised as intangible assets with indefinite useful lives and carried at historical cost without amortisation for the following reasons:

– they are capable of being renewed indefinitely at insignificant cost;

– there is no foreseeable limit to the period over which the asset is expected to generate net cash flows, based on an analysis of all of the relevant factors.

+ Less than US$1 million.

20. Intangible Assets (Continued)

Impairment testing on intangible assets

Based on the Group's business units, trademarks and distribution network have been allocated for impairment testing purpose to the following CGUs:

- Fresh pork
- Packaged meats

The carrying amount of trademarks and distribution network was allocated to CGUs as follows:

	2014 US$'million	2013 US$'million
Allocated to		
Fresh pork – China	53	54
Packaged meats – China	315	323
Fresh pork – U.S.	235	–
Packaged meats – U.S.	965	–
Fresh pork and packaged meats – Others	88	–
	1,656	377
Unallocated – U.S. and others (Note)	–	1,306
	1,656	1,683

Note: The initial allocation of intangible assets arisen from the acquisition of Smithfield is not completed before December 31, 2013 in which the business combination is effected.

An impairment review of these CGUs is undertaken annually or when events or circumstances indicate that the carrying amount of CGUs may not be recoverable. The recoverable amount of these CGUs have been determined by value in use method using cash flow projection by management for the years ended December 31, 2014 and December 31, 2013.

For the purpose of impairment testing, the Group prepares cash flow projection based on a 3-year/5-year financial budgets approved by management and extrapolation of cash flows beyond the 3-year/5-year budget period.

Key assumptions used in the cash flow projection of trademarks and distribution network of fresh pork covering a 3-year/5-year budget period and extrapolated cash flow beyond the budget period are as follows:

	China		U.S.
	2014 %	2013 %	2014 %
Revenue growth rate (Note i)	13.20–32.01	13.49–40.93	0.1–0.7
Long-term growth rate (Note ii)	2	2	2
Discount rate (Note iii)	12	13	11

20. Intangible Assets (Continued)

Impairment testing on intangible assets (Continued)

Key assumptions used in the cash flow projection of trademarks and distribution network of packaged meats covering a 3-year/5-year budget period and extrapolated cash flow beyond the budget period are as follows:

	China		U.S.
	2014	2013	2014
	%	%	%
Revenue growth rate (Note i)	8.60–21.39	12.66–13.06	0.80–12.90
Long-term growth rate (Note ii)	2	2	2
Discount rate (Note iii)	12	13	11

Key assumptions used in the cash flow projection of trademarks and distribution network of fresh pork and packaged meats in other locations outside China and U.S. covering a 5-year budget period and extrapolated cash flow beyond the budget period are as follows:

	2014
	%
Revenue growth rate (Note i)	5.8–5.9
Long-term growth rate (Note ii)	3
Discount rate (Note iii)	11

Notes:

i. Management determined revenue growth rate over a 3-year/5-year budget period with reference to the past performance and its expectations for the market development.

ii. The long-term growth rate used does not exceed the long-term growth rate for the meat production business in which it operates.

iii. The discount rate used is pre-tax discount rate applied to the cash flow projections which reflects specific risks relating to the trademarks and distribution network.

The Group does not recognise an impairment loss during both years based on the impairment assessment performed. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the trademarks and distribution network to exceed the aggregate recoverable amount of the assets.

21. Interests in Associates

	2014 US$'million	2013 US$'million
The Group's share of interests in associates		
Listed	–	347
Unlisted	367	60
	367	407
Share of post-acquisition profits and other comprehensive income, net of dividends received	25	8
	392	415

Details of the Group's principal associates as at December 31, 2014 and December 31, 2013 are as follows:

Name of associate	Place of establishment/ incorporation	Attributable proportion of issued/registered capital held by the Company indirectly 2014	2013	Principal activities
Associates of WH Group				
杜邦雙匯漯河蛋白有限公司 (Dupont Shineway Luohe Protein Co., Ltd)	China	40%	40%	Manufacture and sales of protein products
南通匯羽豐新材料有限公司 (Nantong SKT New Material Co., Ltd)	China	43%	43%	Packaging materials supplies
杜邦雙匯漯河食品有限公司 (Dupont Shinenay Luohe Food Co., Ltd.)	China	48%	48%	Production of soy albumen
Campofrio Food Group, S.A. ("Campofrio") (Note 1)	Spain	37%	37%	Manufacture and sales of meat products
Sigma & WH Food Europe, S.L. ("Sigma & WH Europe")	Spain	37%	–	Investing holding of Campofrio

Note:

1. Campofrio was listed on the Bolsa de Madrid Exchange. This company had become the associate of the Group after the acquisition of Smithfield and was subsequently delisted in September 2014.

21. Interests in Associates (Continued)

The above table lists the principal associates of the Group, which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the consolidated net assets. To give details of all the associates would, in the opinion of the directors, result in particulars of excessive length.

All of the above associates are accounted for using equity method in the consolidated financial statements.

Summarised financial information of a material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts prepared in accordance with IFRSs.

Sigma & WH Europe/Campofrio (Note)

	Sigma & WH Europe 2014 US$'million	Campofrio 2013 US$'million
Current assets	913	967
Non-current assets	2,046	2,140
Current liabilities	(1,047)	(1,164)
Non-current liabilities	(1,022)	(1,120)

	Sigma & WH Europe 2014 US$'million	Campofrio 2013 US$'million
Revenue	2,561	683
Profit for the year	30	1
Other comprehensive gain (loss) for the year	2	(1)
Total comprehensive gain for the year	12	–[+]
Dividends received from the associate during the year	–	–

[+] Less than US$1 million.

21. Interests in Associates (Continued)

Sigma & WH Europe/Campofrio (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial information:

	Sigma & WH Europe 2014 US$'million	Campofrio 2013 US$'million
Net assets	890	823
Proportion of the Group's ownership interest	37%	37%
	330	305
Goodwill	–	42
Carrying amount of the Group's interest	330	347

Note: Sigma Alimentos, S.A. De C.V. ("Sigma"), is a shareholder owning 62% of the shares of Campofrio.

In June 2014, the Group has entered into a shareholders agreement with Sigma to form a new entity, Sigma & WH Europe, incorporated in Spain, to hold the shares of Campofrio owned by Sigma and the Group. At the formation of Sigma & WH Europe, both Sigma and the Group contributes the amount of shares equivalent to the shares that Sigma and the Group holds Campofrio. As of December 31, 2014, Sigma & WH Europe owns 98% of the shares of Campofrio. The Group's shareholding to Campofrio remains the same after the formation of Sigma & WH Group.

Aggregate information of associates that are not individually material is set out below:

	2014 US$'million	2013 US$'million
The Group's share of profit for the year from these associates	7	6
The Group's share of other comprehensive income	1	–+
The Group's share of total comprehensive income	8	6
Aggregate carrying amount of the Group's interest in these associates	62	68

+ Less than US$1 million.

22. Interests in Joint Ventures

	2014 US$'million	2013 US$'million
Cost of investment in unlisted joint ventures	111	124
Share of post-acquisition losses and other comprehensive income	36	(3)
	147	121

Details of the Group's principal joint ventures as at December 31, 2014 and December 31, 2013, all of which are 50% held by the Company indirectly are as follows. The Group exercises joint control over these entities and therefore classified them as joint ventures of the Group.

Name of joint venture	Place of incorporation	Principal activities
Granjas Carroll de Mexico S. de R.L. de C.V.	Mexico	Hog farming operations
Norson Holding, S. de R.L. de C.V.	Mexico	Manufacturing of meat products and hog farming operations
Carolina Cold Storage Limited Partnership	U.S.	Cold storage facility

All the Group's joint ventures are not considered individually material, the aggregate amounts of its share of these joint ventures is set out in the consolidated financial statements.

