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

2018 ANNUAL REPORT

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

	2018	2017
Key operating data		
Hogs produced (thousand heads)	**20,953**	20,226
Hogs processed (thousand heads)	**56,068**	53,782
Packaged meats sold (thousand metric tons)	**3,361**	3,285

	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)		US$ million (unless otherwise stated)	
Key financial data				
Revenue	**22,605**	**22,605**	22,379	22,379
EBITDA	**2,106**	**1,967**	2,348	2,371
Operating profit	**1,650**	**1,650**	1,861	1,861
Profit attributable to owners of the Company	**1,046**	**943**	1,090	1,097
Basic earnings per share (US cents)	**7.13**	**6.43**	7.50	7.54
Dividend per share (HK$)				
Interim	**0.05**	**0.05**	0.05	0.05
Final	**0.15**	**0.15**	0.22	0.22
	0.20	**0.20**	0.27	0.27

- Revenue increased by 1.0%
- Operating profit decreased by 11.3%
- Profit attributable to owners of the Company, before biological fair value adjustments, decreased by 4.0%

Note:

EBITDA, operating profit, profit attributable to owners of the Company and basic earnings per share of 2017 were adjusted to exclude two non-recurrent and non-cash items: (1) net benefit of US$314 million as a result of the U.S. Tax Reform (as defined hereinafter) and (2) a share-based payment of US$278 million related to the share award plan adopted in 2013.

Wan Long
Chairman and
Chief Executive Officer

Chairman's Statement

"Meet the Challenges, Seize the Opportunities"

Dear Shareholders,

On behalf of the Board of Directors of the Company, I am pleased to report the annual report of WH Group for the year ended December 31, 2018.

2018 had been a dynamic year. Against the backdrop of intense geopolitical relationship, deteriorate trading landscape, and outbreaks of African Swine Flu ("**ASF**") in China and parts of Europe, WH Group achieved volume expansion across all major business segments. We raised 20.95 million hogs, processed 56.07 million hogs and sold 3.36 million tons of packaged meat products globally in 2018, up 3.6%, 4.3% and 2.3% year on year respectively. Yet profit attributable to shareholders for the year was US$1,046 million, a decrease of 4% from the underlying profit of US$1,090 million in last year. Such results were mainly attributable to our fresh pork business in the United States, which was negatively impacted by the trade disputes between the United States and China as well as Mexico. The performance of our businesses in China and packaged meats in all markets, however, were encouraging. This underlines the remarkable strength of WH Group who is engaged in global businesses and has a vertically integrated industrial chain. With the support of a strong balance sheet and healthy cashflow, the Board has recommended a final dividend of HK$0.15 per share in addition to the paid interim dividend. This will bring our total dividend for 2018 to HK$0.20 per share.

Entering 2019, it is expected to be a year filled with challenges as well as implied opportunities. The global economy is overshadowed by slowing-down growth, trade tensions and tariff escalations. The spread of ASF in China may also cause profound impacts on the industry. Having said that, we will work proactively and diligently to meet those challenges and take advantage of the opportunities that arise.

In China, WH Group will continue to focus on the expansion of fresh pork production to capture market share and adjustment of packaged meats portfolio to actively respond to the consumers' taste in China. Riding on the advantage of having an extensive production and cold chain logistics system, we will accelerate our industrial renovation process to realise the upgrade of value chain and further improvement of competitiveness. In this exceptional period of the spread of ASF, we will take active measures to strengthen our controls over procurement, production and inspection to meet the demand for safe and high-quality pork products throughout the country. Our access to global resources and the ascendency of scale will also allow us to benefit from any upcoming consolidations of the industry.

The continuous earnings growth in United States was disrupted by market issues in 2018. Yet we are confident in its potentials. With the completion of "One SAP", we are going to realise further improvement in efficiency and cost structure. We have been investing in modernizing our plants and building our supply chain to increase our competitiveness. We also rationalised the organisational structure and brought in new members to the management team. All the measures mentioned above are to serve our strategic goal of achieving sustainable growth throughout the industrial chain on top of continuous growth of our packaged meats business.

As the second major market of pork in the globe with significant presence in production, consumption and international trade, Europe will also be our important focus of growth. After the completion of several bolt-on acquisitions, our capacity was enlarged. We will continue with the enhancement and integration processes to accelerate the development of that region.

To conclude, we are making every endeavour to increase competitiveness and improve profitability. As a geographically diversified consumer goods company with branded packaged meats as our core business, we have a distinctive market position to combat challenges and attain continuous growth. When food safety and environmental issues are increasingly the concern, we can assure our customers with products of superior quality relying on our rigorous quality control and food safety systems. We are also investing in environmental protection projects for the good of human beings and the globe. We believe that our relentless pursuit of our strategies will lead to sustainable development, solidify our global leadership as well as create greater and more enduring value to our shareholders, employees and communities.

Wan Long
Chairman and Chief Executive Officer

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

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

WAN Long (萬隆)

Executive Director, Chairman and Chief Executive Officer

WAN Long (萬隆), age 78, was appointed as a Director on October 16, 2007 and has been the Chairman of our Board since November 26, 2010. He also holds directorships in various subsidiaries of the Group. He was designated as our executive Director on December 31, 2013 and has been the Company's chief executive officer since October 2013. Mr. Wan Long has been the chairman of the board of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 20, 2012. Mr. Wan Long joined Henan Luohe Meat Products Processing United Factory (河南省漯河市肉類聯合加工廠) in May 1968 and became the general manager of the factory in 1984. Under Mr. Wan Long's direction, our business has grown from a local state-owned enterprise in Henan Province into an international company with operations spanning various continents. Mr. Wan Long has over 40 years of experience in the meat processing industry. He was a representative of the Ninth to Twelfth China's National People's Congress (中華人民共和國全國人民代表大會) in 1998, 2003, 2008 and 2013 and was appointed as an executive director of the China Meat Association (中國肉類協會) from December 2006 to December 2011 and a senior consultant of the China Meat Association (中國肉類協會) in 2001. Mr. Wan Long received his professional certificate in business management from the Henan University of Animal Husbandry and Economy (河南牧業經濟學院, previously The Henan Business College (河南商業專科學校)) in May 1991 and was awarded the senior economist professional qualification issued by the Henan Province Advanced Professional Titles Adjudication Committee (Economic Disciplines) (河南省經濟系列高級評審委員會) in July 1999. Mr. Wan Long is the father of Mr. Wan Hongjian.

WAN Hongjian (萬洪建)

Executive Director, Deputy Chairman and Vice President

WAN Hongjian (萬洪建), age 50, was appointed as an executive Director on March 26, 2018 with effect from June 4, 2018 and as the deputy chairman of our Board on August 14, 2018. He has also served as a vice president of the Company since April 2016. He is responsible for the international trading business of the Group. Previously, Mr. Wan Hongjian served as a cooked food workshop worker at Henan Luohe Meat Products Processing United Factory (河南省漯河市肉類聯合加工廠) from October 1990 to December 1991, as a sales officer in the Beijing sales office of Shuanghui Group from January 1992 to October 1993, as a deputy director of the foreign trading department of Shuanghui Group from November 1993 to September 2010, as deputy general manager of Rotary Vortex in charge of international trading business from February 2012 to October 2013 and as a director of international trading department of the Company from November 2015 to March 2016. Mr. Wan Hongjian graduated from Henan Radio and Television University (河南廣播電視大學) with an associate degree in commercial business management in July 1990. He is the son of Mr. Wan Long.

GUO Lijun (郭麗軍)

Executive Director, Executive Vice President and Chief Financial Officer

GUO Lijun (郭麗軍), age 48, was appointed as an executive Director on December 31, 2013. He has also served as an executive vice president and the chief financial officer of the Company since April 2016. He also holds directorships in various subsidiaries of the Group. Prior to this, Mr. Guo was our deputy chief executive officer from October 2013 to January 2014, and a vice president and the chief financial officer of the Company from January 2014 to March 2016. Mr. Guo has over 20 years of experience overseeing the financial operations of various companies. Mr. Guo worked as an accountant in the finance department of the Henan Luohe Meat Products Processing United Factory (河南省漯河市肉類聯合加工廠) from June 1993 to March 1996. Mr. Guo was also the financial controller of Luohe Chinachem Shuanghui Packaging Industry Co., Ltd. (漯河華懋雙匯化工包裝有限公司) and Luohe Chinachem Shuanghui Plastic Processing Co., Ltd. (漯河華懋雙匯塑料工程有限公司) from April 1996 to February 2001. Mr. Guo held various positions in Shuanghui Group from March 2001 to August 2012, including serving as its deputy director, its director of the finance department and its chief financial officer. In addition, Mr. Guo was also the executive vice president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) from August 2012 to October 2013.

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

SULLIVAN Kenneth Marc

Executive Director, President and Chief Executive Officer of Smithfield

SULLIVAN Kenneth Marc, age 55, was appointed as an executive Director on January 22, 2016. He has served as president and chief executive officer of Smithfield (our indirect wholly-owned subsidiary) since December 2015 and as a director of Smithfield since January 2016. He also holds directorships in various subsidiaries of the Group. He has served in various other positions with Smithfield since joining Smithfield in 2003, including vice president of internal audit from 2003 to 2007, vice president and chief accounting officer from 2007 to 2010, senior vice president of finance and chief accounting officer from 2012 to 2013, executive vice president and chief financial officer from October 2013 to October 2015 and President and chief operating officer from October 2015 to December 2015. Mr. Sullivan has expertise in corporate strategy and finance, capital markets, operations analysis and organizational leadership, and possesses in-depth knowledge of the Group's U.S. and international business segments. Prior to joining Smithfield, Mr. Sullivan spent 12 years at various large accounting and consulting firms.

