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

INTERIM REPORT 2018

CONTENTS

CORPORATE INFORMATION

Legal Name of the Company
WH Group Limited

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

Stock Code: 288

Company Website
www.wh-group.com

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

Non-executive Director
Mr. JIAO Shuge

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

Company Secretary
Mr. CHAU Ho

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

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

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

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

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

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

Auditor
Ernst & Young

Legal Advisor
Paul Hastings

Principal Bankers
Agricultural Bank of China
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

Authorised Representatives

Mr. WAN Long
Mr. CHAU Ho

Share Registrar and Transfer Office

Principal

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

Hong Kong Branch

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

Registered Office

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

Principal Place of Business and Corporate Headquarters in Hong Kong

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

RESULTS HIGHLIGHTS

	Six months ended June 30, 2018	2017
Key operating data		
Hogs produced (thousand heads)	**10,127**	10,001
Hogs processed (thousand heads)	**27,832**	25,932
Packaged meats sold (thousand metric tons)	**1,603**	1,560

	Six months ended June 30, 2018		2017	
	Results before biological fair value adjustments	**Results after biological fair value adjustments**	Results before biological fair value adjustments	Results after biological fair value adjustments
	US$ million (unless otherwise stated) (unaudited)		US$ million (unless otherwise stated) (unaudited)	
Key financial data				
Revenue	**11,169**	**11,169**	10,658	10,658
EBITDA	**1,111**	**1,049**	1,143	1,242
Operating profit	**867**	**867**	901	901
Profit attributable to owners of the Company	**557**	**514**	492	557
Basic earnings per share (US¢)	**3.80**	**3.50**	3.60	4.07
Interim dividend per share (HK$)	**0.05**	**0.05**	0.05	0.05

- Revenue increased by 4.8%
- Operating profit decreased by 3.8%
- Profit attributable to owners of the Company, before biological fair value adjustments, increased by 13.2%

MANAGEMENT DISCUSSION AND ANALYSIS

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

Industry Overview

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

China

China is the largest pork producer and consumption market in the world. Such market is expected to expand further. Generally, the development of the pork industry in China is largely dependent on the laws and regulations, as well as the pace of economic growth and improvement of people's living standard of the nation. Nevertheless, the short term trend is impacted by the industry cycle. According to the statistics of the National Bureau of Statistics of China, the total production of pork in the Review Period was 26.1 million tons, an increase of 1.4% as compared to the Comparable Period. The total production of hogs was 334.2 million heads, 1.2% higher than the Comparable Period.

The pork prices in China are a reflection of the supply and demand of hogs in the market. With reference to the statistics published by the Ministry of Agriculture and Rural Affairs of the People's Republic of China, the average hog price during the Review Period was RMB12.3 (approximately US$1.9) per kg, a reduction of 23.8% from that of the Comparable Period. The decline in hog prices was a continuation of the downward trend since mid-2016. It was primarily driven by the increase in supply as the high level of profitability in previous years created incentive for the hog farmers to expand production.

The descending hog prices supported the overall consumption of fresh pork and weakened the demand for importation of pork from foreign countries. According to the statistics of the General Administration of Customs of the People's Republic of China, the total volume of imported pork for the Review Period was 2.2% lower than that of the Comparable Period. The incremental tariffs on the U.S. imported pork because of the recent trade dispute between China and the U.S. further reduced the competitiveness of imports from the U.S.

United States

The U.S. is the second largest producer of pork worldwide. In contrast to the pork industry in China, the pork industry in the U.S. is relatively mature and concentrated. As the U.S. is also the largest pork exporter globally, the hog prices and pork value in the U.S. are driven by the supply and demand of its domestic and export markets.

According to USDA, overall animal protein production in the U.S. during the Review Period was up by 2.7%, in which pork and beef rose 3.4% and 3.8%, year over year respectively. In response to the planned expansion in processing capacity, the production of hogs continued to increase steadily over the past two years. Therefore, the average hog price, according to Chicago Mercantile Exchange, Inc., was US$1.1 per kg during the Review Period, a decrease of 4.6% over the Comparable Period.

The industry expansion on hog farms and in processing capacity resulted in the increase in pork production volume. More pork was marketed internationally. With reference to the statistics of USDA, the export volume of the U.S. pork and offals during the Review Period was up by 2.7% over the Comparable Period. The increase was mainly contributed by the growth in exports to Korea, Mexico and Columbia. Exports to China, on the other hand, recorded a reduction of 5.5%. The reason was that, although there were trade disputes between the U.S. and China as well as Mexico recently, the impact of the phasing in of Mexican tariffs was not realized in the Review Period. For exports to China, even without incremental tariffs, the surging domestic production pressured hog prices and lowered the competitiveness of the U.S. pork.

In terms of prices, due to over-abundant supply of pork and change in trade dynamics, the average pork cutout value during the Review Period as published by USDA decreased by 8.8% year over year. Since March 2018, the pork cutout values were even lower than the average levels for the past three years. For the processors, as the degree of decrease in pork value was greater than that of the hog price, profit margin was compressed.

Results of Operations

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

	Six months ended June 30,		
	2018	2017	Change
	US$ million	US$ million	%
Revenue[1]			
– Packaged meats	5,901	5,522	6.9%
– Fresh pork	4,589	4,640	(1.1%)
– Hog production	397	275	44.4%
– Others[2]	282	221	27.6%
	11,169	10,658	4.8%
Operating profit (loss)			
– Packaged meats	788	686	14.9%
– Fresh pork	93	245	(62.0%)
– Hog production	22	49	(55.1%)
– Others[2]	(36)	(79)	N/A
	867	901	(3.8%)

Notes:
(1) Revenue refers to net external sales.
(2) Others revenue primarily represents sales of ancillary products and services. Others operating loss includes certain corporate expenses.

The packaged meats segment has always been our core business. It accounted for 52.8% of the Group's revenue in the Review Period (Comparable Period: 51.8%). Its contribution to the Group's operating profit was 90.9% in the Review Period (Comparable Period: 76.1%).

Geographically, our operations in China contributed 32.8% and 54.7% of the revenue and operating profit of the Group in the Review Period, respectively (Comparable Period: 32.7% and 39.8%). Contribution of our operation in the U.S. to the revenue and operating profit of the Group were 58.7% and 38.1%, respectively (Comparable Period: 60.3% and 52.4%). The rest of the revenue and operating profit of the Group came from our operations in Europe.

Packaged Meats

	Six months ended June 30, 2018 US$ million	2017 US$ million	Change %
Revenue			
China	1,762	1,571	12.2%
United States	3,733	3,660	2.0%
Europe	406	291	39.5%
	5,901	5,522	6.9%
Operating profit			
China	367	319	15.0%
United States	394	356	10.7%
Europe	27	11	145.5%
	788	686	14.9%

During the Review Period, our packaged meats business performed well on a group-wide basis. Sales volume increased by 2.8% to 1,603 thousand metric tons as we achieved growth in all markets in which we operate. In China, we have continued the transformation of our product portfolio by introducing more new products, expanding new channels and restructuring the sales force. Driven by the strong performance of our premium products, our sales volume in China increased by 3.0% over that of the Comparable Period. The volume growth in Europe was also notable, benefiting from organic growth and recent acquisitions.

Revenue in the Review Period increased by 6.9% to US$5,901 million. In spite of the downward trend in hog prices, the average sales price of our packaged meats in each respective market went up due to product mix improvement. The rise in sales prices, coupled with volume growth, caused the different levels of increase in revenue in the U.S., China and Europe.

Operating profit was US$788 million in the Review Period, 14.9% higher than that of the Comparable Period. In China, the strong operating profit was driven mainly by favorable raw materials costs and volume growth. The relatively low hog prices during the Review Period supported us to increase our inputs in product upgrade and marketing as well as to achieve a good margin. In the U.S., the key driving factors of the strong operating profit were product mix improvement as we were migrating our volumes to high value-added categories, along with favorable raw material costs as pork prices were lower than that of the Comparable Period. However, inflationary pressure, particularly in wages and logistics costs, offset part of the increase in our operating profit in the U.S.. In Europe, our operating profit increased significantly and our operating margin improved during the Review Period. The drivers were primarily the increase in sales price and volume. Our operating objective is to accelerate growth in Europe by continuous volume expansion and efficiency enhancement.

Fresh Pork

	Six months ended June 30, 2018 US$ million	2017 US$ million	Change %
Revenue			
China	1,772	1,805	(1.8%)
United States	2,462	2,518	(2.2%)
Europe	355	317	12.0%
	4,589	4,640	(1.1%)
Operating profit (loss)			
China	95	45	111.1%
United States	(15)	199	N/A
Europe	13	1	1,200.0%
	93	245	(62.0%)

In response to the shifts in demand and supply and the resulting movements in hog prices, we regulate our levels of processing activity and adjust our meat prices in each respective market from time to time in order to maximize the profits.

Total number of hogs processed in the Review Period was 27,832 thousand heads, an increase of 7.3% over that of the Comparable Period. In China, market demand was supported by the low level of pork prices. Hog processing volume increased considerably by 30.4% to 8,274 thousand heads. Our operating target is to capture more market share by continuous volume growth as we keep improving the utilization of our existing facilities during the era of industry consolidation. In the U.S., our hog processing volume was slightly lower than that of the Comparable Period by 1.4% as our scale was constrained by unfavorable market fundamentals. In Europe, the number of hogs processed increased by 8.5% from the Comparable Period to support the growth in packaged meats business and achieve the benefits of economies of scale. Like China, the increase in hog processing volume in Europe was achieved by the improvement in utilization of our existing facilities.