23. Inventories

	2014 US$'million	2013 US$'million
Raw materials	695	595
Work in progress	76	89
Finished goods	1,129	1,124
	1,900	1,808

24. Trade and Bills Receivables

	2014 US$'million	2013 US$'million
Trade receivables	848	864
Less: Allowances for bad and doubtful debts	(7)	(3)
	841	861
Bills receivables	4	9
	845	870

The general credit term allowed by the Group to its customers is within 30 days in China operations while the credit term vary depending on the sales channel and customer for the U.S. and others operations. The following is an ageing analysis of the trade and bills receivables net of allowances for bad and doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

	2014 US$'million	2013 US$'million
Age		
0–30 days	773	778
31 to 90 days	64	79
91 to 180 days	8	13
	845	870

Before accepting any new customers, the Group uses past experience to assess the potential customers' credit quality and defines credit limits for the customers. Limits attributed to customers are reviewed regularly.

At December 31, 2014, included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$72 million (2013: US$92 million) which mainly aged between 31 to 90 days are past due at the end of reporting period for which the Group has not provided for impairment loss considering the payment history and substantial repayment was noted subsequently to the end of the reporting period. The Group does not hold any collateral over these balances. The average age of these receivables as at December 31, 2014 is 68 days (2013: 71 days).

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

24. Trade and Bills Receivables (Continued)

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

Movement in the allowances for bad and doubtful debts.

	2014 US$'million	2013 US$'million
At January 1	(3)	–+
Recognised during the year (Note 11)	(4)	(3)
At December 31	(7)	(3)

The allowances for doubtful debts represented individually impaired trade receivables which have been placed under liquidation or in severe financial difficulties.

25. Prepayments, Deposits and Other Receivables

	2014 US$'million	2013 US$'million
Loans receivables	55	134
Deposits paid to suppliers	29	30
Deposits placed with financial institutions	54	48
Value-added tax receivables	80	78
Prepayments	36	36
Utility deposits	–+	4
Amounts due from associates	1	3
Others	48	32
	303	365
Analysed for reporting purposes as:		
Current	263	242
Non-current	40	123
	303	365

+ Less than US$1 million.

26. Available-for-Sale Investments

	2014 US$'million	2013 US$'million
Financial products	209	151

At December 31, 2014, the balances represented the investments in financial products operated by banks with expected annual return ranging from 4.6% to 5.8% (2013: 4% to 6.25%).

27. Derivatives Financial Instruments

Derivatives under hedge accounting

	2014		2013	
	Assets US$'million	Liabilities US$'million	Assets US$'million	Liabilities US$'million
Fair value hedges				
– Grain contracts	–+	2	–+	–
Cash flow hedges				
– Foreign currency forward contracts	–+	–+	–+	–
– Grain contracts	5	23	2	13
– Livestock contracts	60	–+	1	1
	65	25	3	14

Fair value hedges:

The Group entered into derivative instruments (primarily forward contracts) to minimise its exposure to fair value changes of its commitments to buy grains. The directors of the Company consider that those derivative instruments are highly effective hedging instruments. Major terms of the derivative instruments are set out below:

Derivative instruments	Notional volume Minimum	Notional volume Maximum	Metric	Maturity
At December 31, 2014				
Commodities contract				
– Corn	450,000	9,195,000	Bushels	up to December 2016
At December 31, 2013				
Commodities contract				
– Corn	–	6,230,000	Bushels	up to March 2014

+ Less than US$1 million.

27. Derivatives Financial Instruments (Continued)

Fair value hedges: (Continued)

During the year ended December 31, 2014, the hedge was highly effective in hedging the fair value exposure to the grain price movements and as a result the carrying amount of the commitments to buy grains was adjusted by less than US$1 million (2013: less than US$1 million) which was included in profit or loss at the same time that the derivative instruments were included in profit or loss in both years.

Cash flow hedges:

At December 31, 2014 and December 31, 2013, the Group had the following foreign exchange forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency forecast sales and purchases.

As at December 31, 2014, there were deferred net gain of US$24 million (2013: net losses of US$5 million) in equity, net of tax of US$19 million (2013: less than US$2 million) included in other reserve.

The Group entered into derivative instruments, such as futures, swaps and options contracts designated as highly effective hedging instruments in order to manage the Group's exposure to the variability in expected future cash flows attributable to commodity price risk associated with the forecasted sale of live hogs and fresh pork, and the forecasted purchase of corn and soybean meal. The terms of the derivative instruments have been negotiated to match the terms of the respective designated hedged items. The major terms of these contracts are as follows:

	Notional volume			
Derivative instruments	**Minimum**	**Maximum**	**Metric**	**Maturity**
At December 31, 2014				
Commodities contracts				
Corn	42,575,000	99,580,000	Bushels	up to December 2015
Soybean meal	346,500	827,300	Tons	up to December 2015
Lean hogs	103,280,000	1,847,680,000	Pounds	up to August 2015
Foreign currency forward contracts	10,966,921	34,363,900	Various currencies	up to September 2015
At December 31, 2013				
Commodities contracts				
Corn	42,575,000	52,575,000	Bushels	up to August 2014
Soybean meal	346,500	405,350	Tons	up to December 2014
Lean hogs	81,600,000	733,160,000	Pounds	up to August 2014
Foreign currency forward contracts	23,615,262	34,543,408	Various currencies	up to September 2014

Fair value gain of US$29 million (2013: fair value losses US$5 million) have been recognised in other comprehensive income during the year ended December 31, 2014.

27. Derivatives Financial Instruments (Continued)

Derivatives not under hedge accounting

	2014 Assets US$'million	2014 Liabilities US$'million	2013 Assets US$'million	2013 Liabilities US$'million
Foreign currency forward contracts	1	–+	–+	–
Grain contracts	1	8	–	–+
Livestock contracts	6	9	–+	7
Energy contracts	–	10	3	–+
	8	27	3	7

Major terms of such derivatives are as follows:

Derivative instruments	Notional volume Minimum	Notional volume Maximum	Metric	Maturity
At December 31, 2014				
Commodities contracts				
Lean hogs	600,000	414,600,000	Pounds	up to February 2016
Corn	490,000	24,640,000	Bushels	up to December 2016
Soybean meal	–	18,500	Tons	up to January 2016
Soybeans	75,000	3,545,000	Bushels	up to November 2016
Wheat	–	85,000	Bushels	up to July 2015
Natural gas	8,030,000	11,040,000	MMBTU	up to December 2016
Diesel	–	6,888,000	Gallons	up to December 2016
Foreign currency forward contracts	6,272,810	85,251,053	Various currencies	up to July 2015
At December 31, 2013				
Commodities contracts				
Lean hogs	1,560,000	403,840,000	Pounds	up to December 2014
Corn	25,000	1,825,000	Bushels	up to March 2015
Soybean meal	–	25,000	Tons	up to July 2014
Soybeans	–	1,820,000	Bushels	up to January 2015
Natural gas	9,680,000	12,380,000	MMBTU	up to April 2016
Diesel	1,260,000	2,016,000	Gallons	up to April 2014
Foreign currency forward contracts	8,072,402	55,143,799	Various currencies	up to February 2014

All derivative financial assets and liabilities are recorded as current assets and current liabilities.

+ Less than US$1 million.

28. Pledged Bank Deposits and Bank Balances and Cash

At December 31, 2014, bank balances carry interest at market rates ranging from 0.06% to 4.34% (2013: 0.05% to 4.13%) per annum. The pledged bank deposits carry fixed interest rates from 0.01% to 3.60% (2013: 3% to 4.75%) per annum.

At December 31, 2014, pledged bank deposits represent deposits of US$21 million (2013: US$62 million) pledged to banks for securing banking and trading facilities such as letter of credits and bank loans granted to the Group, and US$4 million (2013: US$4 million) pledged for securing loan from a third party. These pledged bank deposits will be released upon the settlement of relevant borrowings or the release of the relevant facilities.

29. Trade and Bills Payables

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

	2014 US$'million	2013 US$'million
Trade payables	**850**	851
Bills payables	**–+**	–
	850	851

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

	2014 US$'million	2013 US$'million
Age		
0–30 days	**646**	756
31– 90 days	**170**	87
91–180 days	**28**	8
181 days to 365 days	**6**	–
	850	851

\+ Less than US$1 million.