Mr. Sullivan became a certified public accountant in the Commonwealth of Virginia, U.S. in April 1993. Mr. Sullivan obtained his bachelor of science degree from the School of Business of the Virginia Commonwealth University in August 1988.

MA Xiangjie (馬相傑)

Executive Director and President of Shuanghui Development

MA Xiangjie (馬相傑), age 47, was appointed as an executive Director on March 26, 2018 with effect from June 4, 2018. He has also served as a director and the president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 22, 2018 and December 26, 2017, respectively. Previously, he served as the vice president of Shuanghui Development and the general manager of its fresh food division from August 25, 2012 to December 25, 2017. He also holds directorships in various subsidiaries of the Group. Mr. Ma has over 22 years of work experience with the Group. Mr. Ma was the deputy director of Shuanghui Development in charge of the production of fresh meat products department from September 2008 to September 2010. He also served as the general manager of the integrated business department of Shuanghui Group from September 2010 to April 2012. In addition, he has worked as the director of Shuanghui Development Ingredients Factory (雙匯發展香輔料分廠) since May 2001; as a general manager of Luohe Shineway Haiying Seasoning Food Co., Ltd. (漯河雙匯海櫻調味料食品有限公司) since August 2003; as a general manager of Luohe Tianrui Biochemicals Co., Ltd. (漯河天瑞生化有限公司) since April 2004; as a managing director of Luohe Shuanghui Food Sales Co., Ltd. (漯河雙匯食品銷售有限公司) since October 26, 2012; as a director of Fuxin Shuanghui Meat Processing Co., Ltd. (阜新雙匯肉類加工有限公司) since February 22, 2013; as a director of Heilongjiang Baoquanling Shuanghui Beidahuang Food Co., Ltd. (黑龍江寶泉嶺雙匯北大荒食品有限公司) since February 22, 2013 and as a director of Shaanxi Shuanghui Food Co., Ltd. (陝西雙匯食品有限公司) since November 19, 2013.

Mr. Ma graduated from the faculty of storage and processing of agricultural products from the Henan Agricultural University (河南農業大學) in July 1996, obtained the completion certificate for the master of business administration program of the Graduate School of Renmin University (中國人民大學研究生院) in March 2005 and received his master's degree in food engineering from the Northwest A&F University (西北農林科技大學) in June 2010. In addition, Mr. Ma obtained his qualification as an engineer of light industries issued by the People's Government of Luohe City in June 2003.

JIAO Shuge (焦樹閣)

Non-Executive Director

JIAO Shuge (焦樹閣), age 53, was appointed as our Director on April 28, 2006. He served as the deputy chairman of our Board from November 26, 2010 to August 14, 2018. He also holds directorships in various subsidiaries of the Group. He was designated as a non-executive Director on December 31, 2013. Mr. Jiao has been a director of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 20, 2012. Mr. Jiao is also currently a director and managing partner of CDH China Management Company Limited.

Mr. Jiao was a researcher in the China Aerospace Service and Technology Corporation (中國航天科技集團公司第710研究所) from August 1989 to January 1995. He served as the vice general manager of the direct investment department of China International Capital Corporation Ltd. (中國國際金融有限公司) from December 1995 to August 2002. Mr. Jiao has a broad range of experience serving as directors of various listed companies, including as a non-executive director from February 18, 2004 to April 12, 2012 and as an independent non-executive director since April 12, 2012 of China Mengniu Dairy Co., Ltd. (a company listed on the Stock Exchange with stock code 02319). He also served as a non-executive director of China Yurun Food Group Limited (a company listed on the Stock Exchange with stock code 01068) from April 13, 2005 to September 22, 2012, a non-executive director of China Shanshui Cement Group Co., Ltd. (a company listed on the Stock Exchange with stock code 00691) from November 30, 2005 to May 16, 2014, a director of Joyoung Company Limited (a company listed on the Shenzhen Stock Exchange with stock code 002242) since September 12, 2007 and an independent non-executive director of China Southern Airlines Company Limited (a company listed on the Stock Exchange with stock code 1055) since June 2015.

Mr. Jiao graduated from Shandong University (山東大學) with a bachelor of mathematics in July 1986, and obtained his master's degree in engineering from the No. 2 Research Institute of Ministry of Aeronautics and Astronautics of China in October 1989.

HUANG Ming (黃明)

Independent Non-executive Director

HUANG Ming (黃明), age 55, was appointed as one of our independent non-executive Directors on July 16, 2014 with effect from the Listing Date. Mr. Huang served as an assistant professor of finance at the Graduate School of Business, University of Chicago from April 1996 to June 1998; as an assistant professor of finance from July 1998 to August 2001 and as an associate professor from September 2001 to June 2005 at the Graduate School of Business, Stanford University; and as an associate dean and professor of finance from July 2004 to June 2005 and a professor of finance from July 2008 to June 2010 at the Cheung Kong Graduate School of Business (長江商學院). Mr. Huang was also appointed as the Dean of School of Finance of Shanghai University of Finance and Economics (上海財經大學) from April 2006 to April 2009. He has been a professor of finance with tenure at Cornell University since July 2005, and has been a professor of finance at China Europe International Business School (中歐國際工商學院) since July 2010.

Mr. Huang has served as an independent non-executive director of Yingli Green Energy Holding Company Limited (a company listed on the New York Stock Exchange with stock code YGE and delisted with effect from July 17, 2018) since August 2008, Fantasia Holdings Group Co., Ltd. (a company listed on the Stock Exchange with stock code 01777) since October 2009 and 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. In addition, he has served as an independent director of JD.com, Inc. (a company listed on the US NASDAQ Stock Exchange with stock code NASDAQ: JD) since March 2014 and 360 Security Technology Inc. (a company listed on the Shanghai Stock Exchange with stock code 601360) ((formerly known as SJEC Corporation) (a company listed on the Shanghai Stock Exchange with stock code 601313)) since February 2018. Mr. Huang served as a non-executive director of Tebon Securities Co., Ltd. (德邦證券股份有限公司) from June 2011 to July 2014, Qihoo 360 Technology Co. Ltd. (a company listed on New York Stock Exchange with stock code QIHU and delisted with effect from July 18, 2016) from March 2011 to July 2016 and of Guosen Securities Co. Ltd. (國信證券股份有限公司) from June 2011 to December 2017. He served as an independent non-executive director of China Medical System Holdings Limited (a company listed on the Stock Exchange with stock code 00867) from October 2013 to December 2017.

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

LEE Conway Kong Wai (李港衛)

Independent Non-executive Director

LEE Conway Kong Wai (李港衛), age 64, was appointed as one of our independent non-executive Directors on July 16, 2014 with effect from the Listing Date. In addition, Mr. Lee has extensive experience as an independent non-executive director of listed companies and currently serves as an independent non-executive director in the following companies listed on the Main Board of the Stock Exchange: Chaowei Power Holdings Limited (with stock code 00951) since July 2010, West China Cement Limited (with stock code 02233) since July 2010, China Modern Dairy Holdings Ltd. (with stock code 01117) since December 2010, Gome Electrical Appliances Holding Limited (with stock code 00493) since March 2011, Tibet 5100 Water Resources Holdings Ltd. (with stock code 01115) since March 2011, NVC Lighting Holding Limited (with stock code 02222) since November 2012, Yashili International Holdings Ltd. (with stock code 01230) since November 2013, GCL New Energy Holdings Limited (with stock code 0451) since May 2014, China Rundong Auto Group Limited (with stock code 1365) since August 2014 and Guotai Junan Securities Co., Ltd. ("GTJA") (with stock code 02611) since April 2017. Mr. Lee also serves as an independent director of GTJA (a company listed on the Shanghai Stock Exchange with stock code: 601211) since April 2017. Formerly, Mr. Lee also served as a non-executive director and the deputy chairman of Merry Garden Holdings Limited (a company listed on the Stock Exchange with stock code 01237) from July 2014 to September 2015, an independent non-executive director of China Taiping Insurance Holdings Company Limited (a company listed on the Stock Exchange with stock code 00966) from October 2009 to August 2013, of Sino Vanadium Inc. (a company listed on the Toronto Stock Exchange with stock code SVX) from October 2009 to December 2011, and of CITIC Securities Company Limited (with stock code 06030) from November 2011 to May 2016. Mr. Lee had been a partner of Ernst & Young (HK) from September 1980 to September 2009.

Mr. Lee was a member of the Chinese People's Political Consultative Conference of Hunan Province in China between 2008 and 2017. He received a bachelor's degree in arts from Kingston University (formerly known as Kingston Polytechnic) in London in July 1980 and subsequently obtained his postgraduate diploma in business from Curtin University of Technology in Australia in February 1988. He is a member of the Institute of Chartered Accountants in England and Wales, the Chartered Accountants, Australia and New Zealand (formerly known as the Institute of Chartered Accountants in Australia), the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants.

LAU, Jin Tin Don (劉展天)

Independent Non-executive Director

LAU, Jin Tin Don (劉展天), age 62, was appointed as one of our independent non-executive Directors on July 16, 2014 with effect from the Listing Date. Mr. Lau served as an executive director and one of the responsible officers of Spring Asset Management Limited, a company incorporated in Hong Kong for the sole purpose of managing Spring Real Estate Investment Trust (a Hong Kong collective investment scheme listed on the Stock Exchange with stock code 01426) from April 2013 to May 2017. Prior to joining Spring Asset Management Limited in 2013, he was the deputy group financial controller of Yuexiu Property Company Limited (a company listed on the Stock Exchange with stock code 00123). From 2005 to 2010, he was also the deputy chief executive officer, compliance manager and one of the responsible officers of Yuexiu REIT Asset Management Limited which is responsible for managing the assets of Yuexiu Real Estate Investment Trust (a Hong Kong collective investment scheme listed on the Stock Exchange with stock code of 00405).