External sales volume of fresh pork during the Review Period was 2,301 thousand metric tons, 4.6% more than that of the Comparable Period. The increase contributed by China, Europe and the U.S. was 10.7%, 8.2% and 0.9%, respectively.

Fresh pork revenue slightly decreased by 1.1% to US$4,589 million in the Review Period as the increase in Europe was insufficient to offset the decrease in China and the U.S.. Revenue in China decreased by 1.8% from that of the Comparable Period because the impact of the downward-trending pork prices outweighed the increase in sales volume. Revenue in the U.S. reduced by 2.2% as a result of lower level of sales price as compared to the Comparable Period.

Our operating profit of fresh pork decreased from US$245 million in the Comparable Period to US$93 million in the Review Period as the decline in operating profit in the U.S. largely exceeded the increase in operating profit in China and Europe. In the U.S., we recorded an operating loss of US$15 million during the Review Period. Such results manifested the impact of the extremely unfavorable market conditions in the U.S., including the high level of pork supply in the nation driven by industry expansion, as well as the weak exports to China driven by the narrowed hog price differential and incremental tariffs imposed by China on the U.S. pork. The issues of oversupply and trade disruptions depressed the price of pork to a greater degree than the price of hog and led to erosion of our margin. The increase in labor wages and logistics costs added further challenge to our operation. In contrast, we achieved significant growth in China and Europe. In China, the increase in operating profit by 111.1% was mainly due to increased sales volume and better facility utilization. To grow our volume rapidly, we expanded and rectified our channels diligently to improve sales efficiency. In Europe, our operating profit grew primarily due to favorable pricing and increased volume.

Hog Production

	Six months ended June 30,		
	2018	2017	Change
	US$ million	US$ million	%
Revenue			
China	**4**	6	(33.3%)
United States	**362**	247	46.6%
Europe	**31**	22	40.9%
	397	275	44.4%
Operating profit (loss)			
China	**1**	14	(92.9%)
United States	**1**	(21)	N/A
Europe	**20**	56	(64.3%)
	22	49	(55.1%)

During the Review Period, hog production volume increased by 1.3% to 10,127 thousand heads. Revenue from hog production increased by 44.4% to US$397 million due to increased grain sales and more favorable hedging results, partially offset by lower market prices for hogs. Operating profit reduced from US$49 million in the Comparable Period to US$22 million in the Review Period, as hog prices went down. On a positive note, our hedging program was able to mitigate the underlying business loss in the U.S. and resulted in an operating profit of US$1 million in the Review Period versus an operating loss of US$21 million in the Comparable Period.

Others

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

In the Review Period, revenue generated by our other businesses amounted to US$282 million, an increase of 27.6% as compared to the Comparable Period. Our logistics business in China and poultry business in Europe and China made a substantial contribution to our other businesses. Our logistics business currently owns 17 logistics centers across 14 provinces covering the majority part of China. These facilities enable us to deliver our packaged meats and fresh pork to customers timely and safely. Our poultry business processed approximately 54.5 million of broilers and turkeys during the Review Period. The growth of poultry business is an integral part of our strategy in protein diversification.

Capital Resources

Treasury Management

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

Liquidity

The Group continues to maintain a strong level of liquidity. We had bank balances and cash of US$655 million as at June 30, 2018 (as at December 31, 2017: US$1,371 million), which were held primarily in RMB, US$, PLN and RON. From time to time, we also hold certain financial products for yield enhancement purpose. Such financial products are classified as our current financial assets at fair value through profit or loss. As at June 30, 2018, the balance was US$129 million (as at December 31, 2017: Nil).

Our current ratio (ratio of consolidated current assets to consolidated current liabilities) was 1.6 times as at June 30, 2018 and December 31, 2017 respectively.

Cash Flows

We fund our operations principally from cash generated by our operations, bank loans and other debt instruments as well as equity financing from investors. Our cash requirements relate primarily to production and operating activities, business and asset acquisitions, repayment of liabilities as they become due, capital expenditures, interest and dividend payments and any unexpected cash requirements. In the Review Period, our net cash from operating activities amounted to US$134 million (Comparable Period: US$54 million). Our net cash used in investing activities amounted to US$487 million (Comparable Period: US$544 million). Our net cash used in financing activities amounted to US$365 million (Comparable Period: US$142 million). After all, our net decrease in cash was US$718 million in the Review Period, as compared to the net decrease of US$632 million in the Comparable Period.

Major Financing Activities

To benefit from the lower interest rates associated with our improved credit profile, the Group completed the refinancing of debts and facilities with principal amount of US$2,900 million in aggregate and incurred a one-off loss on debt extinguishment of US$70 million during the Comparable Period ("**Refinancing**").

In the Review Period, our Group established a commercial paper program of US$1,750 million for short-term liquidity needs. As at the June 30, 2018, our outstanding balance of commercial papers was US$290 million in aggregate (as at December 31, 2017: Nil).

Debt Profile

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

	At June 30, 2018 US$ million	At December 31, 2017 US$ million
Borrowings by nature		
Senior unsecured notes	**1,787**	1,785
Bank borrowings	**1,017**	1,164
Commercial papers	**290**	–
Medium term notes	**151**	154
Bank overdrafts	**121**	92
Loans from third parties	**3**	3
	3,369	3,198
Borrowings by geographical region		
United States	**2,383**	2,246
China	**897**	847
Europe	**89**	105
	3,369	3,198

The Group's total principal amount of outstanding borrowings as at June 30, 2018 was US$3,383 million (as at December 31, 2017: US$3,215 million). The maturity profile is analyzed as follows:

	% of total borrowings
In 2018	27%
In 2019	18%
In 2020	12%
In 2021	12%
In 2022	12%
In 2023	1%
In 2027	18%
	100%

Our borrowings are principally denominated in currencies of the countries of the Group's business, or balanced by assets in the same currency. 73.7% of our borrowings was denominated in US$ as at June 30, 2018 (as at December 31, 2017: 73.3%). The rest of our borrowings was denominated in RMB, RON, PLN, GBP and EUR.

As at June 30, 2018, 90.7% of our borrowings were unsecured (as at December 31, 2017: 96.6%). Certain borrowings were secured by pledged bank deposits and other assets. Certain borrowings contained affirmative and negative covenants that are subject to certain qualifications and exceptions. The Group had no default in repayment of bank borrowings, nor did it breach any relevant finance covenants during the Review Period.

Leverage Ratios

As at June 30, 2018, our debt to equity ratio (ratio of consolidated borrowings and bank overdrafts to consolidated total equity) and net debt to equity ratio (ratio of consolidated borrowings and bank overdrafts less bank balances and cash to consolidated total equity) were 41.0% and 33.1% respectively (as at December 31, 2017: 38.9% and 22.2% respectively). Our debt to EBITDA ratio (ratio of consolidated borrowings and bank overdrafts to trailing 12-month EBITDA before biological fair value adjustments) and net debt to EBITDA ratio (ratio of consolidated borrowings and bank overdrafts less bank balances and cash to trailing 12-month EBITDA, before biological fair value adjustments) were 1.5 times and 1.2 times respectively (as at December 31, 2017: 1.4 times and 0.8 times respectively).

Finance Costs

Our finance costs reduced by 60.7% to US$55 million in the Review Period. The reduction was mainly due to the inclusion of the loss on debt extinguishment of US$70 million for the Refinancing in the finance costs during the Comparable Period. The debts prior to the Refinancing also carried higher interest rates.

As at June 30, 2018, the average interest rate of our outstanding borrowings was 3.5% (as at December 31, 2017: 3.4%).

Credit Profile

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

The rating of Shuanghui Group according to China Cheng Xin International Credit Rating Co. Ltd.* (中誠信國際信用評級有限公司) is AAA. For our wholly-owned subsidiary, Smithfield, Fitch assigned to it an IDR of BBB with a stable outlook. According to Standard & Poor's, the corporate credit rating of Smithfield is BBB–. The outlook is stable. On March 6, 2018, Moody's upgraded Smithfield's corporate family rating to Ba1 from Ba2. The rating outlook is stable.

Human Resources

We continued with our focus on talent management and employee engagement. As at June 30, 2018, we had approximately 110 thousand employees in total, in which approximately 56 thousand employees were for our operation in China, approximately 41 thousand and 13 thousand employees were for our operations in the U.S. and Europe respectively. The Group provides training programs to the employees with a view to constantly improving their skills and knowledge. It is also our policy to ensure that remuneration for employees, is appropriate and aligns with the goals, objectives and performances of the Group. Total remuneration expenses in the Review Period amounted to US$1,755 million (Comparable Period: US$1,640 million), which comprised fixed compensation such as basic salaries and allowances; variable incentives such as performance bonus; and long term incentives such as share-based payments as well as retirement benefits scheme.

* *For identification purposes only*

Biological Assets

As at June 30, 2018, we had a total of 12,854 thousand hogs, consisting of 11,720 thousand live hogs and 1,134 thousand breeding stock, an increase of 4.2% from 12,337 thousand hogs as at December 31, 2017. We also had a total of 6,209 thousand poultry, consisting of 5,663 thousand broilers and 546 thousand breeding stock. The fair value of our biological assets was US$1,125 million as at June 30, 2018, as compared to US$1,171 million as at December 31, 2017.

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

For the Review Period, the net impact of biological fair value adjustments on our profit or loss was a loss in the amount of US$44 million, as compared to a gain in the amount of US$65 million in the Comparable Period.

Key Investment Interests

Acquisition of subsidiaries

On January 9, 2018, the Group completed the purchase of 100% equity interest of two Romanian companies that operate three packaged meats manufacturing facilities, five distribution centers and related assets to produce packaged meats. Such acquisition increased our profitability in branded packaged meats and strengthened our leading position in the packaged meats market in Romania.