30. Accrued Expenses and Other Payables

	2014 US$'million	2013 US$'million
Accrued staff costs	**378**	342
Payables in respect of acquisition of property, plant and equipment	**297**	78
Deposit receipts and deposits received from customers	**156**	196
Sales rebates payables	**140**	105
Insurance payables	**114**	109
Interest payable	**70**	65
Balance of contingent consideration in respect of acquisition of subsidiaries	**50**	48
Growers payables	**41**	35
Deferred compensation	**37**	40
Accrued professional fees	**35**	41
Broker payables	**34**	–+
Accrued advertising expenses	**34**	36
Accrued rent and utilities	**31**	25
Pension liability (Note 35)	**27**	26
Amounts due to associates (Note 43(b))	**9**	8
Deferred revenue (Note 34)	**2**	5
Obligations under finance leases (Note 31)	**1**	1
Dividends payable to non-controlling interests	**–**	46
Other payables	**141**	90
	1,597	1,296
Analysed for reporting purposes as:		
Current	**1,457**	1,146
Non-current	**140**	150
	1,597	1,296

\+ Less than US$1 million.

31. Obligations Under Finance Leases

The Group has leased certain of its buildings, machinery, vehicles and other equipment under finance leases. As at December 31, 2014, the lease term is ranged from 2 to 26 years (2013: 2 to 27 years). Interest rates underlying all obligations under finance leases are variable at respective contract dates with an average rate of 0.3% per annum for the year ended December 31, 2014 (2013: 0.3% per annum).

	Minimum lease payments		Present value of minimum lease payments	
	2014 US$'million	2013 US$'million	2014 US$'million	2013 US$'million
Amounts payable under finance leases:				
Within one year	1	1	1	1
Between one to two years	1	1	1	1
Between two to five years	3	3	3	3
After five years	20	21	20	21
	25	26	25	26
Less: Future finance charges	–+	–+		
Present value of lease obligations	25	26		
Less: Amounts due for settlement within one year and shown under current liabilities (included in accrued expenses and other payable in Note 30)			(1)	(1)
Amounts due after one year			24	25

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

+ Less than US$1 million.

32. Borrowings

	2014 US$'million	2013 US$'million
Senior unsecured notes:		
6.625% senior unsecured notes due August 2022	1,014	1,021
7.750% senior unsecured notes due July 2017	520	539
5.250% senior unsecured notes due August 2018	492	490
5.875% senior unsecured notes due August 2021	392	391
	2,418	2,441
Bank loans (Note i):		
Secured	83	4,300
Unsecured	2,144	612
Loans from third parties (Note ii):		
Secured	1	1
Unsecured	4	2
	4,650	7,356
Bank overdrafts (Note iii)	20	76
The borrowings other than bank overdrafts are repayable as follows (Note iv):		
Within one year	699	684
Between one to two years	230	306
Between two to five years	2,310	4,950
After five years	1,411	1,416
	4,650	7,356
Less: Amounts due within one year shown under current liabilities	(699)	(684)
Amounts due after one year	3,951	6,672
Total borrowings:		
At fixed rates	2,899	2,887
At floating rates	1,751	4,469
	4,650	7,356
Analysis of borrowings by currency:		
Denominated in US$	4,536	7,259
Denominated in RMB	60	6
Denominated in EUR	4	4
Denominated in GBP ("British Pound")	4	–
Denominated in PLN ("Polish Zloty")	46	87
	4,650	7,356

32. Borrowings (Continued)

Notes:

i. Fixed rate bank loans carry interest at fixed rates ranging from 1.6% to 5.5% (2013: 1.48% to 6%) and floating rates of LIBOR + 2.5% to LIBOR + 4% per annum at December 31, 2014 (2013: 1.38% to WIBOR +2.5%).

ii. Loans from third parties carry interests at fixed rates ranging from 0.6% to 0.9% per annum at December 31, 2014 (2013: 0.6% to 0.9%).

iii. Bank overdrafts at December 31, 2014 carry interest at 5.6% per annum (2013: 5.6% per annum).

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

The Group had entered into a US$4,000 million syndicated loan (the "2013 Syndicated Loan") for the Acquisition during the year ended December 31, 2013 and it carried interest at LIBOR + 3.5% to 4.5% per annum. The Group has early settled during the year.

During the year ended December 31, 2014, the Group had entered into US$1,500 million Syndicated Loan and it carries interest at LIBOR + 2.48% to 3.08% per annum in correlation to the leverage ratio of the Group.

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, make acquisitions and investments, dispose of or transfer assets, pay dividends or make other payments in respect of its inventories, 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 year ended December 31, 2014 and December 31, 2013.

Details of assets pledged to secure borrowings are set out in Note 41.

33. Deferred Taxation

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2014 US$'million	2013 US$'million
Deferred tax assets	88	42
Deferred tax liabilities	(838)	(824)
	(750)	(782)

The following are the major deferred tax assets/liabilities recognised by the Group, and the movements thereon during the year:

Tax effect of deductible temporary differences:

	Allowances for bad debts US$'million	Impairment loss and accelerated accounting depreciation on property, plant and equipment US$'million	Unrealised profit in inventories US$'million	Write-down of inventories US$'million	Tax losses US$'million	Unpaid staff welfare US$'million	Other deductible temporary differences US$'million	Total US$'million
At January 1, 2013	–+	3	3	–+	14	3	2	25
Currency realignment	–+	–+	–+	–+	–	–+	1	1
Arising on acquisition of subsidiaries (Note 38)	–	–	(11)	–	43	222	10	264
Credited (charged) to profit or loss	–+	1	26	–+	22	(23)	9	35
Credited (charged) to equity	–	–	–	–	–	(11)	2	(9)
At December 31, 2013	–+	4	18	–+	79	191	24	316
Currency realignment	–	–+	–+	–+	(1)	–+	(3)	(4)
Arising on acquisition of subsidiaries (Note 38)	–	–	1	–	–	–	–	1
Credited (charged) to profit or loss	–+	(1)	(10)	–+	41	(19)	(12)	(1)
Credited (charged) to equity	–	–+	–	–	–	75	(9)	66
At December 31, 2014	**–+**	**3**	**9**	**–+**	**119**	**247**	**–**	**378**

+ Less than US$1 million.

33. Deferred Taxation (Continued)

Tax effect of taxable temporary differences:

	Accelerated tax depreciation US$'million	Undistributed earnings of China subsidiaries US$'million	Fair value changes arising from business combination US$'million	Fair value changes arising from biological assets US$'million	Other taxable temporary differences US$'million	Total US$'million
At January 1, 2013	–+	(12)	(117)	–	–	(129)
Currency realignment	–+	–+	(5)	–	–	(5)
Arising on acquisition of subsidiaries (Note 38)	(521)	–	(401)	–	–	(922)
(Charged) credited to profit or loss	(19)	(8)	2	(15)	(2)	(42)
At December 31, 2013	(540)	(20)	(521)	(15)	(2)	(1,098)
Currency realignment	–+	–+	5	–	9	14
Arising on acquisition of subsidiaries (Note 38)	–	–	48	–	–	48
(Charged) credited to profit or loss	9	2	(19)	(16)	(60)	(84)
Credited (charged) to equity	–+	–	–	–	(8)	(8)
At December 31, 2014	**(531)**	**(18)**	**(487)**	**(31)**	**(61)**	**(1,128)**

At December 31, 2014, the Group had unused tax losses of US$407 million (2013: US$314 million) available for offset against future profits of which a deferred tax asset has been recognised in respect of US$333 million (2013: US$242 million) of such losses. No deferred tax asset has been recognised in respect of such losses of US$74 million (2013: US$72 million) due to unpredictability of future profit stream. Except an unrecognised tax losses of US$21 million incurred during the year ended December 31, 2014 (2013: US$11 million) that may be carried forward indefinitely, other losses will expire from the year of 2014 to 2029.

+ Less than US$1 million.

33. Deferred Taxation (Continued)

The unrecognised tax losses will expire on or before 2029 as below:

	2014 US$'million	2013 US$'million
By end of		
2014	–	5
2015	8	5
2016	6	20
2017	9	2
2018	6	9
after 2018	24	20
	53	61

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$1,390 million (2013: US$754 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these PRC operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse in the foreseeable future.