Mr. Lau obtained a master's degree in applied finance from Macquarie University.

Senior Management

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

QIAO Haili (喬海莉)

QIAO Haili (喬海莉), age 54, has served in various positions within the Group. She has been the vice president of the quality control management of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since February 2019, responsible for the quality control management of Shuanghui Development. She also holds directorships in various subsidiaries of the Group. Ms. Qiao served as the vice president of the production and operations division of Shuanghui Development from November 2014 to February 2019, where she was responsible for the production and operations work stream of Shuanghui Development, and since November 2016 she was also responsible for the quality control management of Shuanghui Development, as the vice president and general manager of Shuanghui Development's meat processing division from September 2012 to October 2014 and a deputy general manager of its meat product department from August 2009 to August 2012, where she has been primarily responsible for the general operation of meat products production. Ms. Qiao served as a deputy director of the hygiene inspection department and as a workshop manager of Shuanghui Group from August 1986 to September 1995. Ms. Qiao also served as a director of the hygiene inspection department and the third business division of Shuanghui Group from September 1995 to February 1998. In addition, Ms. Qiao served as the general manager in Luohe Shuanghui Canned Foods Company Limited (漯河雙匯罐頭食品股份有限公司) from February 1998 to October 2004; as a director in Shuanghui Development from November 2001 to October 2004; and as the general manager in Shuanghui Development Meat Processing Division Factory (雙匯發展肉製品分廠) from November 2004 to August 2009.

Ms. Qiao obtained her associate veterinarian degree from the Zhengzhou Junior College of Animal Husbandry and Veterinary Medicine (鄭州畜牧獸醫專科學校) in July 1986. She also obtained the completion certificate for the master of business administration program from the Graduate School of Renmin University (中國人民大學研究生院) in March 2005. Ms. Qiao received her qualified veterinarian certificate issued by the People's Government of Luohe City in December 1998.

WANG Yufen (王玉芬)

WANG Yufen (王玉芬), age 51, has served as the vice president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary), being in charge of technology research, since September 2012, and as the chief engineer of Shuanghui Development for over 20 years since March 1998. She also holds directorships in various subsidiaries of the Group. Ms. Wang has worked with the Group for over 27 years. Ms. Wang served in Henan Luohe Meat Products Processing United Factory Meat Product Branch (河南省漯河肉聯廠肉製品分廠) from October 1987 to August 1991 as a technician, from August 1991 to September 1992 as a director, and from September 1992 to March 1993 as the deputy head. She was the institute director of Henan Luohe Meat Products Processing United Factory Food Institute (河南省漯河肉聯廠食品研究所) from March 1993 to March 1998. Ms. Wang was a director of the technology center of Shuanghui Group from March 1998 to November 2001.

Ms. Wang completed her correspondence studies in food engineering in Zhengzhou University of Light Industry (鄭州輕工業學院) in June 1997, obtained her senior engineer of food research certificate issued by the People's Government of Henan Province in May 2002 and also obtained the completion certificate for the master of business administration program from the Graduate School of Renmin University (中國人民大學研究生院) in March 2005.

LIU Songtao (劉松濤)

LIU Songtao (劉松濤), age 42, has served as the executive vice president and chief financial officer of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since December 26, 2017 and is in charge of finance, information technology and finance company. He also holds directorships in various subsidiaries of the Group. Previously, Mr. Liu served as the vice president of Shuanghui Development and was in change of finance from August 25, 2012 to December 25, 2017, as a director of the finance department of Shuanghui Group from May 2003 to August 2012, as a director of the finance department of Shuanghui Development Luohe Slaughter Factory (雙匯發展漯河屠宰分廠) from March 2003 to May 2003, and as a director of the finance department of Luohe Huayi Food Co., Ltd. (漯河華意食品有限公司) from March 2002 to March 2003. Mr. Liu was awarded the bachelor's degree of chrematistics by Henan University (河南大學) in July 2000.

THAMODARAN Dhamu R.

THAMODARAN Dhamu R., age 63, joined Smithfield in August 1995, and has served as Smithfield's executive vice president and chief commodity hedging officer since July 2011. Since February 2016, he has held an additional title of chief strategy officer of Smithfield. He is responsible for hedging and mitigating commodity volatilities in the business, and heads the group for research and analysis in global economy and commodities of Smithfield. In addition, he is responsible for developing strategies to optimize Smithfield's vertically integrated model. Dr. Thamodaran joined John Morrell & Co. in August 1990 as director of price risk management. He joined Smithfield as director of price risk management in August 1995, and was promoted to vice president of price risk management in May 1996 and to senior vice president and chief commodity hedging officer in June 2008. Prior to joining John Morrell & Co., he worked for five years at Farmland Industries.

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

NUNZIATA Glenn

NUNZIATA Glenn, age 45, has served as Smithfield's executive vice president and chief financial officer since October 2015. As chief financial officer, Mr. Nunziata leads Smithfield's finance, accounting treasury, risk management, human resources and IT functions and serves as Smithfield's principal accounting officer. Prior to joining Smithfield, Mr. Nunziata served as a partner in assurance services at the multinational professional services firm of Ernst & Young LLP, having been with Ernst & Young for 19 years. He has extensive experience in finance, capital markets and operations analysis as well as in matters pertaining to internal controls and corporate governance.

Mr. Nunziata became a certified public accountant in the State of New York, U.S., in March, 2000 and in the Commonwealth of Virginia, U.S., in June 2005. He obtained his bachelor of science degree in business administration from James Madison University in May 1995 and his master of science degree in accounting from James Madison University in May 1996.

CHAU Ho (周豪)

CHAU Ho (周豪), age 53, has served as our chief legal officer and as the company secretary since February 2014. He also holds directorships in various subsidiaries of the Group. Mr. Chau was an assistant to the chairman in China Rongsheng Heavy Industries Group Holdings Limited (now renamed China Huarong Energy Company Limited, listed on the Stock Exchange with stock code 01101) from April 2011 to January 2014 and as assistant to the chairman in Glorious Property Holdings Limited (listed on the Stock Exchange with stock code 00845) from March 2010 to March 2011. Mr. Chau has over 20 years of legal experience. He was an associate and subsequently a partner at the law firm Koo and Partners, which merged with the law firm Paul Hastings Janofsky & Walker (now renamed Paul Hastings), from October 1994 to February 2010. Mr. Chau received his bachelor of laws degree in November 1991 and the postgraduate certificate in laws in November 1992 from the City University of Hong Kong (formerly known as City Polytechnic of Hong Kong). In January 2003, he obtained his bachelor of laws degree from Tsinghua University. Mr. Chau has been qualified to practice as a solicitor in Hong Kong since August 1994 and has been a China-Appointed Attesting Officer since April 2006. He has also been qualified to practice as a solicitor in England and Wales since September 2008.

BUSINESS REVIEW

Overcoming Challenges, Optimizing Opportunities

I. Industry Overview

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

China

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

According to the statistics of the National Bureau of Statistics of China, the total production of pork in the country in 2018 was 54.0 million tons, a decrease of 0.9% as compared to 2017. The total production of hogs was 694 million heads, 1.2% lower than last year. With reference to the statistics published by the MOA, the average hog price during the year was RMB13.0 (approximately US$2.0) per kg, a reduction of 15.6% from that of the previous year.

Since August 2018, cases of ASF were reported in several different parts of China. The government adopted a large number of significant measures to control the epidemic including the restriction of transporting live hogs from risky to less risky areas, the promotion of "centralised processing, operating in brands, circulating with cold-chain, selling fresh and chilled" and etc.. As a result, the circulation of hogs and its products across the country was affected and hog and pork prices in different provinces diverged according to their respective supply and demand situations.

The relatively low hog prices weakened the attractiveness of imported pork. 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 year was 2.0% lower than that of last year. The incremental tariffs up to 62% on the U.S. imported pork because of the trade dispute between China and the U.S. further reduced the competitiveness of imports from the U.S.

U.S.