Mexican Joint Ventures

The Group has joint venture interests in two pork companies in Mexico, GCM and Norson. GCM sells live hogs into the Mexico City market, one of the largest pork consumption markets in the world. Norson primarily produces hogs for use in its fresh pork operations. As at June 30, 2018, GCM and Norson had in aggregate approximately 141 thousand sows on the farms in the states of Veracruz, Puebla and Sonora. During the Review Period, share of profit from the Mexican joint ventures was US$15 million (Comparable Period: US$6 million). It is expected that GCM and Norson will continue to be our important investments in Mexico and bring in profit to the Group.

Capital Expenditures

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

Capital expenditures amounted to US$326 million in the Review Period. The following table sets out our capital expenditures by geographical region for the periods indicated.

	Six months ended June 30,	
	2018	2017
	US$ million	US$ million
China	**40**	38
United States	**248**	158
Europe	**38**	29
	326	225

During the Review Period, our capital expenditures in China were mostly related to renovation of old production facilities to cope with the adjustment of our packaged meats portfolio. We also had improvement projects in environmental technology. In the U.S., our capital expenditures were primarily related to the construction of a new distribution center, certain fresh pork plant improvement projects, upgrade of our ERP system as well as expansions of certain packaged meats production line. In Europe, our capital expenditures were mainly to expand capacity and to optimize the existing facilities.

Key Risks and Their Management

Risk Management

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

Commodities Price Risk

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

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

Currency and Interest Rate Risks

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

Our borrowings carry fixed or floating interest rates. As at June 30, 2018, approximately 82.4% of our borrowings (other than bank overdrafts) were at fixed interest rates (as at December 31, 2017: 80.2%). To manage our interest rate exposure, we optimize our debt portfolio and enter into hedging activities from time to time.

Contingent Liabilities

Our operations are subject to various laws and regulations administered by various specific local authorities. We receive notices and inquiries from them in relations to compliance from time to time. In some instances, litigation ensues and individuals may initiate litigation against the Group. Our management assesses and monitors these contingent liabilities. We believe that their financial and operational impact would not be material to the Group. Details and updates subsequent to the end of the Review Period on the North Carolina nuisance litigation case are available in note 18 of Notes to the Interim Financial Information of this report.

Sustainability

Sustainability is an important area of the Group governance framework. The Board has established an ESG Committee at Group level, which sets sustainability goals and targets and guides our development strategy. During the Review Period, the Group held an ESG Committee meeting. At the meeting, the ESG Committee conducted review on the key environmental social and governance risks and its risk mitigation controls faced by the Group, as well as approved the 2017 Sustainability Report of the Group.

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

This year, the Group became a constituent of the Hang Seng Corporate Sustainability Benchmark Index, in recognition of the Group's outstanding performance in sustainability.

Outlook

The operating landscape, affected by economic growth, consumers' preference, industry cycle and epidemics, is always impacting our business. The recent exacerbated change of the dynamics in international relations is also influencing our business due to our global presence.

Looking forward, we anticipate the greatest challenge is the over-abundant supply of meats in the U.S., which will continue to suppress prices. The trade disputes between the U.S. and its certain pork import partners increase the level of uncertainty. In any event, we are making every endeavor to increase our competitiveness to improve profitability. Meanwhile, as a vertically integrated and downstream focused company, our packaged meats business will benefit from the favorable raw materials prices.

Our business in China delivered solid results in the Review Period. To attain vigorous growth, optimization of our product portfolio is an on-going process. We will launch new products to the market consistently, with an emphasis on low temperature and mid-end to premium products. We will also continue to develop our sales channels and invest in marketing efforts.

To conclude, we are a geographically diversified consumer goods company with branded packaged meats as our core business. We build resilience from our distinctive market position in facing challenges. With our stringent quality control and food safety systems, we will provide customers with high quality products. We will also strive to capture opportunities brought by industry consolidation. We believe that our relentless pursuit of our strategies will lead to sustainable development, solidify our global leadership and create long-term value for our Shareholders, employees and communities.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the interim financial information set out on pages 20 to 55, which comprises the condensed consolidated statement of financial position of WH Group Limited (the "Company") and its subsidiaries as at 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board (the "IASB"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
14 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2018

		For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Notes	Results before biological fair value adjustments US$'million (Unaudited)	Biological fair value adjustments US$'million (Unaudited)	Total US$'million (Unaudited)	Results before biological fair value adjustments US$'million (Unaudited)	Biological fair value adjustments US$'million (Unaudited)	Total US$'million (Unaudited)
Revenue	3	11,169	–	11,169	10,658	–	10,658
Cost of sales		(8,905)	77	(8,828)	(8,476)	(145)	(8,621)
Gross profit		2,264	77	2,341	2,182	(145)	2,037
Distribution and selling expenses		(1,035)	–	(1,035)	(919)	–	(919)
Administrative expenses		(376)	–	(376)	(357)	–	(357)
Gain (loss) arising from agricultural produce at fair value less costs to sell at the point of harvest		–	(90)	(90)	–	155	155
Gain (loss) arising from changes in fair value less costs to sell of biological assets		–	(49)	(49)	–	89	89
Other income		64	–	64	58	–	58
Other gains and losses		(28)	–	(28)	1	–	1
Other expenses		(18)	–	(18)	(23)	–	(23)
Finance costs		(55)	–	(55)	(140)	–	(140)
Share of profits of associates		6	–	6	4	–	4
Share of profits of joint ventures		15	–	15	6	–	6
PROFIT BEFORE TAX	4	837	(62)	775	812	99	911
Taxation	5	(176)	18	(158)	(240)	(34)	(274)
PROFIT FOR THE PERIOD		661	(44)	617	572	65	637

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

For the six months ended June 30, 2018

	Notes	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
		Results before biological fair value adjustments US$'million (Unaudited)	Biological fair value adjustments US$'million (Unaudited)	Total US$'million (Unaudited)	Results before biological fair value adjustments US$'million (Unaudited)	Biological fair value adjustments US$'million (Unaudited)	Total US$'million (Unaudited)
PROFIT FOR THE PERIOD		661	(44)	617	572	65	637
Other comprehensive income (expense) for the period:							
Items that may be reclassified subsequently to profit or loss							
– exchange differences arising on translation of foreign operations				(100)			175
– fair value change in cash flow hedge				16			(33)
Other comprehensive income (expense) for the period, net of tax				(84)			142
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD				533			779
Profit for the period attributable to:							
– owners of the Company				514			557
– non-controlling interests				103			80
				617			637
Total comprehensive income for the period attributable to:							
– owners of the Company				439			682
– non-controlling interests				94			97
				533			779
EARNINGS PER SHARE							
– Basic	7			US$3.50 cents			US$4.07 cents
– Diluted	7			US$3.47 cents			US$3.89 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2018

	Notes	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	5,088	5,037
Prepaid lease payments		187	197
Biological assets	9	167	181
Goodwill		1,848	1,838
Intangible assets		1,752	1,742
Interests in associates		151	155
Interests in joint ventures		152	140
Other receivables		42	41
Available-for-sale investments		–	7
Financial assets at fair value through profit or loss		7	–
Pledged bank deposits		3	5
Deferred tax assets		60	58
Other non-current assets		201	191
Total non-current assets		9,658	9,592
CURRENT ASSETS			
Properties under development	8	5	–
Biological assets	9	958	990
Inventories	10	2,028	1,905
Trade and bills receivables	11	980	989
Prepayments, deposits and other receivables		250	222
Prepaid lease payments		5	5
Taxation recoverable		51	115
Financial assets at fair value through profit or loss		129	–
Pledged/restricted bank deposits		54	69
Bank balances and cash		655	1,371
Total current assets		5,115	5,666
CURRENT LIABILITIES			
Trade payables	12	583	1,076
Accrued expenses and other payables	13	1,307	1,472
Taxation payable		47	50
Borrowings	14	1,177	809
Bank overdrafts	14	121	92
Total current liabilities		3,235	3,499

Condensed Consolidated Statement of Financial Position (Continued)

As at June 30, 2018

	Notes	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
NET CURRENT ASSETS		**1,880**	2,167
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,538**	11,759
NON-CURRENT LIABILITIES			
Borrowings	14	**2,071**	2,297
Other payables	13	**209**	199
Obligations under finance leases		**23**	23
Deferred tax liabilities		**605**	639
Deferred revenue		**11**	11
Pension liability and other retirement benefits	15	**409**	368
Total non-current liabilities		**3,328**	3,537
NET ASSETS		**8,210**	8,222
CAPITAL AND RESERVES			
Share capital		**1**	1
Reserves		**7,493**	7,444
Equity attributable to owners of the Company		**7,494**	7,445
Non-controlling interests		**716**	777
TOTAL EQUITY		**8,210**	8,222

The interim financial information on pages 20 to 55 were approved and authorised for issue by the Board of Directors on August 14, 2018 and are signed on its behalf by:

Mr. Wan Long
Director

Mr. Guo Lijun
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2018

	Attributable to owners of the Company									
	Share capital US$'million	Share premium US$'million	Capital reserve US$'million (Note (a))	Translation reserve US$'million	Other reserve US$'million (Note (b))	Statutory surplus reserve US$'million (Note (c))	Retained profits US$'million	Total US$'million	Non-controlling interests US$'million	Total equity US$'million
At January 1, 2018 (Audited)	1	2,921	(69)	(30)	904	238	3,480	7,445	777	8,222
Profit for the period	–	–	–	–	–	–	514	514	103	617
Exchange differences arising on translation of foreign operations	–	–	–	(91)	–	–	–	(91)	(9)	(100)
Fair value changes in cash flow hedge	–	–	–	–	16	–	–	16	–	16
Total comprehensive income (expense) for the period	–	–	–	(91)	16	–	514	439	94	533
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	(156)	(156)
Dividend	–	–	–	–	–	–	(411)	(411)	–	(411)
Share-based payments	–	–	–	–	12	–	–	12	1	13
Issue of shares upon exercise of share options	–*	13	–	–	(4)	–	–	9	–	9
	–*	13	–	–	8	–	(411)	(390)	(155)	(545)
At June 30, 2018 (Unaudited)	1	2,934	(69)	(121)	928	238	3,583	7,494	716	8,210
At January 1, 2017 (Audited)	1	2,905	(65)	(314)	715	238	2,836	6,316	722	7,038
Profit for the period	–	–	–	–	–	–	557	557	80	637
Exchange differences arising on translation of foreign operations	–	–	–	158	–	–	–	158	17	175
Fair value changes in cash flow hedge	–	–	–	–	(33)	–	–	(33)	–	(33)
Total comprehensive income (expense) for the period	–	–	–	158	(33)	–	557	682	97	779
Acquisition of additional interests in subsidiaries	–	–	(1)	–	–	–	–	(1)	(3)	(4)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	(161)	(161)
Dividend	–	–	–	–	27	–	(395)	(368)	–	(368)
Share-based payments	–	–	–	–	17	–	–	17	3	20
Issue of shares upon exercise of share options	–*	2	–	–	(1)	–	–	1	–	1
	–*	2	(1)	–	43	–	(395)	(351)	(161)	(512)
At June 30, 2017 (Unaudited)	1	2,907	(66)	(156)	725	238	2,998	6,647	658	7,305

* Less than US$1 million.

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended June 30, 2018

Notes:

(a) Capital reserve

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

(b) Other reserve

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

(c) Statutory surplus reserve

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2018

	Six months ended June 30, 2018 US$'million (Unaudited)	2017 US$'million (Unaudited)
Net cash from operating activities	**134**	54
Investing Activities		
Interest received	**2**	2
Dividend received from associates	**2**	2
Purchases of property, plant and equipment	**(326)**	(225)
Proceeds from disposal of property, plant and equipment	**8**	8
Net cash outflow on acquisition of subsidiaries	**(59)**	(147)
Purchase of financial assets at fair value through profit or loss	**(399)**	–
Proceeds from disposal of financial assets at fair value through profit or loss	**267**	–
Purchase of available-for-sale investments	**–**	(526)
Proceeds from disposal of available-for-sale investments	**–**	333
Placement of pledged/restricted bank deposits	**(21)**	(118)
Withdrawal of pledged/restricted bank deposits	**39**	127
Net cash used in investing activities	**(487)**	(544)
Financing Activities		
Dividends paid to shareholders and non-controlling interests	**(548)**	(523)
Proceeds from borrowings, net of transaction costs	**2,799**	3,337
Repayment of borrowings	**(2,615)**	(2,953)
Net cash outflow on acquisition of additional interests in subsidiaries	**(7)**	(4)
Proceeds from issue of shares	**9**	1
Repayment of obligation under finance leases	**(3)**	–
Net cash used in financing activities	**(365)**	(142)
Net decrease in cash and cash equivalents	**(718)**	(632)
Cash and cash equivalents at beginning of period	**1,279**	1,123
Effect of foreign exchange rate changes	**(27)**	38
Cash and cash equivalents at end of period	**534**	529
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**655**	551
Bank overdrafts	**(121)**	(22)
	534	529

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2018

1. Corporate Information and Basis of Preparation

WH Group Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands. 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 acts as an investment holding company. The principal activities of its principal subsidiaries are hog production and production and sales of fresh pork and packaged meats.

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

The interim financial information for the six months ended June 30, 2018 has been prepared in accordance with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The interim financial information has been prepared under the historical cost convention, except for biological assets, which are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell and certain financial instruments which are measured at fair value. This financial information is presented in US$ and all values are rounded to the nearest million except when otherwise indicated.

The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2017.

The accounting policies and methods of computation adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with *International Financial Reporting Standards* ("IFRSs") issued by the IASB, except for adoption of the revised IFRSs as disclosed in note 2 below.

2. Changes in Accounting Policies

The Group has adopted the following new and revised IFRSs for the first time for the current period's interim financial information.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfer of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to IFRS 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

2. Changes in Accounting Policies (Continued)

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of previous financial statements. The nature and effect of these changes are disclosed below.

Several other amendments and interpretations are applied for the first time in 2018, but do not have significant impact on the unaudited interim condensed consolidated financial statements of the Group.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying IFRS15 as an adjustment to the opening balance of retained earnings in the 2017 financial year. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before January 1, 2018, thus the comparative figures have not been restated.

Except for the reclassification effect below, the adoption of IFRS 15 do not have material financial impact on the Group's consolidated financial statements.

Reclassifications were made as at June 30, 2018 to be consistent with the terminology used under IFRS 15 and, accordingly, advances received from customers (2017: US$87 million) were reclassified from deposit received to contract liabilities under accrued expenses and other payables.

2. Changes in Accounting Policies (Continued)

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group elected to apply existing hedge accounting requirements under IAS 39 until IASB completes their macro hedging project, the Group has applied IFRS 9 retrospectively in accordance with the transition requirements, with the initial application date of January 1, 2018. The Group has elected not to adjust the comparative information for the period beginning January 1, 2017, which the comparative information was prepared under classification and measurement requirements of IAS 39.

Classification and measurement

Except for trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as available-for-sale (AFS) investments.

2. Changes in Accounting Policies (Continued)

IFRS 9 *Financial Instruments* (Continued)

Classification and measurement (Continued)

- Financial assets at FVPL comprise derivative instruments and unquoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's unquoted equity instruments were classified as AFS investments. Upon transition the AFS reserve relating to unquoted equity instruments, which had been previously recognised under accumulated OCI, was reclassified to retained profits.

The assessment of the Group's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognised before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of IFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

Impairment

IFRS 9 requires an impairment on trade and bills receivables and deposits and other receivables that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its deposits and other receivables and trades receivables, respectively. The Group performed a detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables. The adoption of IFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3. Segment Information

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

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

(i) Packaged meats – represents production, wholesale and retail sales of low temperature and high temperature meat products.

(ii) Fresh pork – represents slaughtering, wholesale and retail sales of fresh and frozen meat.

(iii) Hog production – represents hog farming.

(iv) Others – represents slaughtering and sales of poultry, sales of ancillary products and services such as provision of logistics, sales of flavouring ingredients and internally-produced packaging materials, as well as operating a finance company, retail business and biopharmaceuticals, retail of meat related products, and corporate expenses incurred by the Group.

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

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

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

3. Segment Information (Continued)

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

	For the six months ended June 30, 2018				
	Packaged meats US$'million (Unaudited)	Fresh pork US$'million (Unaudited)	Hog production US$'million (Unaudited)	Others US$'million (Unaudited)	Total US$'million (Unaudited)
People's Republic of China ("China")					
Gross segment revenue	1,762	2,173	29	274	4,238
Less: Inter-segment revenue	–	(401)	(25)	(143)	(569)
Revenue	1,762	1,772	4	131	3,669
Reportable segment profit	367	95	1	11	474
The United States of America ("United States")					
Gross segment revenue	3,735	3,791	1,489	–	9,015
Less: Inter-segment revenue	(2)	(1,329)	(1,127)	–	(2,458)
Revenue	3,733	2,462	362	–	6,557
Reportable segment profit (loss)	394	(15)	1	(50)	330
Europe					
Gross segment revenue	427	618	317	198	1,560
Less: Inter-segment revenue	(21)	(263)	(286)	(47)	(617)
Revenue	406	355	31	151	943
Reportable segment profit	27	13	20	3	63
Total					
Gross segment revenue	5,924	6,582	1,835	472	14,813
Less: Inter-segment revenue	(23)	(1,993)	(1,438)	(190)	(3,644)
Revenue	5,901	4,589	397	282	11,169
Reportable segment profit (loss)	788	93	22	(36)	867
Net unallocated income					4
Biological fair value adjustments					(62)
Finance costs					(55)
Share of profits of associates					6
Share of profits of joint ventures					15
Profit before tax					775

3. Segment Information (Continued)

	For the six months ended June 30, 2017				
	Packaged meats US$'million (Unaudited)	Fresh pork US$'million (Unaudited)	Hog production US$'million (Unaudited)	Others US$'million (Unaudited)	Total US$'million (Unaudited)
China					
Gross segment revenue	1,571	2,116	41	196	3,924
Less: Inter-segment revenue	–	(311)	(35)	(95)	(441)
Revenue	1,571	1,805	6	101	3,483
Reportable segment profit (loss)	319	45	14	(19)	359
United States					
Gross segment revenue	3,661	3,994	1,424	–	9,079
Less: Inter-segment revenue	(1)	(1,476)	(1,177)	–	(2,654)
Revenue	3,660	2,518	247	–	6,425
Reportable segment profit (loss)	356	199	(21)	(62)	472
Europe					
Gross segment revenue	311	521	295	157	1,284
Less: Inter-segment revenue	(20)	(204)	(273)	(37)	(534)
Revenue	291	317	22	120	750
Reportable segment profit	11	1	56	2	70
Total					
Gross segment revenue	5,543	6,631	1,760	353	14,287
Less: Inter-segment revenue	(21)	(1,991)	(1,485)	(132)	(3,629)
Revenue	5,522	4,640	275	221	10,658
Reportable segment profit (loss)	686	245	49	(79)	901
Net unallocated income					41
Biological fair value adjustments					99
Finance costs					(140)
Share of profits of associates					4
Share of profits of joint ventures					6
Profit before tax					911