34. Deferred Revenue

	2014 US$'million	2013 US$'million
Government grant		
– current (included in accrued expenses and other payables Note 30)	2	5
– non-current	6	9
	8	14

The deferred revenue represents government grant received in relation to construction of property, plant and equipment of the Group. As the related assets are under construction, the grant received from government will be released to profit or loss as other income over the useful lives of the related amounts after the construction is completed.

35. Pension Liability and Other Retirement Benefits Schemes

Defined benefit plans

The group entities which operates in U.S. operate funded defined benefit scheme for all their qualified employees. Pension benefits provided by the Group are currently organised primarily through defined benefit pension plans which cover virtually all 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.

The defined benefit plan is administered by a separate fund that is legally separated from the entity. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law and by its Articles of Association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

Under the plan, the employees are entitled to retirement benefits varying between 40% and 45% of final salary on attainment of a retirement age of 65. No other post-retirement benefits are provided to these employees.

The plan in U.S. exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estates to leverage the return generated by the fund.
Interest risk	A decrease in the interest rate of fixed income products will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.
Price risk	An increase in the market price of equity investments will increase the plan assets.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2014 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.

35. Pension Liability and Other Retirement Benefits Schemes (Continued)

Defined benefit plans (Continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at December 31, 2014	2013
Discount rate	4.30%	5.25%
Expected rate of salary increase	4%	4%

The actuarial valuation showed that the market value of plan assets was US$1,214 million (2013: US$1,126 million).

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows.

	2014 US$'million	2013 US$'million
Service cost:		
Current service cost	49	10
Past service cost	–	–
Net interest expense	24	7
Total	73	17

Remeasurement of the net defined benefit liability included in other comprehensive (expense) income are as follows.

	2014 US$'million	2013 US$'million
Return on plan assets (excluding amounts included in net interest expenses)	61	38
Actuarial losses arising from change in financial assumptions	(254)	(9)
	(193)	29
Less: Taxation (Note 46)	75	(11)
Total	(118)	18

35. Pension Liability and Other Retirement Benefits Schemes (Continued)

Defined benefit plans (Continued)

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	2014 US$'million	2013 US$'million
Present value of funded defined benefit obligations	1,816	1,653
Fair value of plan assets	(1,214)	(1,126)
Funded status and net liability arising from defined benefit obligation	602	527
Analysed as:		
Current (Note 30)	27	26
Non-current	575	501
	602	527

Movements in the present value of the defined benefit obligations in the current year were as follows:

	2014 US$'million	2013 US$'million
Defined benefit obligation at January 1	1,653	–
Addition arising from acquisition of subsidiaries	–	1,652
Current service cost	49	10
Interest cost	84	21
Benefits paid	(224)	(39)
Remeasurement losses:		
Actuarial losses arising from change in financial assumptions	254	9
Defined benefit obligation at December 31	1,816	1,653

35. Pension Liability and Other Retirement Benefits Schemes (Continued)

Defined benefit plans (Continued)

Movements in the present value of the plan assets in the current year were as follows:

	2014 US$'million	2013 US$'million
Fair value of plan assets at January 1	1,126	–
Addition arising from acquisition of subsidiaries	–	1,081
Interest income	60	14
Contributions from the employer	191	32
Benefits paid	(224)	(39)
Remeasurement gains:		
Return on plan assets (excluding amounts included in net interest expenses)	61	38
Fair value of plan assets at December 31	1,214	1,126

35. Pension Liability and Other Retirement Benefits Schemes (Continued)

Defined benefit plans (Continued)

The fair value of the plan assets as at December 31, 2014 for each category, are as follows.

	Fair value of plan assets at December 31,	
	2014	2013
	US$'million	US$'million
Cash and cash equivalents	**97**	53
Equity securities:		
Preferred stock	**3**	–
U.S. common stock:		
Health care	**31**	28
Financial services	**44**	33
Retail and consumer products	**36**	40
Energy	**9**	15
Information technology	**75**	43
Manufacturing and industrials	**26**	21
Telecommunications	**5**	10
International common stock	**128**	139
Mutual funds:		
International	**75**	96
Domestic small cap	**26**	34
Fixed income:		
Mutual funds	**14**	18
Asset-backed securities	**17**	16
Emerging markets securities	**23**	23
Corporate debt securities	**297**	343
Government debt securities	**204**	112
Alternative investments:		
Diversified investment funds	**60**	56
Limited partnerships	**36**	38
Insurance contracts	**1**	1
Total fair value	**1,207**	1,119
Unsettled transactions, net	**7**	7
Total plan assets	**1,214**	1,126

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of diversified investment funds, limited partnerships and insurance contracts are not based on quoted market prices in active markets. As at December 31, 2014, US$455 million, US$715 million and US$37 million planned assets (2013: US$382 million, US$698 million and US$39 million) are classified as Level 1, Level 2 and Level 3 respectively.

The actual return on plan assets was 10% over 5 years.

35. Pension Liability and Other Retirement Benefits Schemes (Continued)

Defined benefit plans (Continued)

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by US$113 million (increase by US$113 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

Pension plan assets may be invested in cash and cash equivalents, equities, debt securities, insurance contracts and real estate. 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. Equity targets for the pension plans are as indicated in the following table. 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.

The following table presents the fair value of the qualified pension plan assets by major asset category as of December 31, 2014. The allocation of the pension plan assets is based on the target range presented in the following table.

Asset categories:

	At December 31, 2014		At December 31, 2013	
	US$'million	**Target range**	US$'million	Target range
Cash and cash equivalents, net of unsettled transactions	**102**	**0–4%**	63	0–4%
Equity securities	**459**	**30–50%**	456	30–50%
Debt securities	**555**	**33–55%**	512	33–55%
Alternative assets	**98**	**5–20%**	95	5–20%
Total	**1,214**		1,126	

The Group expects to make a contribution of US$27 million to the defined benefit plan during the next financial year (2013: US$33 million).

35. Pension Liability and Other Retirement Benefits Schemes (Continued)

Defined benefit plans (Continued)

The following are descriptions of the valuation methodologies and key inputs used to measure pension plan assets recorded at fair value:

- *Cash and cash equivalents* – Cash equivalents include highly liquid investments with original maturities of three months or less. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. Actively traded money market funds are measured at their net asset values, which approximates fair value, and classified as Level 1. The fair value of certain money market funds for which quoted prices are available but traded less frequently have been classified as Level 2.

- *Equity securities* – When available, the fair value of equity securities are based on quoted prices in active markets and classified as Level 1. Level 1 financial instruments include highly liquid instruments with quoted prices, such as equities and mutual funds traded in active markets.

  If quoted prices are not available, fair values are obtained from pricing services, broker quotes or other model-based valuation techniques with observable inputs and classified as Level 2. The nature of these equity securities include securities for which quoted prices are available but traded less frequently, securities whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data and securities that are valued using other financial instruments, the parameters of which can be directly observed. Level 2 equity securities include preferred stock and mutual funds not actively traded.

- *Fixed income* – The fair values of fixed income instruments are obtained from pricing services, broker quotes or other model-based valuation techniques with observable inputs and classified as Level 2. The nature of these fixed income instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data and securities that are valued using other financial instruments, the parameters of which can be directly observed. Level 2 fixed income instruments include mutual funds, asset-backed securities, corporate debt securities, emerging market securities and government debt securities.

- *Alternative Investments* – The fair values of alternative investments are obtained from pricing services, broker quotes or other model-based valuation techniques with observable inputs and classified as Level 2. The nature of these alternative investments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data and securities that are valued using other financial instruments, the parameters of which can be directly observed. Level 2 alternative investments include diversified investment funds, domestic options contracts and futures contracts.

35. Pension Liability and Other Retirement Benefits Schemes (Continued)

Defined benefit plans (Continued)

- *Limited partnerships* – The valuation of limited partnership investments requires the use of significant unobservable inputs due to the absence of quoted market prices, inherent lack of liquidity and long-term nature of such assets and are classified as Level 3. These investments are initially valued at cost with quarterly valuations performed utilising available market data to determine the fair value of these investments. Such market data consists primarily of the observations of trading multiples of public companies considered comparable to the investments with adjustments for investment-specific issues, the lack of liquidity and other items.