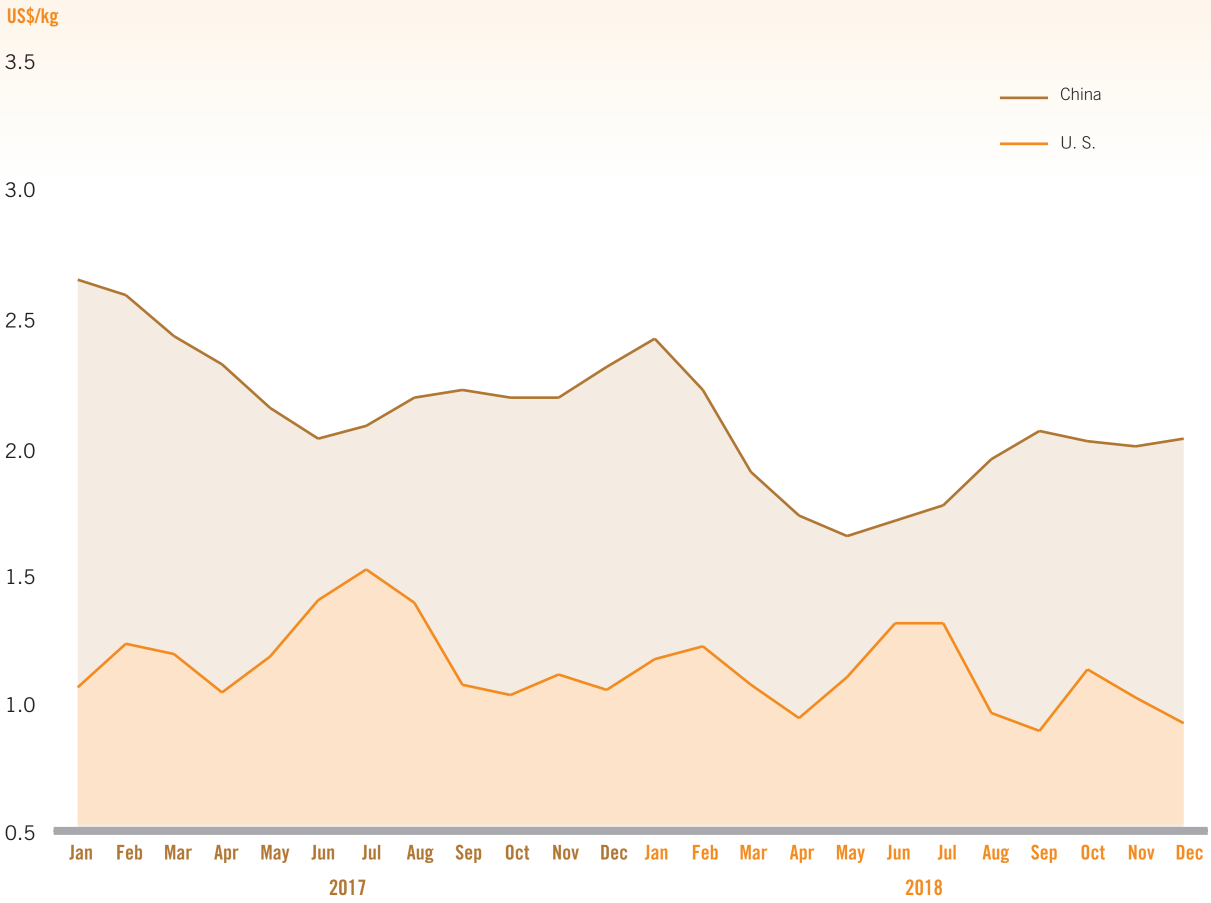
The U.S. is the second largest producer of pork worldwide. In contrast to the pork industry in China, the pork industry in the U.S. is relatively mature and concentrated. As the U.S. is also the largest pork exporter globally, the hog prices and pork value in the U.S. are driven by the supply and demand of its domestic and export markets. According to the USDA, overall animal protein production in the U.S. in 2018 was up by 1.4%, in which pork and beef rose 2.6% and 2.5% 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 CME, was US$1.1 per kg during the year, a decrease of 9.0% over that of 2017.

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 the USDA, the export volume of U.S. pork and offals in 2018 was up slightly by 0.2% as compared to the previous year. The increase was mainly attributed to the discernible growth in exports to South Korea, Columbia and Japan. Exports to Mexico only attained a mild increase as the impact of Mexican tariffs on U.S. imported pork began to phase in during the latter half of the year. Exports to China, on the other hand, recorded a reduction of more than 30%. The reason for that was hog prices in China remained low during the year. The incremental tariffs resulted from the continuation of the trade disputes between the U.S. and China also reduced the competitiveness of U.S. pork products.

In terms of prices, due to over-abundant supply of pork and change in trade dynamics, the average pork cutout value for this year, as published by the USDA, decreased by 10.3% year over year. For most of the time in 2018, the pork cutout values were even lower than the average levels for the past three years. As the extent of decrease in pork value was greater than that of the hog price, profit margin of the processors was compressed.

Hog prices in China and U.S. during 2017 and 2018



Source: MOA and CME

II. Results of Operations

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

	2018 US$ million	2017 US$ million	Change %
Revenue[1]			
— Packaged meats	12,147	11,777	3.1%
— Fresh pork	9,136	9,526	(4.1%)
— Hog production	688	572	20.3%
— Others[2]	634	504	25.8%
	22,605	22,379	1.0%
Operating profit/(loss)			
— Packaged meats	1,547	1,435	7.8%
— Fresh pork	246	547	(55.0%)
— Hog production	(113)	56	N.A.
— Others[2][3]	(30)	(177)	(83.1%)
	1,650	1,861	(11.3%)

Notes:

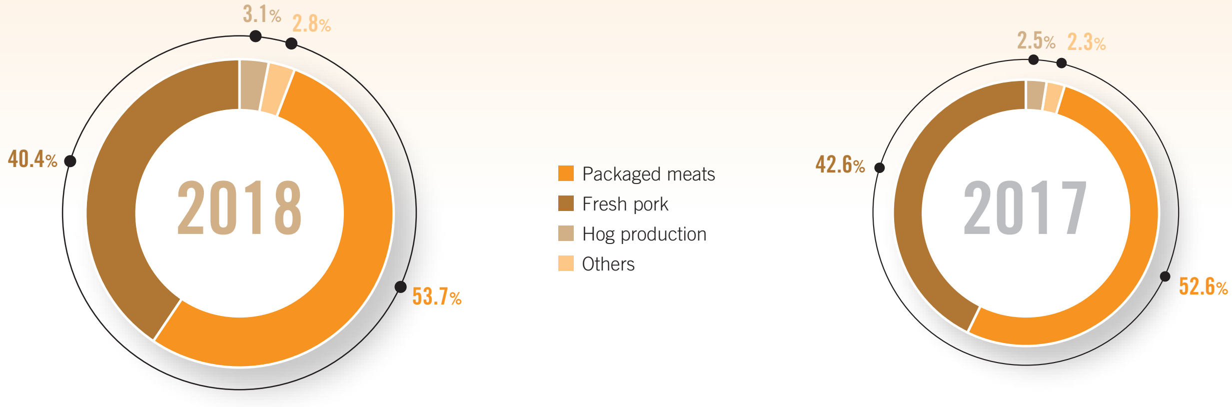
(1) Revenue refers to net external sales.

(2) Others revenue primarily represents sales of ancillary products and services. Others operating loss includes certain corporate expenses.

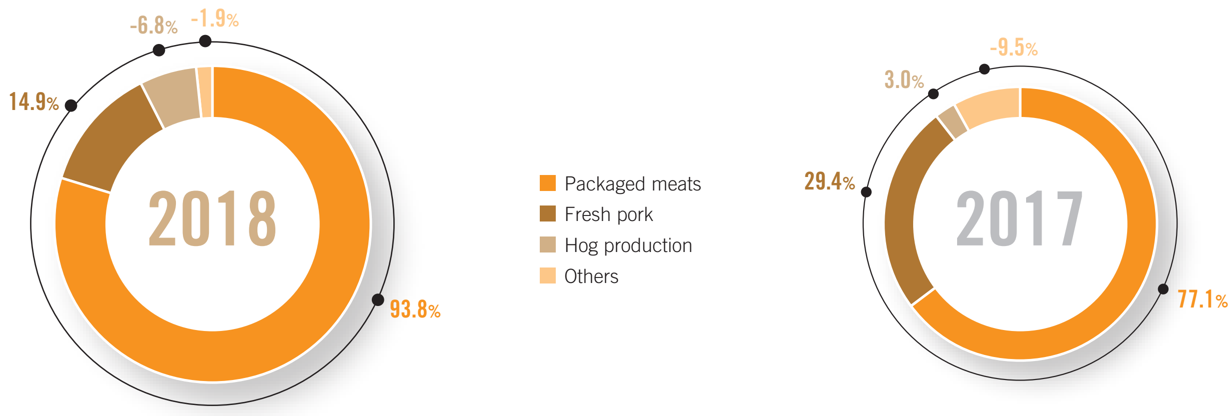
(3) Operating loss of our others segment in 2017 excluded a share-based payment of US$278 million.

The packaged meats segment has always been our core business. It accounted for 53.7% of the Group's revenue in 2018 (2017: 52.6%). Its contribution to the Group's operating profit was 93.8% in 2018 (2017: 77.1%).