3. Segment Information (Continued)

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

Geographical information

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

4. Profit Before Tax

Profit before tax is arrived at after charging (crediting):

	Six months ended June 30,	
	2018	2017
	US$'million	US$'million
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**212**	185
Amortisation of intangible assets included in administrative expenses	**4**	4
Release of prepaid lease payments	**3**	2
Write-down of inventories included in cost of sales	**43**	25
Net allowance on trade receivables	**1**	1
Operating leases rentals in respect of rented premises	**66**	61
Research and development expenses	**46**	50
Staff costs (excluding directors' remuneration)	**1,742**	1,622
Loss (gain) on disposal of property, plant and equipment	**4**	(1)
Gain on maturity of financial assets at fair value through profit or loss	**(3)**	–
Gain on maturity of available-for-sale investments	**–**	(5)

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

5. Taxation

	Six months ended June 30,	
	2018	2017
	US$'million	US$'million
	(Unaudited)	(Unaudited)
China Enterprise Income Tax	**103**	93
The U.S. income tax	**54**	105
Other income taxes	**13**	13
Withholding tax	**27**	37
Deferred taxation	**(39)**	26
	158	274

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

6. Dividends

At the Company's annual general meeting held on June 4, 2018, the shareholders of the Company approved the payment of a final dividend of HK$0.22 per share (year ended December 31, 2016: HK$0.21 per share) of the Company for the year ended December 31, 2017, as recommended by the Board, which was paid in cash to the shareholders of the Company on June 27, 2018, whose names appeared on the register of members of the Company on June 8, 2018.

The Board declared an interim dividend of HK$0.05 per share for the six months ended June 30, 2018 (six months ended June 30, 2017: HK$0.05 per share) to the shareholders of the Company whose names appear on the register of members of the Company on August 28, 2018. The dividend is to be paid in cash to the shareholders of the Company on or about September 12, 2018.

7. Earnings Per Share

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

	Six months ended June 30,	
	2018	2017
	US$'million	US$'million
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**514**	557

	Six months ended June 30,	
	2018	2017
	million shares	million shares
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**14,674.17**	13,668.77
Effect of dilutive potential ordinary shares		
– incentive shares	**–**	631.58
– share options	**126.29**	13.10
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**14,800.46**	14,313.45

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

During the six months ended June 30, 2018, the Group incurred US$299 million (six months ended June 30, 2017: US$201 million) on the acquisition of items of property, plant and equipment.

During the six months ended June 30, 2018, the Group incurred US$5 million (six months ended June 30, 2017: nil) on the additions to properties under development.

9. Biological Assets

Nature of the Group's agricultural activities

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

	June 30, 2018 Head ('000) (Unaudited)	December 31, 2017 Head ('000) (Audited)
Live hogs		
– suckling	1,892	1,685
– nursery	2,248	2,100
– finishing	7,580	7,446
	11,720	11,231
Breeding stock (hogs)	1,134	1,106
	12,854	12,337
Broilers	5,663	4,245
Breeding stock (poultry)	546	517
	6,209	4,762

9. Biological Assets (Continued)

Nature of the Group's agricultural activities (Continued)

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

(i) Regulatory and environmental risks

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

(ii) Climate, disease and other natural risks

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

Carrying value of the Group's biological assets

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

Analysed for reporting purpose as:

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Current	**958**	990
Non-current	**167**	181
	1,125	1,171

Fair value measurement

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

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

10. Inventories

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Raw materials	604	700
Work in progress	100	116
Finished goods	1,324	1,089
	2,028	1,905

11. Trade and Bills Receivables

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Trade receivables	986	994
Less: Allowance for bad and doubtful debts	(11)	(10)
	975	984
Bills receivables	5	5
	980	989

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

11. Trade and Bills Receivables (Continued)

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

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Current to 30 days	876	882
31 to 90 days	103	105
91 to 180 days	1	2
	980	989

12. Trade Payables

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Trade payables	583	1,076

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

12. Trade Payables (Continued)

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

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Current to 30 days	563	1,058
31 to 90 days	17	13
91 to 180 days	1	2
181 to 365 days	2	3
	583	1,076

13. Accrued Expenses and Other Payables

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Accrued staff costs	318	486
Deposits received	104	190
Sales rebates payables	256	247
Payables in respect of acquisition of property, plant and equipment	86	146
Insurance payables	143	141
Interest payable	32	28
Balance of contingent consideration in respect of acquisition of subsidiaries	10	17
Derivative financial instruments	17	11
Growers payables	39	41
Pension liability	12	12
Amounts due to associates	8	9
Accrued professional expenses	36	40
Accrued rent and utilities	35	34
Dividend payable	9	13
Contract liabilities	76	–
Other accrued expenses	187	128
Other payables	148	128
	1,516	1,671
Analysed for reporting purposes as:		
Current liabilities	1,307	1,472
Non-current liabilities	209	199
	1,516	1,671

14. Borrowings

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Senior unsecured notes		
2.700% senior unsecured notes due January 2020	399	398
2.650% senior unsecured notes due October 2021	397	396
3.350% senior unsecured notes due February 2022	397	397
4.250% senior unsecured notes due February 2027	594	594
	1,787	1,785
Medium-term unsecured notes	151	154
Commercial papers (Note (i))	290	–
Bank loans (Note (ii))		
Secured	310	107
Unsecured	707	1,015
Loans from third parties (Note (iii))		
Secured	1	1
Unsecured	2	2
Other loan (Note (iv))	–	42
Total borrowings	3,248	3,106
Bank overdrafts (Note (v))	121	92
The borrowings other than bank overdrafts are repayable as follows (Note (vi)):		
Within one year	1,177	809
One to two years	631	131
Two to five years	843	1,569
After five years	597	597
	3,248	3,106
Less: Amounts due within one year shown under current liabilities	(1,177)	(809)
Amounts due after one year	2,071	2,297
Total borrowings other than bank overdrafts:		
At fixed rates	2,675	2,492
At floating rates	573	614
	3,248	3,106

14. Borrowings (Continued)

Notes:

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

(ii) Fixed rate bank loans carry interest at fixed rates ranging from 2.25% to 5.70% per annum (December 31, 2017: from 2.25% to 5.70%) and floating rates ranging from ROBOR + 1.00% to the U.S. Prime +0.375% per annum at June 30, 2018 (December 31, 2017: HIBOR + 0.45% to WIBOR + 3.20%).

(iii) Loans from third parties carry interest at fixed rate of 0.90% per annum at June 30, 2018 (December 31, 2017: 0.90%).

(iv) On March 17, 2017, the Group entered into a lease agreement with a bank in China to borrow 1,000 kilograms of gold for one year and then concurrently sold the gold in exchange for cash. On the same date, the Group entered into a forward contract with the same bank to purchase the same quantity of gold at a fixed amount to be settled on the maturity date of the gold borrowing arrangement, for the purpose of settlement of the borrowed gold. The risk of gold price fluctuation during the gold borrowing period is borne by the bank and not by the Group. Based on the substance of the arrangement, the Group accounted for these arrangements as financing arrangements to borrow money from the bank. The effective interest rate of the above arrangement is 3.50% per annum. This arrangement has been settled on March 12, 2018.

(v) Bank overdrafts at June 30, 2018 carry interest at floating rates at 4.35% per annum (December 31, 2017: Ranging from 3.92% to 4.35%).

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

Certain borrowings as at June 30, 2018 are secured by the Group's pledged bank deposits of US$10 million (December 31, 2017: US$10 million).

The Group's borrowings contain affirmative and negative covenants that, among other things, limit or restrict the Group's ability to create liens and encumbrances, incur debt, enter into liquidation, enter into change of control transactions or change the scope of the business, or dispose of or transfer assets, in each case, subject to certain qualifications and exceptions. The Group has no material default in payment of the bank borrowings, nor did it breach any relevant finance covenants for the six months ended June 30, 2018 and year ended December 31, 2017.

Smithfield Receivables Funding, LLC, a wholly-owned subsidiary of the Group, has a securitisation facility that matures in December 2019. As part of the arrangement, certain trade receivables are sold to a wholly-owned "bankruptcy remote" special purpose vehicle ("SPV"). The SPV pledges the receivables as security for loans and letters of credit. The SPV is included in the condensed consolidated financial statements of the Group and therefore, the trade receivables owned by the SPV are included in the condensed consolidated statement of financial position of the Group. However, trade receivables owned by the SPV are separate and distinct from the other assets and are not available to other creditors of Smithfield if Smithfield were to become insolvent. As at June 30, 2018, the SPV held US$681 million (December 31, 2017: US$632 million) of trade receivables and had no outstanding borrowings on the securitisation facility. No financial or other support to this SPV was provided by the Group as at June 30, 2018 and December 31, 2017.

15. Pension Liability and Other Retirement Benefits

Defined Benefit Plans

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

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

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

The policy for the plans are consistently applied at December 31, 2017 and June 30, 2018.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2017 by Mercer (US), Inc.. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Defined Contribution Plans

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

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

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

The amount charged to profit or loss of approximately US$58 million during the six months ended June 30, 2018 (six months ended June 30, 2017: US$57 million) represents contribution paid or payable to the plans by the Group at rates specified in the rules of the plans.

16. Business Combinations

On January 9, 2018, the Group acquired from an independent third party for the entire equity interest in two Romanian companies, Elit S.R.L. and Vericom 2001 S.R.L. ("Elit and Vericom"). The acquisition was made as part of the Group's strategy to increase profitability in branded packaged meats and strengthen their leading position in the packaged meats market in Romania.