- *Insurance contracts* – The valuation of these guaranteed annuity insurance contracts is primarily based on quoted prices in active markets with adjustments for unobservable inputs caused by the unique nature of applying investment earnings as part of the participation guarantee. Due to these unobservable inputs and the long-term nature of these investments, the contracts are classified as Level 3.

Defined Contribution Plans

The Group has retirement plans covering a substantial portions of its employees. The principal plans are defined contribution plans.

The Group's qualifying employees in Hong Kong participate in 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$25,000 (up to May 31, 2014) and HK$30,000 (starting from June 1, 2014). Contributions to the scheme vest immediately.

The employees of the Group's China subsidiaries 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 is to make the required contributions under the scheme.

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

The amount charged to profit or loss of approximately US$65 million during the year ended December 31, 2014 (2013: US$39 million) represents contribution paid or payable to the plans by the Group at rates specified in the rules of the plans.

36. Share Capital

	Number of shares 'million	Amount US$'million
Ordinary shares of US$0.0001 each:		
Authorised:		
At January 1, 2013, December 31, 2013 and December 31, 2014	50,000	5
Issued and fully paid:		
At January 1, 2013	10,526.32	1
Issue of new shares	1,169.59	–+
At December 31, 2013	11,695.91	1
Issue of shares on global offering (Note a)	2,567.40	–+
Issue of shares on exercise of over-allotment option (Note b)	385.11	–+
At December 31, 2014	14,648.42	1

Notes:

(a) The Company's shares were listed on the Stock Exchange on August 5, 2014. The Company allotted and issued a total of 2,567,400,000 new ordinary shares of US$0.0001 each to the public at a price of HK$6.20 per share pursuant to a global offering, raised proceeds of approximately HK$15,368 million (equivalent to approximately US$1,983 million), after deducting the underwriting fees and other related expenses payable by the Company in connection with the global offering.

(b) The over-allotment option was exercised on August 6, 2014 for the issue of 385,110,000 shares of the Company at HK$6.20 per share, raised proceeds of approximately HK$2,336 million (equivalent to approximately US$301 million), after deducting the underwriting fees and other related expenses payable by the Company in connection with the global offering.

The net proceeds was used to repay the three-year tranche maturing on August 30, 2016 of the 2013 Syndicated Loan, which had an interest rate of LIBOR plus 3.5% and has an outstanding principal amount of US$2,500 million. The Group applied the net proceeds to this purpose after the completion of the global offering.

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

37. Share Incentive Schemes

(a) The Company's share award plan (the "2010 Share Award Plan") was adopted pursuant to a resolution in writing of all shareholders of the Company dated November 26, 2010 (the "Resolutions"). As a result of the completion of the reorganisation steps as described and approved in the Resolutions on December 26, 2013, 631,580,000 shares of the Company (the "Incentive Shares"), representing 6% of the then issued shares of the Company were transferred from Shine D Holding Limited, one of the shareholders of the Company, to Chang Yun for the senior management of Company and its subsidiaries and invested entities pursuant to the 2010 Share Award Plan. The Resolutions also approved the engagement of Tricor Services Limited by the Company to provide trustee services for the 2010 Share Award Plan and Teeroy Limited has been designated by Tricor Services Limited to act as trustee for the 2010 Share Award Plan (the "Trustee"). The voting rights in respect of the Incentive Shares held by Chang Yun will be exercised in accordance with the direction to be given by Heroic Zone, one of the shareholders of the Company.

+ Less than US$1 million.

37. Share Incentive Schemes (Continued)

(a) (Continued)

If, at the date of termination of the 2010 Share Award Plan, Chang Yun holds any Incentive Shares which has not been set aside pursuant to the terms of the 2010 Share Award Plan in favour of any selected employee of the Company or retains any unutilised funds, the Trustee shall handle at the discretion of the board of directors of the Company according to the then applicable laws and regulations. Upon termination of the 2010 Share Award Plan, all the Incentive Shares and other distributions provisionally awarded to a selected employee to the extent not already vested pursuant to the terms of the 2010 Share Award Plan, shall become vested on such selected employee and any Incentive Shares which are not vested in accordance with the terms of the 2010 Share Award Plan or are forfeited in accordance with the terms thereunder, shall be handled at the discretion of the board of directors of the Company according to the then applicable laws and regulations. The trust set up for the 2010 Share Award Plan was hereby regarded as a special purpose entity of the Company and consolidated to the Group accordingly.

The 2010 Share Award Plan was amended pursuant to a resolution in writing of all directors dated February 9, 2012 and the assessment period for vesting the Incentive Shares were set to be 2012 to 2014. None of the shares has been granted to the management or staff of the Company under the 2010 Share Award Plan up to the date of issue of these financial statements, and the assessment is expected to be completed in 2015.

Details of the Share Award Plan are as follows:

Number of shares	631,580,000 (subject to the lock-up period of 5 years and voting right shall be retained by Heroic Zone, the immediate holding company of the Company, thereafter)
Grant date	December 26, 2012
Vesting condition	Performance target for each year from 2012 to 2014

The management of the Company estimates that all granting conditions will be achieved and all Incentive Shares will be granted ultimately. The estimated fair value of the Incentive Shares as at grant date amounted to US$128 million. It is determined by market approach.

(b) The Company had adopted another share award plan (the "2013 Share Award Plan") pursuant to a written resolution of all the Company's shareholders in October 2013, representing 3.0% of the then issued shares of the Company at the time of issuance pursuant to the 2013 Share Award Plan held by High Zenith for the recognition and reward to the contribution of certain employees and the growth and development of the Group. The resolution also approved Trustee by the Company to provide trustee services for the 2013 Share Award Plan. The voting rights in respect of the shares held by High Zenith will be exercised in accordance with the direction to be given by Heroic Zone.

37. Share Incentive Schemes (Continued)

(b) (Continued)

If, at the date of termination of the 2013 Share Award Plan, High Zenith holds any shares which has not been set aside pursuant to the terms of the 2013 Share Award Plan in favour of any selected employees of the Company or retains any unutilised funds, the Trustee shall handle at the discretion of the board of directors of the Company according to the then applicable laws and regulations. Upon termination of the 2013 Share Award Plan, all the shares and other distributions provisionally awarded to a selected employee to the extent not already vested pursuant to the terms of the 2013 Share Award Plan, shall become vested on such selected employee and any shares which are not vested in accordance with the terms of the 2013 Share Award Plan or are forfeited in accordance with the terms thereunder, shall be handled at the discretion of the board of directors of the Company according to the then applicable laws and regulations. The trust set up for the 2013 Share Award Plan was hereby regarded as a special purpose entity of the Group accordingly.

On October 23, 2013, 350,877,333 shares of US$0.0001 each were allotted to High Zenith pursuant to the 2013 Share Award Plan as set out above.

None of the shares has been granted to the management or staff of the Company under the 2013 Share Award Plan up to the date of issue of these financial statements.

Also on October 23, 2013, the Company issued 573,099,645 and 245,614,133 new ordinary shares of US$0.0001 each to Sure Pass Holdings Limited ("Sure Pass") and Rich Matrix Global Limited ("Rich Matrix") respectively, being companies wholly beneficially owned and controlled by the directors, Messrs. Wan Long and Yang Zhijun respectively to recognise and reward their contributions to the acquisition of Smithfield. The voting rights in respect of the shares held by Sure Pass and Rich Matrix will be exercised in accordance with the direction to be given by Heroic Zone. The estimated fair value of these share awards as at grant date amounted to US$597 million. It is mainly determined by market approach.

(c) Pre-IPO share option

The pre-IPO share option scheme was adopted pursuant to a written resolution passed by the shareholders of the Company on January 21, 2014 as amended on April 4, 2014, the purpose of which is to incentivise and reward eligible participants of the scheme, including directors, full-time employees of the Company or its subsidiaries by reason of their contribution or potential contribution to the Company and/or any of its subsidiaries.

In July 2014, the number of shares in respect of which options had been granted under the pre-IPO share option scheme was 584,795,555, with exercise price of HK$6.20 per share, representing no more than 5% of the then issued share capital of the Company upon completion of the listing on the Stock Exchange. No consideration was paid by the grantees for the grant of the pre-IPO share options.