Revenue by Operating Segment

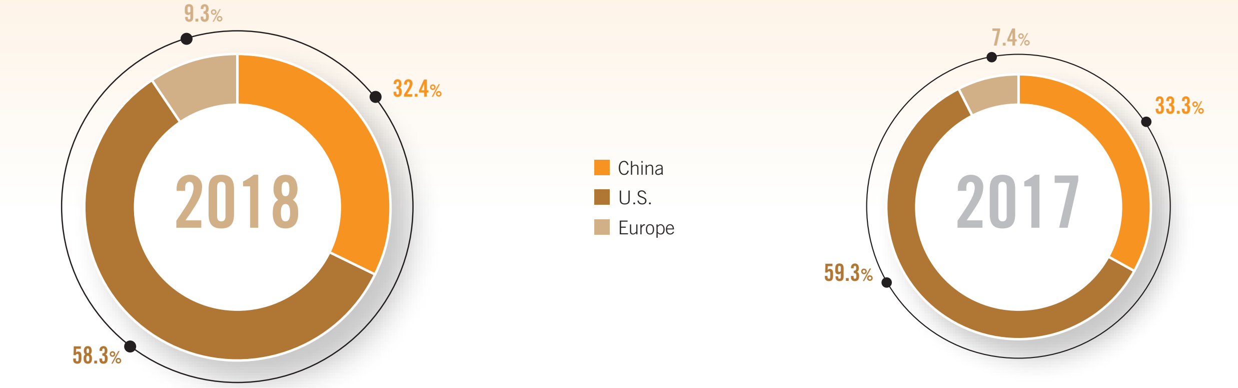


Operating Profit by Operating Segment

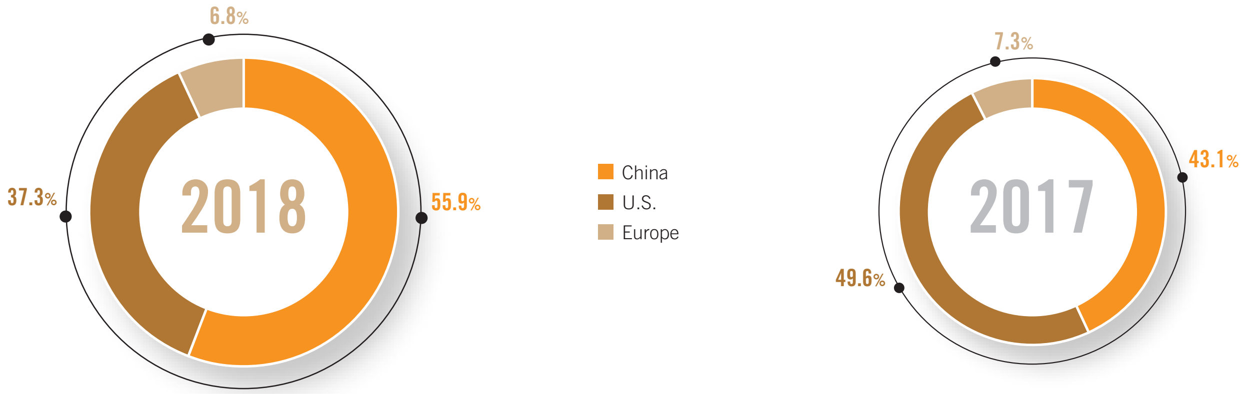


Geographically, our operations in China contributed 32.4% and 55.9% of the revenue and operating profit of the Group in 2018 (2017: 33.3% and 43.1%) respectively. Contribution of our operations in the U.S. to the revenue and operating profit of the Group in 2018 were 58.3% and 37.3% (2017: 59.3% and 49.6%) respectively. The rest of the revenue and operating profit of the Group came from our operations in Europe.

Revenue by Location



Operating Profit by Location



Packaged Meats

	2018 US$ million	2017 US$ million	Change %
Revenue			
China	3,458	3,312	4.4%
U.S.	7,773	7,807	(0.4%)
Europe	916	658	39.2%
	12,147	11,777	3.1%
Operating profit			
China	712	692	2.9%
U.S.	785	726	8.1%
Europe	50	17	194.1%
	1,547	1,435	7.8%

In 2018, our packaged meats business performed well on a groupwide basis. Sales volume increased by 2.3% to 3,361 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 our research and development as well as sales forces. Driven by the good performance of our premium products, our sales volume in China increased by 1.1% over that of the last year. The volume growth in Europe was also notable, benefiting from organic growth and recent acquisitions.

Revenue during the year increased by 3.1% to US$12,147 million. In spite of the downward trending hog prices, the average sales prices of our packaged meats went up in China and Europe due to product mix improvement. The rise in sales prices, coupled with volume growth, caused the increase in revenue in these two markets. Revenue in the U.S. nearly stayed flat as the impact of product mix improvement was offset by the pricing pressure from the lower meat value.

Operating profit was US$1,547 million in 2018, 7.8% higher than last year. In China, the strong operating profit was driven mainly by higher sales prices and favorable raw materials costs. The relatively low hog prices during the year 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 last year. Although higher wages and distribution costs offset part of the increase in our operating profit in the U.S., 2018 was a record year. In Europe, our operating profit increased significantly and our operating margin improved during the year. The primary reasons were the increase in sales price and sales volume. Our operating objective is to accelerate growth in Europe by continuous volume expansion and efficiency enhancement.

Fresh Pork

	2018 US$ million	2017 US$ million	Change %
Revenue			
China	3,584	3,888	(7.8%)
U.S.	4,790	4,961	(3.4%)
Europe	762	677	12.6%
	9,136	9,526	(4.1%)
Operating profit			
China	179	103	73.8%
U.S.	48	433	(88.9%)
Europe	19	11	72.7%
	246	547	(55.0%)

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

Total number of hogs processed in 2018 was 56,068 thousand heads, an increase of 4.3% over that of 2017. In China, hog processing volume increased by 14.3% to 16,306 thousand heads during the year. In the first half of the year, we took advantage of the relatively low hog prices to expand our production and distribution. After the outbreak of ASF, we relied on our facilities which are widely established throughout the country and our cold-chain logistics network to seize the opportunities resulting from the dislocation of regional supplies and demands. Our operating strategy is to capture more market share through continuous volume expansion. In the U.S., our hog processing volume was lower than that of last year by 1.4% as our scale was constrained by unfavorable market fundamentals. In Europe, the number of hogs processed increased by 14.6% in 2018 to achieve the benefits of economies of scale. Like China, the increase in hog processing volume in Europe was also achieved by the improvement in utilisation of our existing facilities.

External sales volume of fresh pork in 2018 was 4,499 thousand metric tons, similar to the level of last year, as the net results of the different operating strategies deployed in China, the U.S. and Europe.

Fresh pork revenue decreased by 4.1% to US$9,136 million in 2018 as the increase in revenue in Europe was insufficient to offset the decrease in revenue in China and the U.S.. Revenue in China decreased by 7.8% from that of the last year because the impact of the downward-trending pork prices outweighed the increase in sales volume. Revenue in the U.S. reduced by 3.4% as a result of lower level of sales price and sales volume as compared to last year.

Our operating profit of fresh pork decreased from US$547 million in 2017 to US$246 million in 2018 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., our operating profit reduced considerably by 88.9% during the year. 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 U.S. pork. The issues of oversupply and trade disruptions depressed the price of pork to a greater degree than the price of hogs and led to erosion of our profit margin. The increase in wages and distribution 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 73.8% was mainly benefiting from the growth of gross profit margin and the expansion of scale. In Europe, our operating profit grew primarily due to favorable costs and increased volume.

Hog Production

	2018 US$ million	2017 US$ million	Change %
Revenue			
China	8	11	(27.3%)
U.S.	619	510	21.4%
Europe	61	51	19.6%
	688	572	20.3%
Operating profit/(loss)			
China	5	23	(78.3%)
U.S.	(147)	(68)	(116.2%)
Europe	29	101	(71.3%)
	(113)	56	N.A.

In 2018, hog production volume increased by 3.6% to 20,953 thousand heads. Revenue from hog production increased by 20.3% to US$688 million. However, an operating loss of US$113 million was recorded (2017: operating profit of US$56 million). The results of the year was primarily driven by the net impact of the reduction in hog prices and the gain from the hedging programs in the U.S..

Others

In addition to packaged meats, fresh pork and hog production, the Group also engages in certain other businesses which are ancillary to our three primary operating segments. Such other businesses include slaughtering and sales of poultry, manufacturing and sales of packaging materials, provision of logistics services, operation of 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 2018, revenue generated by our other businesses amounted to US$634 million, a remarkable increase of 25.8% as compared to last year. Our logistics business in China and poultry business in Europe and China made a respective 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 122 million heads of broiler and turkey during the year. The growth of poultry business is an integral part of our strategy in protein diversification.

III. Production Capacity

The Group has production facilities with state-of-the-art equipment located in China, the U.S. and part of Europe. As at the year end of 2018, we owned an annual production capacity of packaged meats of approximately 2.21 million, 1.75 million and 0.40 million metric tons with utilisation rates of 73.3%, 83.8% and 79.8% in China, U.S. and Europe, respectively. Annual production capacity of fresh pork in China, U.S. and Europe were approximately 24.87 million, 33.77 million and 6.23 million heads and their utilisation rates were 65.6%, 100.5% and 93.8%, respectively. The capacity stated above included the additional capacity introduced by the Acquisitions of Elit and Vericom (as defined hereinafter) during the year.

IV. Corporate Social Responsibility

The Group is proud to be an engaged and active member of the communities in which we operate and which we help feed. We believe that it is our responsibility to give back to individuals and communities that have supported us over the years and contributed to our success to date. We conducted our materiality analysis this year by developing a process to identify key sustainability issues of our key stakeholders and prioritize the key concerns in a systematic approach, so as to guide our sustainability strategy and manage concerns which are deemed as most material to our stakeholders. The analysis results layout the foundation for material selection and preparation of our sustainability report. WH Group has been selected in the Hang Seng Corporate Sustainability Benchmark Index in 2018 which recognized the Group's outstanding performance in sustainability areas including environmental, social and corporate governance.

More details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group will be provided in our sustainability report to be published on the websites of Stock Exchange (www.hkexnews.hk) and the Company (www.wh-group.com) no later than three months after the publication of the Company's annual report.

Outlook

The operating landscape, driven by economic growth, consumers' preference, industry cycle and epidemics, is always impacting our business. The recent exacerbated change of the dynamics in geopolitical relations and spread of ASF will further increase the uncertainties in our operations in the relevant regions.

Our business in China delivered strong results in 2018. To maintain vigorous growth, we will continuously expand our slaughtering volume and optimise our packaged meats portfolio. We will also proactively meet the challenges and resolve the related risks resulting from ASF by leveraging on our own advantages. In regards of the operations in U.S., we anticipate the greatest challenge will be the over-abundant supply of meats and the greatest inconstancy will be the solution to trade disputes between the U.S. and other countries. We expect the establishments of our Group in Europe are well positioned for further growth. In any event, we are making every endeavor to increase our competitiveness to improve profitability.

To conclude, we are a geographically diversified consumer goods company with branded packaged meats as our core business. With our stringent quality control and food safety systems, we will provide customers with high quality products. We believe that our relentless pursuit of our strategies will solidify our global leadership and lead to sustainable development.

FINANCIAL REVIEW

FINANCIAL REVIEW

In 2018, revenue of the Group was US$22,605 million, up 1.0% as compared to 2017. Operating profit was US$1,650 million, up 4.2%. Disregarding any biological fair value adjustments, profit for the year of 2018 was US$1,257 million, 4.3% lower than 2017; and profit attributable to owners of the Company decreased by 7.1% to US$1,046 million.