As at the date of approval for issuance of the interim financial information, the fair value assessments of identifiable assets and liabilities arisen from the acquisition above have not been finalised and thus, the assets and liabilities recognised at the date of acquisition (see below) have been determined provisionally. Upon finalisation of the valuation, goodwill arising on acquisition may change accordingly. The directors of the Company expect the valuation will be finalised within one year from completion.

The fair values of the identifiable assets and liabilities of the acquisition as at the date of acquisition (determined on a provisional basis) were as follows:

	Fair value recognised on acquisition US$'million
Property, plant and equipment	36
Intangible assets	26
Inventories	5
Trade and bills receivables	7
Prepayments, deposits and other receivables	1
Bank balances and cash	7
Trade payables	(3)
Accrued expenses and other payables	(16)
Other liabilities	(-*)
Total identifiable net assets at fair value	63
Goodwill	21
Satisfied by cash	84

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

* Less than US$1 million.

16. Business Combinations (Continued)

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

	US$'million
Cash consideration	(84)
Bank balances and cash acquired	7
Outstanding consideration at the end of the period	18
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(59)
Transaction costs paid during the period included in cash flows from operating activities	(2)
	(61)

Since the acquisition, Elit and Vericom contributed US$42 million to the Group's revenue and US$2 million to the consolidated profit before tax for the six months ended June 30, 2018.

Had the acquisition of Elit and Vericom taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the six months ended June 30, 2018 would have been US$11,169 million and US$617 million, respectively.

Information on prior year acquisition

On November 21, 2016, the Group entered into a definitive agreement with an independent third party for the acquisition of the entire equity interest in Clougherty Packing, LLC ("Clougherty"). The acquisition was made as part of the Group's strategy to expand and strengthen its vertically integrated supply chain with existing profitable fresh and packaged meats businesses and provide the Group with an immediate entry into the U.S. West Coast market. The acquisition was completed on January 3, 2017.

On June 1, 2017, the Group acquired the entire equity interest in Pini Polska Sp. z o.o., Hamburger Pini Sp. z o.o. and Royal Chicken Sp. z o.o. (collectively, "Pini Packaged Meats") from an independent third party. The acquisition was made as part of the Group's strategy to strengthen its vertically integrated supply chain in Poland and increasing its production of high-quality packaged meats products.

On June 22, 2017, the Group also acquired the entire equity interest in Celsus Glycoscience, Inc. ("Celsus") from an independent third party. The acquisition formed part of the Group's new bioscience group, and a strategic platform to leverage by-products from the meat production process for development of pharmaceuticals, nutraceuticals and medical device solutions.

16. Business Combinations (Continued)

Information on prior year acquisition (Continued)

The fair values of the identifiable assets and liabilities of the acquisitions as at the dates of acquisitions were as follows:

	Fair value recognised on acquisition US$'million
Property, plant and equipment	173
Biological assets	19
Intangible assets	30
Inventories	37
Trade and bills receivables	32
Deferred tax assets	24
Bank balances and cash	18
Trade payables	(78)
Accrued expenses and other payables	(35)
Borrowings	(56)
Other liabilities	(25)
Total identifiable net assets at fair value	139
Goodwill	26
Satisfied by cash	165

The Group incurred transaction costs of US$5 million for these acquisitions. These transaction costs have been expensed and are included in other expenses in profit or loss.

16. Business Combinations (Continued)

Information on prior year acquisition (Continued)

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

	US$'million
Cash consideration	(165)
Bank balances and cash acquired	18
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(147)
Transaction costs paid during the period included in cash flows from operating activities	(3)
	(150)

Since the acquisition, Clougherty contributed US$266 million to the Group's revenue and US$15 million to the consolidated profit before tax for the six months ended June 30, 2017.

Had the acquisition of Clougherty taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the six months ended June 30, 2017 would have been US$10,658 million and US$637 million, respectively.

The results of Pini Packaged Meats and Celsus acquired during the period had no significant impact on the Group's consolidated revenue or profit for the six months ended June 30, 2017.

17. Capital Commitments

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

	June 30, 2018 US$'million (Unaudited)	December 31, 2017 US$'million (Audited)
Capital expenditure contracted but not provided for, in the interim financial information in respect of acquisition of property, plant and equipment	127	144

On July 28, 2017, the Group acquired 33.5% and agreed to acquire the remaining 66.5% equity interest (conditional upon approval from regulatory authorities) in a hog slaughterhouse in Poland. Such acquisition aligns with the strategic growth plans of the Group by expanding its production capacity and strengthening its vertically-integrated supply chain in resourceful regions.

18. Contingent Liabilities

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

North Carolina Nuisance Litigation

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

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

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

On June 29, 2018, a verdict was reached in favor of two plaintiffs in the second trial. For each plaintiff, the jury awarded US$65,000 in compensatory damages and US$12.5 million in punitive damages. As a result of the limit on punitive damages, the court is expected to reduce the amount the jury awarded to each plaintiff for punitive damages to US$250,000, resulting in a total award of US$630,000 for the two plaintiffs combined as a result of the limit on punitive damages.

On August 3, 2018, a verdict was reached in favor of six plaintiffs in the third trial. For each plaintiff, the jury awarded approximately US$3.9 million in compensatory damages and US$75 million in punitive damages. As a result of the limit on punitive damages, the court is expected to reduce the amount the jury awarded to each plaintiff for punitive damages to US$11.75 million, resulting in a total award of US$94 million for the six plaintiffs combined as a result of the limit on punitive damages.

The Group continues to believe that the claims of the plaintiffs are unfounded and is defending these suits vigorously. The Group will appeal these verdicts to the United States Court of Appeals for the Fourth Circuit.

18. Contingent Liabilities (Continued)

North Carolina Nuisance Litigation (Continued)

The Group's policy for establishing accruals and disclosures for contingent liabilities is set out in the Group's annual financial statements for the year ended December 31, 2017. The Group established a provision for estimating the expenses to defend against these and similar potential claims on the consolidated statement of financial position. The Group has not reserved any amount for possible losses, including those associated with the first three trials, beyond the estimated costs to defend against these claims. Expenses and other liabilities associated with these nuisance and related claims for subsequent periods will not affect the Group's profits or losses unless the provision proves to be insufficient or excessive. However, legal expenses incurred in the Group's defence of these claims and any payments made to plaintiffs through unfavourable verdicts or otherwise will negatively impact its cash flows and its liquidity position. Given that these matters are in the early stages and given the inherent uncertainty of the outcome for these and similar potential claims, the Group cannot estimate the reasonably possible loss or range of loss for these loss contingencies outside the expenses the Group will incur to defend against these claims as well as the outcomes of the first three trials. The directors of the Company will continue to review whether an additional accrual is necessary and estimate the reasonably possible loss or range of loss for these matters.

19. Fair Value Measurement of Financial Instruments

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

The fair values of non-current financial assets and financial liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities and the management of the Company has assessed that the fair values of non-current financial assets and financial liabilities approximately to their carrying amount. The Group's own non-performance risk for non-current financial liabilities as at June 30, 2018 was assessed to be insignificant.

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

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

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

19. Fair Value Measurement of Financial Instruments (Continued)

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

	At June 30, 2018			
	Level 1 US$'million (Unaudited)	**Level 2 US$'million (Unaudited)**	**Level 3 US$'million (Unaudited)**	**Total US$'million (Unaudited)**
Financial assets at fair value through profit or loss	**–**	**7**	**129**	**136**
Derivative financial assets	**43**	**15**	**–**	**58**
Other non-current assets	**34**	**88**	**23**	**145**
	77	**110**	**152**	**339**
Derivative financial liabilities	**32**	**17**	**–**	**49**

	At December 31, 2017			
	Level 1 US$'million (Audited)	Level 2 US$'million (Audited)	Level 3 US$'million (Audited)	Total US$'million (Audited)
Derivative financial assets	17	15	–	32
Other non-current assets	16	91	23	130
	33	106	23	162
Derivative financial liabilities	16	11	–	27

19. Fair Value Measurement of Financial Instruments (Continued)

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

Financial assets at fair value through profit or loss included (a) unlisted investments in equity securities which its fair values are determined by income approach based on discounted cash flow analysis on the expected interest rates (level 2), and (b) unlisted financial products which its fair values are determined based on significant unobservable inputs (level 3) including expected rate of return of 2.8% to 5.1%.

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

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

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six months ended 30 June 2018.

Movements in fair value measurement within Level 3

For the year ended December 31, 2017, the Group purchased US$196 million available-for-sale investments and US$23 million other non-current assets. The available-for-sale investments of US$196 million were matured in 2017.

For the six months ended June 30, 2018, the Group purchased US$129 million financial assets at fair value through profit or loss.

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

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

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

The Group currently has a legally enforceable right to set off the derivative financial instruments (included in prepayments, deposits and other receivables and accrued expenses and other payables) and the Group intends to settle these balances on a net basis.