The fair value of the pre-IPO share options granted using the Binominal Option Pricing Model was HK$1,883 million (equivalent to approximately US$243 million which was measured by an independent qualified valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

37. Share Incentive Schemes (Continued)

(c) (Continued)

The key inputs into the model were as follows:

	2014
Share price	HK$6.66
Exercise price	HK$6.20
Option life	10 years
Expected volatility	42%
Risk-free rate	2.06%

Expected volatility was determined by using the historical volatility of the selected comparable comprises in the same industry.

For the year ended December 31, 2014, the Group recognised a share-based payments expense of US$78 million (2013: US$639 million) in relation to the 2010 Share Award Plan, the share allotment to Messrs. Wan Long and Yang Zhijun and the pre-IPO share option scheme.

38. Acquisition of Subsidiaries/Business

(a) On September 26, 2013, pursuant to the agreement and plan of acquisition dated May 28, 2013 with Smithfield, the Group had paid a total consideration of approximately US$4.9 billion to acquire all the shares of Smithfield for a cash consideration of US$34 per share (the "Acquisition Consideration") mainly for the share of common stock held prior to the effective time of the Acquisition and all outstanding stock-based compensation awards, both vested and unvested, were converted into the right to receive the Acquisition Consideration, less the exercise price of such awards. Upon completion of the Acquisition, Smithfield had merged with Sun Merger Sub, Inc., ("Sun Merger") a company incorporated in Virginia, U.S. and is a wholly-owned subsidiary of the Group.

Sun Merger had issued US$500 million aggregate principal amount of 5.25% senior notes due August 1, 2018 and US$400 million aggregate principal amount of 5.875% senior notes due August 1, 2021 (collectively referred as the "Acquisition Senior Notes") in connection with the Acquisition on July 31, 2013. The net proceeds of the Acquisition Senior Notes were used to fund a portion of the total consideration paid, repay portion of other outstanding liabilities of Smithfield and pay certain of other transaction fees associated with the Acquisition.

The assets acquired and liabilities assumed by the Group in the Acquisition reflects the fair value estimates based on management's analysis, including work performed by third-party valuation specialists. The Acquisition has been accounted for using acquisition method. Acquisition related cost of US$729 million (inclusive of legal and professional fee of US$132 million and share-based payments of US$597 million as set out in Note 9) has been recognised as an expense during the year ended December 31, 2013, within the 'Other expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

38. Acquisition of Subsidiaries/Business (Continued)

(a) (Continued)

The following is a summary of the fair values of the assets acquired and liabilities assumed:

	Fair value US$'million
Property, plant and equipment	2,530
Biological assets – non-current	196
Intangible assets	1,403
Interests in associates	371
Interests in joint ventures	124
Biological assets – current	1,184
Inventories	1,322
Trade receivables	765
Prepayments and other receivables	211
Other non-current assets	144
Bank balances and cash	251
Trade payables	(535)
Accrued expenses and other payables	(547)
Borrowings and obligations under finance leases	(2,748)
Other long-term payables	(161)
Deferred tax liabilities	(658)
Pension liability	(571)
	3,281

Goodwill arising on acquisition:

	US$'million
Consideration transferred	4,903
Less: Net assets acquired	(3,281)
	1,622

Net cash outflow arising on acquisition:

	US$'million
Consideration transferred	(4,903)
Add: Bank balances and cash	251
	(4,652)

38. Acquisition of Subsidiaries/Business (Continued)

(a) (Continued)

Smithfield contributed approximately US$3,894 million to the Group's revenue and US$58 million of profit to the Group's loss for the year from the date of acquisition to December 31, 2013.

If the acquisition has been completed on January 1, 2013, the Group would increase its turnover by US$10,002 million and profit by US$86 million for the year. The information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2013, nor is it intended to be a projection of future results.

Goodwill arose in the acquisition of Smithfield because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Smithfield. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

During the year ended December 31, 2014, a net impact of US$8 million purchase accounting adjustments were made by the Group when finalising the purchase price allocation of the Acquisition. The directors of the Company consider these adjustments are insignificant to the consolidated statement of financial position, and as such, did not retrospectively apply the adjustments to the balances as at December 31, 2013.

(b) On April 15, 2014, Kansas City Sausage Company, LLC, an U.S. subsidiary of the Group, entered into a business purchase agreement with several independent third parties, for the purchase of a slaughtering business (mainly comprises of some slaughter facilities) for a consideration of approximately US$11 million, which US$5 million of goodwill is recognised during the year.

39. Operating Lease Commitments

The Group as lessee

The Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2014 US$'million	2013 US$'million
Within one year	44	43
In the second to fifth year inclusive	96	87
After five years	35	33
	175	163

Operating leases payments represent rentals payable by the Group for certain of its warehouse and premises. Lease are negotiated for a lease term between 4 to 50 years. The Group does not have an option to purchase the leased assets upon the expiry of the lease period.

40. Capital Commitments

	2014 US$'million	2013 US$'million
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	147	127
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	367	266

41. Pledge of Assets

The carrying amount of the assets of the Group pledged to banks for securing banking and trading facilitates and loan from a third party granted to the Group is analysed as follows:

	2014 US$'million	2013 US$'million
Pledged bank balances	25	66

The remainder of pledged bank balances is mainly pledged for worker's compensation insurance claims in U.S. for both years.

The shares of certain subsidiaries held by the Group was also pledged for the 2013 Syndicated Loan, but was then released upon the full settlement of the 2013 Syndicated Loan by the Group in 2014. As at December 31, 2014 and December 31, 2013, the Group's material U.S. subsidiaries are jointly and severally liable for, as primary obligors, the obligations under the inventory revolver, and those obligations are secured by a first priority lien on certain property, including cash and cash equivalents, deposit accounts, inventory, intellectual property, and certain equity interests.

Smithfield Receivables Funding, LLC, a wholly-owned subsidiary of the Group, has a securitisation facility that matures in May 2016, As part of the arrangement, all trade receivables of the major pork segment subsidiaries in Smithfield 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 consolidated financial statements of the Group and therefore, the trade receivables owned by SPV are included in the consolidated statement of financial position of the Group, However, the 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 December 31, 2014, the SPV held US$661 million (2013: US$539 million) of trade receivables and had no outstanding borrowings on the securitisation facility respectively (2013: US$105 million).

42. Contingent Liabilities

Smithfield are subject to various laws and regulations administered by the US federal, state and other government entities, including the United States Environmental Protection Agency and corresponding state agencies, as well as the United States Department of Agriculture, the Grain Inspection, Packers and Stockyard Administration, the United States Food and Drug Administration, the United States Occupational Safety and Health Administration, the Commodities and Futures Trading Commission and similar agencies in foreign countries like other participants in the industry.

Smithfield had notices and inquiries from regulatory authorities and others asserting from time to time that Smithfield is not in compliance with the respective laws and regulations. In some instances, litigation ensues and individuals may initiate litigation against Smithfield.

North Carolina Nuisance Litigation

In August, September and October 2014, 25 complaints were filed in the Eastern District of North Carolina by 515 individual plaintiffs against Smithfield and its wholly-owned subsidiary, Murphy-Brown, alleging causes of action for nuisance and related claims. The complaints stemmed from pre-litigation mediation of farm nuisance dispute notices and nuisance cases previously filed in the Superior Court of Wake County. On February 23, 2015, all 25 complaints were amended and one complaint was severed into two separate actions. The 26 currently pending complaints were filed on behalf of 541 plaintiffs and relate to approximately 13 company-owned and 74 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, as well as unspecified injunctive and equitable relief.

Murphy-Brown is in the process of responding to the complaints in all 26 cases. The directors of the Company believes that the claims are unfounded and intends to defend the suits vigorously.