Excluding such items, the results of 2017 included two non-recurrent and non cash items: (1) net benefit of US$314 million as a result of the U.S. Tax Reform and (2) a share-based payment of US$278 million in 2017, our operating profit decreased by 11.3% over last year. Our profit for the year before biological fair value adjustments decreased by 1.6%. Our profit attributable to owners of the Company before biological fair value adjustments was decreased by 4.0%.

I. Key Financial Performance Indicators

		2018	2017	Change
Revenue growth rate	%/pp	**1.0**	3.9	(2.9)
EBITDA (before biological fair value adjustments) ratio margin[1]	%/pp	**9.3**	10.5	(1.2)
Operating profit margin[1]	%/pp	**7.3**	8.3	(1.0)
— Packaged meat products	%/pp	**12.7**	12.2	0.5
— Fresh pork	%/pp	**1.9**	4.2	(2.3)
— Hog production	%/pp	**(3.2)**	1.6	(4.8)
Per unit operating profit/(loss)				
— Packaged meat products	US$ per metric ton	**460.3**	436.9	23.4
— Fresh pork	US$ per head	**4.4**	10.2	(5.8)
— Hog production	US$ per head	**(5.4)**	2.8	(8.2)
Net profit (before biological fair value adjustments) margin[2]	%/pp	**5.6**	5.7	(0.1)
Current ratio	times	**1.6**	1.6	0.0
Cash conversion cycle	days	**36.0**	31.5	4.5
Debt to equity ratio	%/pp	**37.1**	38.9	(1.8)
Debt to EBITDA (before biological fair value adjustments) ratio[1]	times	**1.5**	1.4	0.1
Return on total assets	%/pp	**7.5**	9.1	(1.6)
Return on equity	%/pp	**12.4**	16.5	(4.1)

Notes:

(1) The indicators in 2017 were adjusted to exclude a share-based payment of US$278 million.

(2) The indicator in 2017 was adjusted to exclude the net benefit of US$314 million as a result of the U.S. Tax Reform (as defined hereinafter) and a share-based payment of US$278 million.

II. Analysis of Capital Resources

Treasury Management

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

Liquidity

The Group continues to maintain a strong level of liquidity. We had bank balances and cash of US$525 million as at December 31, 2018 (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 current financial assets at fair value through profit or loss. As at December 31, 2018, the balance was US$317 million (2017: Nil).

Our current ratio (ratio of consolidated current assets to consolidated current liabilities) was 1.6 times as at December 31, 2018 (2017: 1.6 times). The aggregate amount of unutilised banking facilities as at December 31, 2018 was US$2,893 million (2017: US$2,471 million).

Cash Flows

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

In 2018, our net cash from operating activities amounted to US$1,255 million (2017: US$1,512 million). The decrease was mainly driven by the operating results and the increase in inventories in China. Our net cash used in investing activities in 2018 amounted to US$1,217 million (2017: US$784 million). The change was mainly resulted from the increase in capital expenditures for the year and the deployment of a portion of cash in financial assets at the year end. Our net cash used in financing activities in 2018 amounted to US$790 million (2017: US$591 million). The change was mainly attributable to the increase in the amount of dividend paid in the year and the decrease in net borrowings in last year. After all, our net decrease in cash and cash equivalents was US$752 million in 2018 (2017: net increase of US$137 million).

Major Financing Activities

During the year, our Group established a commercial paper program of US$1,750 million for short-term liquidity needs. As at December 31, 2018, our outstanding balance of commercial papers was US$236 million in aggregate (2017: Nil).

In 2017, the Group completed the refinancing of debts and facilities with principal amount of US$2,900 million in aggregate and incurred a one-time loss on debt extinguishment of US$70 million so as to benefit from the lower interest rates associated with our improved credit profile ("**Refinancing**").

Debt Profile

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

	As at December 31, 2018 US$ million	As at December 31, 2017 US$ million
Borrowings by nature		
Senior unsecured notes	**1,788**	1,785
Bank borrowings	**1,051**	1,164
Commercial paper	**236**	—
Medium term notes	**—**	154
Loans from third parties	**3**	3
Bank overdrafts	**41**	92
	3,119	3,198
Borrowings by geographical region		
U.S.	**2,362**	2,246
China	**621**	847
Europe	**136**	105
	3,119	3,198

The Group's total principal amount of outstanding borrowings as at December 31, 2018 was US$3,134 million (2017: US$3,215 million). The maturity profile is analysed as follows:

	Total
In 2019	28%
In 2020	14%
In 2021	22%
In 2022	14%
In 2023	3%
In 2027	19%
	100%

Our borrowings are principally denominated in currencies of the countries of the Group's business, or balanced by assets in the same currency. 78.8% of our borrowings was denominated in US$ as at December 31, 2018 (2017: 73.3%). The rest of our borrowings was denominated in RMB, HK$, RON, PLN and Euro.

As at December 31, 2018, 88.0% of our borrowings were unsecured (2017: 96.6%). The increase in secured borrowings was due to higher utilisation of an account receivables securitisation program for the purpose of fulfilling our short-term funding requirement. 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 year.

Leverage Ratios

As at December 31, 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 37.1% and 30.8%, respectively (2017: 38.9% and 22.2%, respectively). Our debt to EBITDA ratio (ratio of consolidated borrowings and bank overdrafts to EBITDA before biological fair value adjustments) and net debt to EBITDA ratio (ratio of consolidated borrowings and bank overdrafts less bank balances and cash to EBITDA before biological fair value adjustments) as at December 31, 2018 were 1.5 times and 1.2 times, respectively (2017: 1.4 times and 0.8 times, respectively).

Finance Costs

Our finance costs decreased from US$198 million in 2017 to US$115 million in 2018. The reduction was mainly due to the inclusion of the loss on debt extinguishment of US$70 million related to the Refinancing in the finance costs of last year.

As at December 31, 2018, the average interest rate of our total borrowings was 3.5% (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 Long-Term Foreign-Currency Issuer Default Rating ("**IDR**") and senior unsecured rating are BBB+ according to Fitch. Our long-term corporate credit rating is BBB according to Standard & Poor's. Our issuer rating is Baa2 according to Moody's. The outlook of these ratings is stable.

For our wholly-owned subsidiary, Smithfield, Fitch assigned to it an IDR of BBB with a stable outlook. According to Standard & Poor's, the corporate credit rating of Smithfield is BBB-. The outlook is stable. On March 6, 2018, Moody's upgraded Smithfield's corporate family rating to Ba1 from Ba2. The rating outlook is stable.

III. Taxation

We operate in multiple taxing jurisdictions, mainly including China, the U.S., Hong Kong, Poland and Romania, and are subject to their changes in the tax policy, tax laws and relevant regulations.

Our taxation charges for 2018 were US$258 million as compared to US$182 million for 2017. The increase was predominantly caused by the change in our profit before tax and the U.S. Tax Reform. The U.S. Tax Reform led to a reduction of the federal statutory tax rate from 35% to 21%. Our U.S. business and the Group as a whole, benefited from the application of the new federal statutory tax rate of 21% in 2018. The re-measurement of our net deferred tax liabilities at the new federal statutory tax rate of 21% together with the recognition of an obligation on the deemed repatriation of the historical earnings from cash held abroad by our U.S. subsidiaries, also resulted in a one-time non-cash net benefit of US$314 million in 2017.

IV. Capital Expenditures

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

In 2018, capital expenditures amounted to US$811 million (2017: US$530 million). The following table sets out our capital expenditures by geographical region for the years indicated:

	2018 US$ million	2017 US$ million
China	**84**	73
U.S.	**596**	400
Europe	**131**	57
	811	530

In China, our capital expenditures for the year were mainly related to a number of projects such as the expansion of our slaughtering facility in Dezhou and the alteration of our low-temperature packaged meats facility in Mianyang. In the U.S., our capital expenditures for the year were primarily related to the construction of a new distribution centre, the modernisation of our slaughtering plants as well as the integration of our ERP systems. In Europe, our capital expenditures for the year were mainly for the building of a poultry plant as well as the expansion and optimization of our existing facilities.

V. Human Resources

We continued with our focus on talent management and employee engagement. As at December 31, 2018, we had approximately 112 thousand employees in total, in which approximately 57 thousand employees were with our China operation, approximately 41 thousand and 14 thousand employees were with our U.S. and European operations, respectively. The Group also provides training programs for 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 2018 amounted to US$3,518 million (2017: US$3,669 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.

VI. Biological Assets

As at December 31, 2018, we had a total of 13,009 thousand hogs, consisting of 11,889 thousand market hogs and 1,120 thousand breeding stock, an increase of 5.4% from 12,337 thousand hogs as at December 31, 2017. We also had a total of 4,515 thousand poultry, consisting of 3,990 thousand broilers and 525 thousand breeding stock (2017: 4,762 thousand poultry). The fair value of our biological assets was US$1,094 million as at December 31, 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, cost incurred and the professional valuation. We engaged an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, to measure such fair value for the Group on an annual basis.

In 2018, the net impact of biological fair value adjustments on our profit was a loss in the amount of US$104 million, as compared to a profit in the amount of US$6 million of last year.

VII. Key Investment Interests

Internal Restructuring

On January 25, 2019, three major subsidiaries of the Company entered into a merger agreement ("**Internal Restructuring**"). The purpose of the Internal Restructuring is to enhance our governance by simplifying the holding structure and reducing the amount of connected transactions of the Group. No material financial impact on the Group is expected as a result of this Internal Restructuring. Details are available in the announcements of the Company dated January 20, 2019 and January 25, 2019.

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 branded packaged meats (the "**Acquisitions of Elit and Vericom**"). The Acquisitions of Elit and Vericom 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 located 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 December 31, 2018, GCM and Norson had in aggregate approximately 148 thousand sows on the farms in the states of Veracruz, Puebla and Sonora. In 2018, share of profit from the Mexican joint ventures was US$26 million (2017: US$14 million). It is expected that GCM and Norson will continue to be our important investments in Mexico and bring in profit to the Group.