19. Fair Value Measurement of Financial Instruments (Continued)

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

As at June 30, 2018

	Gross amounts of recognised financial assets US$'million (Unaudited)	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position US$'million (Unaudited)	Net amounts of financial assets presented in the consolidated statement of financial position US$'million (Unaudited)	Related amounts not set off in the consolidated statement of financial position: Financial collateral US$'million (Unaudited)	Related amounts not set off in the consolidated statement of financial position: Cash collateral received US$'million (Unaudited)	Net amount US$'million (Unaudited)
Derivatives	43	(32)	11	–	9	20

	Gross amounts of recognised financial liabilities US$'million (Unaudited)	Gross amounts of recognised financial assets set off in the consolidated statement of financial position US$'million (Unaudited)	Net amounts of financial liabilities presented in the consolidated statement of financial position US$'million (Unaudited)	Related amounts not set off in the consolidated statement of financial position: Financial collateral US$'million (Unaudited)	Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged US$'million (Unaudited)	Net amount US$'million (Unaudited)
Derivatives	32	(32)	–	–	–	–

19. Fair Value Measurement of Financial Instruments (Continued)

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

As at December 31, 2017

	Gross amounts of recognised financial assets US$'million (Audited)	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position US$'million (Audited)	Net amounts of financial assets presented in the consolidated statement of financial position US$'million (Audited)	Related amounts not set off in the consolidated statement of financial position: Financial collateral US$'million (Audited)	Related amounts not set off in the consolidated statement of financial position: Cash collateral received US$'million (Audited)	Net amount US$'million (Audited)
Derivatives	17	(16)	1	–	10	11

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

20. Related Party Transactions

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

	Six months ended June 30,	
	2018	2017
	US$'million	US$'million
	(Unaudited)	(Unaudited)
Sales of goods to associates	**3**	3
Sales of goods to joint ventures	**6**	5
Purchase of goods from associates	**28**	23
Purchase of goods from joint ventures	**10**	8

(b) Compensation of key management personnel of the Group

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

	Six months ended June 30,	
	2018	2017
	US$'million	US$'million
	(Unaudited)	(Unaudited)
Director fees	**–***	–*
Basic salaries and allowances	**5**	5
Performance bonuses	**10**	12
Retirement benefits scheme contributions	**–***	3
Share-based payments	**8**	12
Total compensation paid to key management personnel	**23**	32

* Less than US$1 million

OTHER INFORMATION

Interim Dividend

The Board declared an interim dividend of HK$0.05 per Share (2017: HK$0.05 per Share) for the six months ended June 30, 2018 (the "**2018 Interim Dividend**"), representing a total payment of approximately HK$734 million (equivalent to approximately US$93 million) (2017: approximately HK$733 million, equivalent to approximately US$94 million) to the Shareholders. The 2018 Interim Dividend is expected to be paid in cash to the Shareholders whose names appear on the register of members of the Company on August 28, 2018 on or about Wednesday, September 12, 2018. The register of members of the Company was closed from Wednesday, August 29, 2018 to Friday, August 31, 2018, both days inclusive, during which period no transfer of shares would be registered. To ensure their entitlement to the 2018 Interim Dividend, Shareholders were reminded to lodge their transfers not later than 4:30 p.m. on Tuesday, August 28, 2018 with Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Disclosure of Interests

Directors

As at June 30, 2018, the interests and short positions of each of the Directors and chief executive officer of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interests in Shares

Name of Director/ Chief Executive Officer	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Mr. Wan Long	Interest in a controlled corporation[1]	1,552,989,700[L]	10.58%
	Beneficiary of a trust[2]	944,356,128[L]	6.43%
	Beneficial owner	1,500,000[L]	0.01%
	Other[3]	350,877,333[L]	2.39%
Mr. Guo Lijun	Beneficiary of a trust[4]	71,932,808[L]	0.49%
	Beneficial owner	100,000[L]	0.00%
Mr. Ma Xiangjie	Beneficiary of a trust[5]	15,995,250[L]	0.11%
	Interest of spouse[6]	3,000[L]	0.00%

Notes:

(1) Mr. Wan Long owned Sure Pass as to 100%, which in turn owned 573,099,645 Shares. Accordingly, Mr. Wan Long was deemed to be interested in the 573,099,645 Shares held by Sure Pass. Mr. Wan Long owned Xing Tong Limited as to 100%. Xing Tong Limited was one of the participants of the Heroic Zone Share Plan, through which it owned approximately 18.58% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Wan Long was deemed to be interested in the 979,890,055 Shares which Heroic Zone was interested in by virtue of his interest in Xing Tong Limited.

(2) Mr. Wan Long was one of the participants of the Heroic Zone Share Plan, through which he held approximately 17.90% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Wan Long was deemed to be interested in the 944,356,128 Shares which Heroic Zone was interested in.

(3) Mr. Wan Long was provisionally awarded 350,877,333 Shares under the 2013 Share Award Plan on 28 April 2017, subject to the terms and conditions set out in the relevant award notice and under the rules of the 2013 Share Award Plan. The management of the Company considers that the vesting condition on the attainment of financial target for 2017 has been achieved.

(4) Mr. Guo Lijun was one of the participants of the Heroic Zone Share Plan, through which he held approximately 1.36% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Guo Lijun was deemed to be interested in the 71,932,808 Shares which Heroic Zone was interested in.

(5) Mr. Ma Xiangjie was one of the participants of the Heroic Zone Share Plan, through which he held approximately 0.30% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Ma Xiangjie was deemed to be interested in the 15,995,250 Shares which Heroic Zone was interested in.

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

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

(ii) Interests in underlying shares of the Company

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

Notes:

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

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

(iii) Interests in associated corporations

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

Notes:

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

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

Save as disclosed above, as at June 30, 2018, so far as was known to any Director or chief executive officer of the Company, neither the Directors nor the chief executive officer had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which would fall to be disclosed to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders

As at June 30, 2018, so far as was known to any Director or chief executive officer of the Company, shareholders (other than the Director or chief executive of the Company whose interests were disclosed above) who had interests or short positions in the Shares or underlying shares of the Company which shall be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Interest in the Shares

Name	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Rise Grand(1)	Interest in controlled corporation	5,274,991,111(L)	35.94%
He Xingbao(1)	Trustee	5,274,991,111(L)	35.94%
Zhang Liwen(1)	Trustee	5,274,991,111(L)	35.94%
Zhao Yinzhang(1)	Trustee	5,274,991,111(L)	35.94%
Heroic Zone(2)	Beneficial owner	3,473,820,000(L)	23.67%
	Interest in controlled corporation	1,801,171,111(L)	12.27%
Teeroy Limited	Trustee	982,457,333(L)	6.69%
Xing Tong Limited(3)	Beneficiary of a trust	979,890,055(L)	6.68%
JPMorgan Chase & Co.(4)	Beneficial owner	37,269,017(L)	0.25%
		6,682,500(S)	0.04%
	Investment manager	383,199,189(L)	2.61%
	Trustee	63,420(L)	0.00%
	Approved lending agent	463,644,528(L)(P)	3.15%
Ms. Wang Meixiang(5)	Interest of spouse	2,995,922,050(L)	20.41%

Other Information (Continued)

Notes:

(1) Rise Grand, as the sole shareholder of Heroic Zone, was deemed to be interested in the 5,274,991,111 Shares held by Heroic Zone. As of June 30, 2018, the beneficial interest of Rise Grand was owned by 269 participants (the "**HSP Participants**") of the Heroic Zone Share Plan. Pursuant to an entrustment agreement dated June 13, 2016, 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 Zhang Liwen, (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 HSP participants. The ESC has been composed of five members since its establishment. For further details of the Heroic Zone Share Plan, please see the section headed "History, Development and Corporate Structure – Shareholding Changes – Shareholding Structure at Beginning of Track Record Period" of the Prospectus.

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

(3) Xing Tong Limited was one of the participants of the Heroic Zone Share Plan, through which it owned approximately 18.58% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Xing Tong Limited was deemed to be interested in the 979,890,055 Shares which Heroic Zone was interested in.

(4) The capacities of JPMorgan Chase & Co. in holding the 884,176,154 Shares (long position) and 6,682,500 Shares (short position) were as to (i) 37,269,017 Shares (long position) and 6,682,500 Shares (short position) as beneficial owner; (ii) 383,199,189 Shares (long position) as investment manager; (iii) 63,420 Shares (long position) as trustee; and (iv) 463,644,528 Shares (long position) in a lending pool as approved lending agent. The long position includes derivative interests of 965,920 Shares derived from physically settled listed derivatives and 3,582,500 Shares derived from physically settled unlisted derivatives. The short position includes 29,500 Shares derived from cash settled listed derivatives and 6,653,000 Shares derived from physically settled unlisted derivatives. The interest of JPMorgan Chase & Co. was attributable on account through a number of entities directly or indirectly controlled by JPMorgan Chase & Co..

(5) Ms. Wang Meixiang is the spouse of Mr. Wan Long. Therefore, Ms. Wang Meixiang was deemed to have interest in the 2,995,922,050 Shares which Mr. Wan Long was interested in.

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

(S) The letter (S) indicates short position.

(P) The letter (P) indicates lending pool.