The Group's policy for establishing accruals and disclosures for contingent liabilities is set out in Note 3. The Group established a provision estimating the expenses to defend against these and similar potential claims on the consolidated statement of financial position at the date of Acquisition. Consequently, expenses and other liabilities associated with these claims for subsequent periods will not affect the profits or losses unless the reserve proves to be insufficient or excessive. However, legal expenses incurred in Smithfield and Smithfield's subsidiaries' defense of these claims and any payments made to plaintiffs through unfavourable verdicts or otherwise will negatively impact the cash flows and the liquidity position. Given that the matter is in its very preliminary stages and given the inherent uncertainty of the outcome for these and similar potential claims, the management of the Group cannot estimate the reasonably possible loss or range of loss for these loss contingencies in addition to the expenses that will incur to defend against these claims. The management of the Group will continue to review whether an additional accrual is necessary and whether Smithfield have the ability to estimate the reasonably possible loss or range of loss for these matters.

43. Related Party Transactions

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

	2014 US$'million	2013 US$'million
Sales of goods to associates	8	11
Purchase of goods from associates	47	47
Purchase of goods from joint ventures	21	–

(b) Balances with associates/joint ventures at the end of both years:

	2014 US$'million	2013 US$'million
Included in:		
Trade and bills receivables (Note)	2	3
Prepayment, deposits and other receivables (Note)	1	3
Accrued expenses and other payables (Note)	9	8

Note: The amounts due from/to associates/joint ventures are unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel

Compensation of key management personnel and directors (represented by the directors' emoluments and the top five employees' emoluments) during the year is set out in Note 12.

44. Statement of Financial Position of the Company

	At December 31, 2014 US$' million	2013 US$' million
Non-current assets		
Interests in an unlisted subsidiary (Note)	5,000	4,355
Current assets		
Amounts due from subsidiaries	234	102
Prepayments, deposits and other receivables	–+	–+
Bank balances and cash	20	42
	254	144
Current liabilities		
Other payables	5	9
Borrowings	197	229
	202	238
Net current assets (liabilities)	52	(94)
Total assets less current liabilities	5,052	4,261
Borrowing – non-current	1,292	3,703
Net assets	3,760	558
Capital and reserves		
Share capital	1	1
Share premium	2,902	581
Translation reserve	61	61
Other reserve	759	–
Retained profits	37	(85)
Total equity	3,760	558

Note: The balance represents investments in unlisted shares of a subsidiary at cost.

45. Details of Non Wholly-Owned Subsidiaries That Have Material Non-Controlling Interests

The table below shows details of non wholly-owned subsidiaries of the Group that have material non-controlling interests at the end of reporting period:

Name of subsidiary	Country of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	2014 US$'million	2013 US$'million	2014 US$'million	2013 US$'million
河南雙匯投資發展股份有限公司 Henan Shuanghui Investment & Development Co., Ltd. ("Shuanghui Development")	China	26.74%	26.74%	204	202	806	742
Individually immaterial subsidiaries with non-controlling interests				2	(6)	114	121
				206	196	920	863

Summarised financial information in respect of Shuanghui Development that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	At December 31, 2014 US$'million	2013 US$'million
Non-current assets	2,168	1,782
Current assets	1,375	1,480
Current liabilities	(897)	(773)
Non-current liabilities	(8)	(10)
Equity attributable to owners of Shuanghui Development	2,498	2,370
Non-controlling interests of Shuanghui Development's subsidiaries	140	109
Non-controlling interests of Shuanghui Development	666	633
	806	742

45. Details of Non Wholly-Owned Subsidiaries That Have Material Non-Controlling Interests (Continued)

	Year ended December 31, 2014 US$'million	2013 US$'million
Revenue	7,415	7,308
Total expenses	(6,730)	(6,647)
Profit for the year and total comprehensive income for the year	685	661
Profit attributable to owners of the Company	481	459
Profit attributable to the non-controlling interests of Shuanghui Development's subsidiaries	28	34
Profit attributable to the non-controlling interests of Shuanghui Development	176	168
	685	661
Dividends paid to non-controlling interests of Shuanghui Development's subsidiaries	2	59
Net cash inflow from operating activities	851	629
Net cash outflow from investing activities	(600)	(323)
Net cash outflow from financing activities	(395)	(352)
Net cash outflow	(144)	(46)

46. Other Comprehensive (Expense) Income

	2014 US$'million	2013 US$'million
Other comprehensive (expense) income includes:		
Items that will not be reclassified subsequently to profit or loss:		
Exchange differences arising on translation to presentation currency	–	52
Remeasurement on defined benefit pension plans	(193)	29
Less: Income tax relating to defined benefit pension plans	75	(11)
	(118)	70
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(231)	91
Fair value change in cash flow hedge	46	(7)
Less: Income tax relating to cash flow hedge	(17)	2
	(202)	86
Other comprehensive (expense) income, net of income tax	(320)	156

47. Events after the end of the Reporting Period

The following significant events took place subsequent to the end of the reporting period:

In January 2015, the Group commenced a cash tender offer for its senior notes, subject to a maximum aggregate purchase price of up to US$275 million (the "2015 Tender Offer"). The 2015 Tender Offer expired in February 2015.

As a result of the 2015 Tender Offer, the Group have paid $275 million to repurchase $258 million of principal. As a result of these repurchases, the Group recognised losses on debt extinguishment of approximately US$12 million in the first quarter of 2015, including the write-off of related unamortised premiums and debt issuance costs.

48. Principal subsidiaries

Details of the Company's principal subsidiaries at December 31, 2014 and December 31, 2013 are as follows:

Name of subsidiary	Place of incorporation/ establishment/operation	Issued and fully paid share capital/registered capital	Attributable proportion of issued /registered capital held by the Company indirectly		Principal activities
			2014	2013	
Rotary Vortex Limited	Hong Kong	Ordinary shares – HK$16,515,000,000	100.00%	100.00%	Investment holding and trading
Shuanghui Development (Note 1)	China	Shares – RMB2,200,578,448	73.26%	73.26%	Investment holding, livestock breeding, livestock slaughtering, manufacture and sales of packaging materials and meat products
Smithfield Foods, Inc. (Note 2)	U.S.	Note 3	100.00%	100.00%	Investment holding, livestock breeding, livestock slaughtering, manufacture and sales of meat products

Note 1: This company is listed on the A Shares Market of the Shenzhen Stock Exchange.

Note 2: This company was listed on the New York Stock Exchange and was delisted from the stock exchange market on September 26, 2013, immediately after the acquisition by the Group and remained as a registrant under U.S. Securities and Exchange Commission.

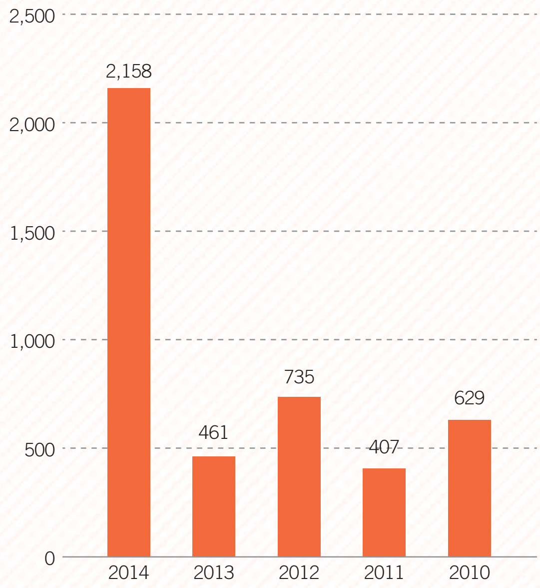
Note 3: The par value of the common shares of this subsidiary is zero.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the consolidated net assets. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