VIII. Contingent Liabilities

Our operations are subject to various laws and regulations administered by various specific local authorities. We receive notices and inquiries from them in relation to compliance from time to time. In some instances, litigation ensues or individuals may initiate litigation against the Group. Details and updates on the North Carolina nuisance litigation case is set out in Note 44 to the consolidated financial statement of this report. Our management assesses and monitors these contingent liabilities. We believe that their financial and operational impact would not be material to the Group.

IX. 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. In 2018, the Group conducted enterprise risk assessments to analyze and report key risks, followed by the establishment of respective mitigation controls. An opinion on the effectiveness of the enterprise risk management (the "**ERM**") system of the Company was submitted to the Risk Management Committee, which considers that the ERM system of the Group are effectively in place.

Commodities Price Risk

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

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

Currency and Interest Rate Risks

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

Our borrowings carry fixed or floating interest rates. At December 31, 2018, approximately 77.0% of our borrowings (other than bank overdrafts) were at fixed interest rates (2017: 80.2%). To manage our interest rate exposure, we optimise our debt portfolio and enter into hedging activities from time to time.

The Board is pleased to present the Corporate Governance Report of the Company for the year ended December 31, 2018.

Commitment to Corporate Governance

The Board and the management of the Group are committed to achieving and maintaining high standards of corporate governance, which they consider to be essential to safeguard the integrity of the Group's operations and maintaining investors' trust in the Company. The Group's management also actively observes the latest corporate governance developments in the PRC, Hong Kong and abroad. This Corporate Governance Report explains the Company's corporate governance principles and practices, including how the Board manages the business to deliver long-term shareholder value and to promote the development of the Group.

Corporate Governance Practices

The corporate governance practices are based on the principles and code provisions set out in the CG Code. In the opinion of the Board, the Company has complied with the provisions of the CG Code as set out in Appendix 14 to the Listing Rules throughout the Review Period, except for the deviation as disclosed in the section headed "The Board — Board composition — (i) Chairman and chief executive officer" of this report.

Directors' Securities Transactions

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

THE BOARD

Roles and Responsibilities

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

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

Board Composition

The Board members during the year ended December 31, 2018 and up to the date of this report are as follows:

Executive Directors:

Mr. WAN Long	*(Chairman, Chief Executive Officer and Chairman of the Nomination Committee, the Food Safety Committee and the Risk Management Committee)*
Mr. WAN Hongjian	*(Deputy Chairman, Vice President and member of the Environmental, Social and Governance Committee and the Food Safety Committee)*
Mr. GUO Lijun	*(Executive Vice President, Chief Financial Officer, Chairman of the Environmental, Social and Governance Committee and member of the Risk Management Committee)*
Mr. SULLIVAN Kenneth Marc	*(President and Chief Executive Officer of Smithfield, and member of the Environmental, Social and Governance Committee, the Food Safety Committee and the Risk Management Committee)*
Mr. MA Xiangjie	*(President of Shuanghui Development and member of the Risk Management Committee)*

Non-executive Director:

Mr. JIAO Shuge	*(Member of the Remuneration Committee)*

Independent non-executive Directors:

Mr. HUANG Ming	*(Chairman of the Remuneration Committee, and member of the Audit Committee and the Nomination Committee)*
Mr. LEE Conway Kong Wai	*(Chairman of the Audit Committee, and member of the Remuneration Committee, the Food Safety Committee and the Risk Management Committee)*
Mr. LAU, Jin Tin Don	*(Member of the Audit Committee, the Nomination Committee and the Environmental, Social and Governance Committee)*

The members of the Board represent a wide background and rich industry experience with appropriate professional qualifications. Please refer to the section headed "Biographies of Directors and Senior Management" for the profiles of the Directors.

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

(i) Chairman and Chief Executive Officer

The roles of the chairman and the chief executive officer of the Company are served by Mr. WAN Long and have not been segregated as required under code A.2.1 of the CG Code. The Company considers that having Mr. WAN Long 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 Long'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 Long continues to act as both the Chairman and Chief Executive Officer of the Company.

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

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

The Company has received annual confirmations from each of the three independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

Appointment, re-election and removal of Directors

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

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

Meetings

The Board meets on a regular basis, and on an ad hoc basis, as required by business needs. During the Review Period, the Board convened five (5) meetings to approve interim and annual results announcements and financial reports, to recommend or declare dividends and to discuss the overall strategy and monitor financial and operation performance of the Company.

Apart from regular Board meetings, the Chairman of the Board also held a meeting with all independent non-executive Directors and non-executive Director, without presence of the other executive Directors.

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

Directors	Number of meetings attend/held Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Environmental, Social and Governance Committee Meeting	Food Safety Committee Meeting	Risk Management Committee Meeting	Annual General Meeting	Extraordinary General Meeting
WAN Long	5/5	N/A	N/A	1/1	N/A	2/2	1/1	1/1	N/A
WAN Hongjian (appointed with effect from June 4, 2018)	2/5	N/A	N/A	N/A	2/2	2/2	N/A	N/A	N/A
GUO Lijun	5/5	N/A	N/A	N/A	2/2	N/A	1/1	1/1	N/A
ZHANG Taixi (retired with effect from June 4, 2018)	3/5	N/A	N/A	N/A	N/A	N/A	N/A	0/1	N/A
SULLIVAN Kenneth Marc	5/5	N/A	N/A	N/A	2/2	2/2	1/1	0/1	N/A
MA Xiangjie (appointed with effect from June 4, 2018)	2/5	N/A	N/A	N/A	N/A	N/A	1/1	N/A	N/A
YOU Mu (retired with effect from June 4, 2018)	2/5	N/A	N/A	N/A	N/A	N/A	N/A	0/1	N/A
JIAO Shuge	3/5	N/A	1/1	N/A	N/A	N/A	N/A	0/1	N/A
HUANG Ming	5/5	4/4	1/1	1/1	N/A	N/A	N/A	0/1	N/A
LEE Conway Kong Wai	5/5	4/4	1/1	N/A	N/A	2/2	1/1	1/1	N/A
LAU, Jin Tin Don	5/5	4/4	N/A	1/1	2/2	N/A	N/A	1/1	N/A

Training for Directors

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

All newly appointed Directors have received the induction programme and briefing on director's duties and obligations on corporate governance and regulating requirements prepared and delivered by our external legal advisor immediately prior to or on their respective date of appointment.

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

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

	CPD Training
Name of Director	Reading or attending briefings and/or seminars and/or conferences relevant to regulatory and governance updates
Executive Director and Chief Executive Officer	
Mr. WAN Long	√
Executive Directors	
Mr. WAN Hongjian (appointed with effect from June 4, 2018)	√
Mr. GUO Lijun	√
Mr. SULLIVAN Kenneth Marc	√
Mr. MA Xiangjie (appointed with effect from June 4, 2018)	√
Mr. YOU Mu (retired with effect from June 4, 2018)	N/A
Mr. ZHANG Taixi (retired with effect from June 4, 2018)	N/A
Non-executive Director	
Mr. JIAO Shuge	√
Independent non-executive Directors	
Mr. HUANG Ming	√
Mr. LEE Conway Kong Wai	√
Mr. LAU, Jin Tin Don	√

Directors' and officers' liability insurance and indemnity

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

Board Committees

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

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

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

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

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

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

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

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

Audit Committee

Throughout the Review Period, the Audit Committee comprised three independent non-executive Directors, namely Mr. LEE Conway Kong Wai, Mr. HUANG Ming and Mr. LAU, Jin Tin Don. Mr. LEE Conway Kong Wai, who has professional qualifications in accountancy, is the chairman of the Audit Committee. The Audit Committee held four (4) meetings during the Review Period. Executive Directors, senior management and the external auditor of the Company were invited to join the discussions at the meetings.

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

Remuneration Committee

Throughout the Review Period, the Remuneration Committee comprised three members, being two independent non-executive Directors, namely Mr. HUANG Ming (the chairman of the committee) and Mr. LEE Conway Kong Wai, and one non-executive Director, namely Mr. JIAO Shuge. The Remuneration Committee held one (1) meeting during the Review Period to review the remuneration packages and overall benefits for the Directors and senior management of the Company.

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

The remuneration of Directors is also determined with reference to their experience, qualifications, responsibilities involved in the Company and prevailing market conditions. Details of emoluments of Directors for the Review Period are set out in Note 11 to the consolidated financial statements. The emoluments paid or payable to senior management (including Mr. Wan Hongjian and Mr. Ma Xiangjie who were members of the senior management during the Review Period) during the Review Period were within the following bands:

	Number of Senior Management
HK$2,500,001 to HK$3,000,000	1
HK$3,500,001 to HK$4,000,000	1
HK$4,500,001 to HK$5,000,000	2
HK$5,000,001 to HK$5,500,000	1
HK$7,000,001 to HK$7,500,000	1
HK$10,000,001 to HK$15,000,000	1
HK$15,000,001 to HK$20,000,000	1

Nomination Committee

Throughout the Review Period, the Nomination Committee comprised three members, being an executive Director, namely Mr. WAN Long, and two independent non-executive Directors, namely Mr. HUANG Ming and Mr. LAU, Jin Tin Don. Mr. WAN Long is the chairman of the committee. The Nomination Committee held one (1) meeting during the Review Period to review the Board's composition, nominated Board candidates for re-election by Shareholders at the AGM held on June 4, 2018 and the independence of the three independent non-executive Directors.