Save as disclosed above, as at June 30, 2018, the Company has not been notified by any person who had any interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Pre-IPO Share Option Scheme

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

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

		Number of Pre-IPO Share Options						
Grantee	Date of Grant	As at January 1, 2018	Exercised	Cancelled	Lapsed	As at June 30, 2018	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
SULLIVAN Kenneth Marc	July 10, 2014	12,000,000	–	–	–	12,000,000	6.20	Note
MA Xiangjie (馬相傑)	July 10, 2014	9,922,417	–	–	–	9,922,417	6.20	Note
Connected persons								
ZHANG Taixi (張太喜)	July 10, 2014	40,000,000	–	–	–	40,000,000	6.20	Note
YOU Mu (游牧)	July 10, 2014	3,674,969	–	–	–	3,674,969	6.20	Note
WAN Hongwei (萬宏偉)	July 10, 2014	2,500,000	–	–	–	2,500,000	6.20	Note
LI Xianmu (李現木)	July 10, 2014	5,144,957	–	–	–	5,144,957	6.20	Note
LEI Yonghui (雷永輝)	July 10, 2014	3,674,969	500,000	–	–	3,174,969	6.20	Note

Other Information (Continued)

			Number of Pre-IPO Share Options					
Grantee	Date of Grant	As at January 1, 2018	Exercised	Cancelled	Lapsed	As at June 30, 2018	Exercise Price (HK$)	Exercise Period
HE Jianmin (賀建民)	July 10, 2014	3,859,963	1,000,000	–	–	2,859,963	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	4,009,963	1,000,000	–	–	3,009,963	6.20	Note
PAN Guanghui (潘廣輝)	July 10, 2014	3,909,963	1,484,000	–	–	2,425,963	6.20	Note
ZHAO Sufang (趙朔方)	July 10, 2014	4,409,963	100,000	–	–	4,309,963	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	2,756,469	400,000	–	–	2,356,469	6.20	Note
ZHAO Guobao (趙國寶)	July 10, 2014	1,139,988	110,000	–	–	1,029,988	6.20	Note
LI Yong (李永)	July 10, 2014	2,399,976	–	–	–	2,399,976	6.20	Note
SONG Hongliang (宋紅亮)	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
QIAO Haili (喬海莉)	July 10, 2014	9,922,417	–	–	–	9,922,417	6.20	Note
WANG Yufen (王玉芬)	July 10, 2014	9,922,417	–	–	–	9,922,417	6.20	Note
LIU Songtao (劉松濤)	July 10, 2014	5,879,951	–	–	–	5,879,951	6.20	Note
COLE, Michael H.	July 10, 2014	2,000,000	–	–	–	2,000,000	6.20	Note
SEBRING, Joseph B.	July 10, 2014	4,500,000	–	–	–	4,500,000	6.20	Note

Grantee	Date of Grant	Number of Pre-IPO Share Options As at January 1, 2018	Exercised	Cancelled	Lapsed	As at June 30, 2018	Exercise Price (HK$)	Exercise Period
SCHMIDT Gregg	July 10, 2014	3,000,000	–	–	–	3,000,000	6.20	Note
HE Shenghua (賀聖華)	July 10, 2014	1,500,000	–	–	–	1,500,000	6.20	Note
THAMODARAN Dhamu R.	July 10, 2014	7,000,000	–	–	–	7,000,000	6.20	Note
NOWAKOWSKI Dariusz	July 10, 2014	4,000,000	–	–	–	4,000,000	6.20	Note
CHAU Ho (周豪)	July 10, 2014	3,500,000	–	–	–	3,500,000	6.20	Note
Other grantees who have been granted the Pre-IPO Share Options to subscribe for 4,500,000 Shares or more								
POPE C. Larry	July 10, 2014	39,990,000	–	–	–	39,990,000	6.20	Note
WEN Guoshan (溫國山)	July 10, 2014	3,234,451	–	–	–	3,234,451	6.20	Note
LI Hongwei (李紅偉)	July 10, 2014	4,374,951	1,140,500	–	–	3,234,451	6.20	Note
WANG Yonglin (王永林)	July 10, 2014	5,479,951	330,000	–	–	5,149,951	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	4,624,957	1,760,000	–	–	2,864,957	6.20	Note
Senior management and other employees (in aggregate)	July 10, 2014	111,084,203	3,430,500	405,183	268,507	106,980,013	6.20	Note
Total		**530,605,576**	**11,255,000**	**405,183**	**268,507**	**518,676,886**		

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 6.00% 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 Director), 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, Wan Hongjian and Ma Xiangjie 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, Wan Hongjian and Ma Xiangjie, 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, 12,631,599 Shares and 34,736,901 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, Wan Hongjian and Ma Xiangjie, 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. Because of the acquisition of control by Rise Grand over the Company and ultimately over Shuanghui Development, Rise Grand was required under PRC laws and regulations to make a tender offer for the shares of all public shareholders of Shuanghui Development. Rise Grand declared in the tender offer, effective from November 21, 2011 to December 20, 2011, that the tender offer was made pursuant to the requirements of PRC laws and regulations and it did not intend to take Shuanghui Development private. As a result, no publicly held shares of Shuanghui Development were tendered.

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, are entitled to jointly select the recipients of share awards, who may include (i) any full-time or part-time employee or officer (including but not limited to any executive or non-executive Director) 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 of Directors. Mr. Wan Long was provisionally awarded 350,877,333 Shares under the 2013 Share Award Plan on April 28, 2017, subject to the terms and conditions set out in the relevant award notice and under the rules of the 2013 Share Award Plan. The management of the Company considers that the vesting condition on the attainment of financial target for 2017 has been achieved. For more details about our 2013 Share Award Plan and other share-based payment transactions in 2013, please refer to the Prospectus.

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

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

Directors' Securities Transactions

The Company has adopted 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 set out in the Model Code and the Code of Conduct during the Review Period.

Corporate Governance Practices

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

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

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

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

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

Changes in the information of Directors since the date of the 2017 annual report of the Company which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

(i) Each of Mr. Zhang Taixi and Mr. You Mu retired as an executive Director with effect from June 4, 2018.

(ii) Each of Mr. Wan Hongjian and Mr. Ma Xiangjie was appointed as an executive Director with effect from June 4, 2018.

(iii) Mr. Huang Ming has served as an independent non-executive director of China Shenhua Energy Company Limited (a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Stock Exchange (stock code: 1088) and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 601088), since April 2018.

(iv) Mr. Jiao Shuge resigned as the deputy chairman of the Board with effect from August 14, 2018 but continues to serve as the non-executive Director.

(v) Mr. Wan Hongjian was appointed as the deputy chairman of the Board with effect from August 14, 2018 to fill up the vacant office of Mr. Jiao Shuge following his resignation as the deputy chairman of the Board.

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

Audit Committee

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

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

Hong Kong, August 14, 2018

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 summarised in the section headed "Other Information – 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 summarised in the section headed "Other Information – 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
"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
"Comparable Period"	the period from January 1, 2017 to June 30, 2017
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Rise Grand, Heroic Zone, Chang Yun, High Zenith, Sure Pass and Rich Matrix

Glossary (Continued)

"Director(s)"	the director(s) of the Company
"EBITDA"	Earnings before interest, taxes, depreciation and amortization
"ESG Committee"	the environmental, social and governance committee of the Board
"Food Safety Committee"	the food safety committee of the Board
"GCM"	Granjas Carroll de Mexico S. de R.L. de C.V., a Mexican hog farming company incorporated under the laws of Mexico. The Company indirectly held 50% interest in GCM as a joint venture as of June 30, 2018
"Group", "our Group", "our", "we", "us" or "WH Group"	the Company and all of its subsidiaries, or any one of them as the context may require or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it
"Heroic Zone"	Heroic Zone Investments Limited (雄域投資有限公司) a limited liability company incorporated under the laws of the BVI on July 23, 2007 and one of the Controlling Shareholders
"Heroic Zone Share Plan"	the share plan dated December 25, 2009, revised on December 17, 2012 and July 11, 2016 respectively, under which a group of employees of Shuanghui Development and its associated entities hold 100% of the beneficial interests in Rise Grand, which in turn holds 100% of the equity interest in Heroic Zone
"High Zenith"	High Zenith Limited, a limited liability company incorporated under the laws of BVI on September 6, 2013 and one of the Controlling Shareholders
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IDR"	long-term foreign-currency issuer default rating
"kg"	kilogram
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	August 5, 2014, being the date on which the Shares are listed on the Main Board of the Stock Exchange

"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)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Norson"	Norson Holding, S. de R.L. de C.V., a Mexican meat products manufacturer and hog farming company incorporated under the laws of Mexico. The Company indirectly held 50% interest in Norson as a joint venture as of June 30, 2018
"PLN"	Polish Zloty, the lawful currency of the Republic of Poland
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme approved and adopted by our Company on January 21, 2014 as amended on April 4, 2014, for the benefit of any Director, employee, 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 "Other Information – Pre-IPO Share Option Scheme"
"Pre-IPO Share Options"	the options granted under the Pre-IPO Share Option Scheme
"Prospectus"	the prospectus of the Company in relation to the Listing dated July 24, 2014
"Review Period"	the period from January 1, 2018 to June 30, 2018
"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
"Risk Management Committee"	the risk management committee of the Board
"RMB"	Renminbi, the lawful currency of the PRC
"RON"	Romanian Leu, the lawful currency of Romania
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)

"Share(s)"	ordinary share(s) with nominal value of US$0.0001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shine B"	Shine B Holding I Limited, which was a limited liability company incorporated under the laws of BVI on March 20, 2006 until it was officially dissolved on July 8, 2015, and a former Shareholder of the Company
"Shuanghui Development"	Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), an indirect non-wholly owned subsidiary of the Company and a joint stock limited company established under the laws of the PRC on October 15, 1998, the shares of which are listed on the Shenzhen Stock Exchange in the PRC, and as the context may require, all or any of its subsidiaries
"Shuanghui Group"	Henan Luohe Shuanghui Industry Group Co., Ltd. (河南省漯河市雙匯實業集團有限責任公司) a limited liability company established under the laws of the PRC on August 29, 1994 and an indirect wholly owned subsidiary of the Company
"Smithfield"	Smithfield Foods, Inc., a corporation incorporated in the Commonwealth of Virginia, the United States on July 25, 1997 and an indirect wholly owned subsidiary of the Company and, as the context may require, all or any of its subsidiaries or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were, or any one of them, as the context may require, were or was engaged in and which were subsequently assumed by it
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed thereto under the Listing Rules
"Sure Pass"	Sure Pass Holdings Limited (順通控股有限公司), a limited liability company incorporated under the laws of the BVI on September 25, 2013 and one of the Controlling Shareholders
"United States" or "the U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"USDA"	United States Department of Agriculture
"US$"	United States dollars, the lawful currency of the United States
"US¢"	One one-hundredth of one US$