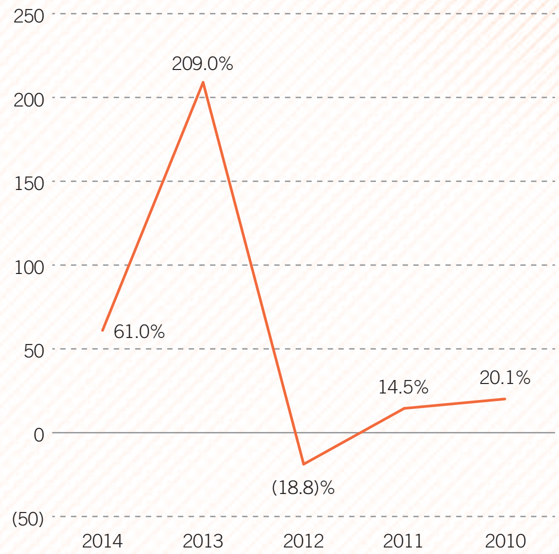
FINANCIAL SUMMARY

As of and for the Year Ended December 31 US$ million (unless otherwise stated)	2014	2013	2012	2011	2010
Results					
Turnover	22,243	11,253	6,243	5,455	5,182
Turnover growth rate (%)	97.7%	80.2%	14.4%	5.3%	31.6%
Operating profit	1,614	886	567	254	551
Operating profit margin (%)	7.3%	7.9%	9.1%	4.7%	10.6%
Profit before taxation	1,420	162	602	259	565
Taxation	(448)	(229)	(134)	(71)	(129)
Profit (loss) for the year	972	(67)	468	188	436
Profit (loss) for the year attributable to:					
– owners of the Company	766	(263)	325	129	319
– non-controlling interests	206	196	143	59	117
	972	(67)	468	188	436
Profit attributable to owners of the Company, before biological fair value adjustments	737	(289)	326	125	319
Basic earnings (loss) per share (US$ cents):	6.44	(2.62)	3.28	1.30	3.22
Assets and liabilities					
Total Assets	14,720	14,156	3,497	3,882	3,450
Total liabilities	(8,670)	(11,018)	(947)	(1,749)	(1,571)
Net assets	6,050	3,138	2,550	2,133	1,879
Equity attributable to owners of the Company	5,130	2,275	1,789	1,548	1,364
Non-controlling interest	920	863	761	585	515
Total equity	6,050	3,138	2,550	2,133	1,879
Operating Data					
Hogs produced (thousand heads)	17,685	5,460	300	298	232
Hogs processed (thousand heads)	47,170	22,772	11,419	10,006	13,592
Packaged meat products sales volume (thousand metric tons)	3,227	2,169	1,558	1,454	1,735

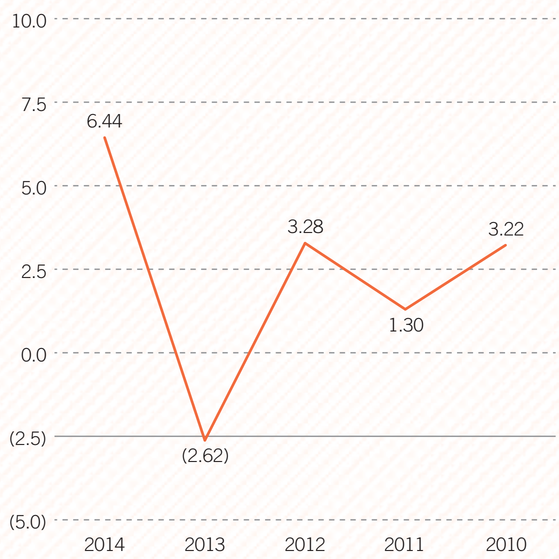
EBITDA (US$ million)



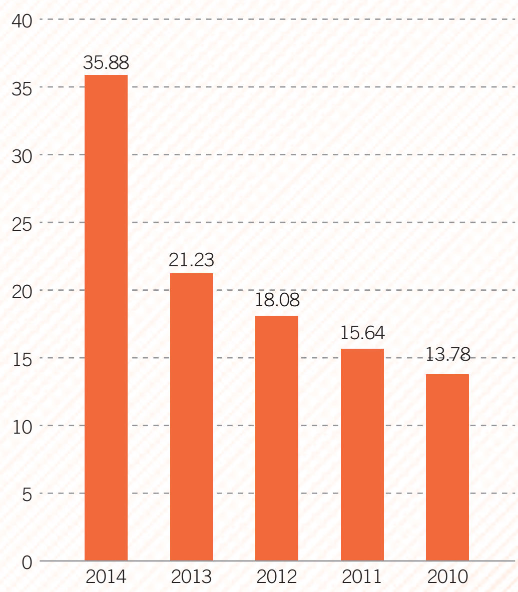
Net debt to equity (%)



Basic earnings (loss) per share (US$ cents)



Net assets per share (US$ cents)



GLOSSARY

"2010 Share Award Plan"	the share award plan adopted by the Company on November 26, 2010, according to which, Teeroy Limited, as the trustee administering this share award plan, instructed Chang Yun to hold a pool of Shares subject to this share award plan; the principal terms of this share award plan are summarized in the section headed "Director's Report – 2010 Share Award Plan"
"2013 Share Award Plan"	the share award plan adopted by the Company on October 23, 2013, according to which, Teeroy Limited, as the trustee administering this share award plan, instructed High Zenith to hold a pool of Shares subject to this share award plan; the principal terms of this share award plan are summarized in the section headed "Director's Report – 2013 Share Award Plan"
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"Campofrio"	Campofrio Food Group, S.A., a European packaged meats company organized under the laws of Spain. The Company held approximately 37% of the common stock of Campofrio as of December 31, 2014
"CDH Shareholders"	CDH Shine, CDH Shine II Limited, CDH Shine III Limited, CDH Shine IV Limited, CDH Shine V Limited, CDH V Sunshine I Limited and CDH V Sunshine II Limited
"CDH Shine"	CDH Shine Limited, a limited liability company incorporated under the laws of the BVI on February 27, 2006 and wholly owned by China Shine Group Limited (a limited liability company incorporated under the laws of the Cayman 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
"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

"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transaction(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, Rich Matrix, China Diamond Holdings Company Limited, CDH Shine, CDH Shine II Limited, CDH Shine III Limited, CDH Shine IV Limited, CDH Shine V Limited, CDH V Sunshine I Limited and CDH V Sunshine II Limited
"Director(s)"	the director(s) of the Company
"ESG Committee"	the environment, social and governance committee of the Board
"EUR"	the lawful currency of the member states of the European Union
"Food Safety Committee"	the food safety committee of the Board
"GDP"	gross domestic product
"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
"HACCP"	Hazard Analysis and Critical Control Points as issued by the United States Department of Agriculture, a systematized approach to pathogen reduction and prevention
"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 our Controlling Shareholders
"Heroic Zone Share Plan"	the share plan dated December 25, 2009 and revised on December 17, 2012, 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 our Controlling Shareholders
"HK$"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"IFRS"	International Financial Reporting Standards
"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
"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)
"Nomination Committee"	the nomination committee of the Board
"Over-allotment Option"	the option granted by the Company to international underwriters to require the Company to allot and issue up to 385,110,000 additional Shares at the offer price of HK$6.20 per offer Share, representing up to 15% of the total number of the offer Shares initially available under the global offering to, among others, cover over-allocations in the international offering, if any
"Pre-IPO Share Options"	the options granted under the Pre-IPO Share Option Scheme
"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, adviser, 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 "Director's Report – Pre-IPO Share Option Scheme"
"Prospectus"	the prospectus of the Company in relation to the Listing dated July 24, 2014
"Remuneration Committee"	the remuneration committee of the Board
"Relevant Period"	From August 5, 2014 to December 31, 2014
"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 BVI Business Company incorporated under the laws of the BVI on July 3, 2007 and one of the Controlling Shareholders
"RMB"	Renminbi, the lawful currency of the PRC

"Rotary Vortex"	Rotary Vortex Limited (羅特克斯有限公司), a limited liability company incorporated under the laws of Hong Kong on February 28, 2006 and an indirect wholly owned subsidiary of the Company
"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)
"Shine B"	Shine B Holding I Limited (In Liquidation), a limited liability company incorporated under the laws of BVI on March 20, 2006 and a former Shareholder of the Company
"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
"Shuanghui Group"	Henan Luohe Shuanghui Industry Group Co., Ltd. (河南省漯河市雙匯實業集團有限責任公司), a limited liability company established under the laws of the PRC on August 29, 1994 and an indirect wholly owned subsidiary of the Company
"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

"Syndicated Term Loan"	the loan available under the US$4 billion term loan facilities agreement dated August 30, 2013 entered into by, among others, the Company and several financial institutions, for which Bank of China (Hong Kong) Limited acted as the facility agent
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States

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