The primary duties of the Nomination Committee are to review and make recommendations to the Board on the structure, size, composition and diversity of the Board, to oversee the identification and assessment of potential board candidates, to provide oversight and direction in respect of the succession planning for directors and to determine the composition of Board Committees. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. With a view to achieving a sustainable and balanced development, the Company has followed the board diversity policy adopted by the Board on July 17, 2014 which is available on the Company's website. Under the board diversity policy, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee's procedures and criteria for selecting and making recommendations for appointment of Board members are designed to satisfy high standards of corporate governance. In identifying suitable candidates, the Nomination Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board. The factors considered by the Nomination Committee in assessing the suitability of a proposed candidate include: (i) reputation for integrity; (ii) accomplishment and professional knowledge and industry experience which may be relevant to the Group; (iii) commitment in respect of available time, interest and attention to the businesses of the Group; (iv) perspectives, skills and experience that the individual can bring to the Board; (v) diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; (vi) Board succession planning considerations and long term objectives of the Group; and (vii) in case of a candidate for independent non-executive Director, the independence of such candidate with reference to, among other things, the requirements as set out in Rule 3.13 of the Listing Rules. These processes meet or exceed the Stock Exchange's requirements to ensure that every Director has the requisite character, experience and integrity and is able to demonstrate a standard of competence, commensurate with his position as a director of a listed issuer, and that where nomination of independent non-executive Directors is under consideration, the requirements of Rule 3.13 of the Listing Rules are satisfied.

Environmental, Social and Governance Committee

From January 1, 2018 to June 4, 2018, the Environmental, Social and Governance Committee comprised four members, being three executive Directors, namely Mr. GUO Lijun (the chairman of the committee), Mr. ZHANG Taixi and Mr. SULLIVAN Kenneth Marc and one independent non-executive Director, namely Mr. LAU, Jin Tin Don. On June 4, 2018, Mr. ZHANG Taixi retired as an executive Director and ceased to be a member of the Environmental, Social and Governance Committee, and Mr. WAN Hongjian was appointed as an executive Director and also a member of the Environmental, Social and Governance Committee with effect from June 4, 2018. From June 4, 2018 to December 31, 2018, the Environmental, Social and Governance Committee comprised four members, being three executive Directors, namely Mr. GUO Lijun (the chairman of the committee), Mr. WAN Hongjian and Mr. SULLIVAN Kenneth Marc and one independent non-executive Director, namely Mr. LAU, Jin Tin Don. The Environmental, Social and Governance Committee held two (2) meetings during the Review Period to review the environmental, social and governance matters which are relevant and material to the operations of the Group.

The primary duties of the Environmental, Social and Governance Committee include, but are not limited to, the following:

(i) identifying the environmental, social and governance matters that are relevant and material to the operations of our Group and/or that affect shareholders and other key stakeholders (the "**Key ESG Matters**"), which shall include workplace quality, environmental protection, operating practices, community involvement and animal welfare;

(ii) reviewing and making recommendations to the Board on the effectiveness of the Key ESG Matters;

(iii) monitoring the standards set and performance achieved on the Key ESG Matters by our Group; and

(iv) identifying and engaging stakeholders to understand and responding to their views by appropriate means.

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

Food Safety Committee

From January 1, 2018 to June 4, 2018, the Food Safety Committee comprised four members, being three executive Directors, namely Mr. WAN Long (the chairman of the committee), Mr. ZHANG Taixi and Mr. SULLIVAN Kenneth Marc and one independent non-executive Director, namely Mr. LEE Conway Kong Wai. On June 4, 2018, Mr. ZHANG Taixi retired as an executive Director and ceased to be a member of the Food Safety Committee, and Mr. WAN Hongjian was appointed as an executive Director and also a member of the Food Safety Committee with effect from June 4, 2018. From June 4, 2018 to December 31, 2018, the Food Safety Committee comprised four members, being three executive Directors, namely Mr. WAN Long (the chairman of the committee), Mr. WAN Hongjian and Mr. SULLIVAN Kenneth Marc and one independent non-executive Director, namely Mr. LEE Conway Kong Wai. The Food Safety Committee held two (2) meetings to consider the effective control over food quality and safety matters during the Review Period.

The primary duties of the Food Safety Committee include, but are not limited to, the following:

(i) making recommendations to the Board on our policies, practices and performance in relation to food quality and safety to comply with the relevant laws and regulations; and

(ii) assessing, reviewing, monitoring and making recommendations to the Board on the food safety internal control standards and our Group's products traceability capabilities.

Risk Management Committee

From January 1, 2018 to June 4, 2018, the Risk Management Committee comprised five members, being four executive Directors, namely Mr. WAN Long (the chairman of the committee), Mr. GUO Lijun, Mr. SULLIVAN Kenneth Marc and Mr. YOU Mu, and one independent non-executive Director, namely Mr. LEE Conway Kong Wai. On June 4, 2018, Mr. YOU Mu retired as an executive Director and ceased to be a member of the Risk Management Committee, and Mr. MA Xiangjie was appointed as an executive Director and also a member of the Risk Management Committee with effect from June 4, 2018. From June 4, 2018 to December 31, 2018, the Risk Management Committee comprised five members, being four executive Directors, namely Mr. WAN Long (the chairman of the committee), Mr. GUO Lijun, Mr. SULLIVAN Kenneth Marc and Mr. MA Xiangjie, and one independent non-executive Director, namely Mr. LEE Conway Kong Wai. The Risk Management Committee held one (1) meeting during the Review Period.

The primary duties of the Risk Management Committee include, but are not limited to, the following:

(i) establishing and overseeing the risk management system, through which the Risk Management Committee considers and formulates risk management framework and to provide guidelines to the management on risk management by setting up procedures to identify, assess and manage material risks faced by our Group, including but not limited to strategic, financial, operational, legal and regulatory risks;

(ii) reviewing and assessing regularly the adequacy and effectiveness of our Group's risk management framework, internal control systems relating to risk management and risk management policies and procedures in order to identify, assess and manage risks, as well as to oversee and ensure their effective operation, implementation and maintenance;

(iii) considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings; and

(iv) reporting any significant risk management issues to the Board and make recommendations and solutions on improvement of the Company's compliance and risk management.

Company Secretary

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

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

During the Review Period, the Company Secretary has taken not less than 15 hours of relevant professional training.

Accountability and Audit

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

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the financial statements of the Company for the year ended December 31, 2018 is set out in the independent auditor's report on pages 60 to 63 of this report.

Risk Management and Internal Control

The Board of Directors has the ultimate responsibility for oversight of the risk management and internal control systems of the Group. The Board has delegated oversight to the Risk Management Committee and Audit Committee to oversee the Group's risk management and internal control systems respectively on an ongoing basis, and conduct reviews of the effectiveness of the Group's risk management and internal control systems, as well as to resolve material internal control defects. The aforementioned systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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 Group's risk management department reviewed the effectiveness of risk management process and risk management report submitted by management. Key risks and mitigation measures were reported to the Risk Management Committee, in which it oversaw the development and implementation of the Group's risk management system.

The internal controls of the Group are designed to assist the Group in protecting its assets and information. The presence of internal controls empowers the Group to implement best business practices in challenging business environments. The Group's internal controls cover a number of in-house procedures and policies comprising, among others, the relevant financial, operational and compliance controls and risk management functions. The Group's risk management department carried out risk-based audits and reported key findings and management action plans to the Audit Committee, in which it would review the Group's risk management and internal control system and reported twice a year to the Board. Such review had been conducted during the Review Period.

The Board considered the Group's risk management and internal control systems are effective and adequate.

Independent Auditor

The Group's independent auditor for the Review Period is Ernst & Young. It was responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

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

Auditors' Remuneration

During the Review Period, the total fees paid/payable in respect of services provided by the Group's external auditors are set out below:

Services rendered	Fees paid/payable (US$ million)
Audit services	4
Non-audit services (Note)	—*

Note: Non-audit services mainly represent taxation and other advisory services.

* Less than US$1 million.

Shareholders' Rights and Communication

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

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

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

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

Investors Relations

The Company has maintained a continuing dialogue with the Company's Shareholders and investors through various channels, including, among others, the Company's interim and annual reports, notices, announcements, corporate governance practice and the Company's website at www.wh-group.com. The Company also holds press conferences from time to time at which the executive Directors and senior management of the Group are available to answer questions regarding the Group's business and performance.

Constitutional Documents

There was no change to the Company's memorandum and Articles of Association during the Review Period. A copy of the Company's memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

The Board is pleased to present its report and the audited financial statements of the Group for the year ended December 31, 2018.

Principal Activities and Analysis of Operations

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

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company are set out in the sections headed "Business Review" and "Financial Review" of this report.

Business Review

A business review of the Group is set out on pages 16 to 26 of this report.

Results

Results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 64 to 65 of this report.

Dividends

The Board has proposed to recommend the payment of a final dividend of HK$0.15 per Share (2017: HK$0.22 per Share) in cash to the Shareholders for the year ended December 31, 2018. Taking into account of the interim dividend of HK$0.05 per Share paid on September 12, 2018, total dividend for the year ended December 31, 2018 will be HK$0.20 per Share (2017: HK$0.27 per Share), representing a total payment of approximately HK$2,940 million, or an equivalent to US$375 million (2017: approximately HK$3,961 million, or an equivalent to US$505 million). The final dividend is subject to approval of the Shareholders at the forthcoming AGM to be held on May 28, 2019 (the "**2019 AGM**").

Upon the Shareholders' approval being obtained at the 2019 AGM, the final dividend will be payable on or around June 21, 2019 to the Shareholders whose names appear on the register of members of the Company on June 3, 2019.

Book Closure of Register of Members

For the purpose of ascertaining the Shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, June 4, 2019 to Thursday, June 6, 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, June 3, 2019.

Dividend Policy

The declaration, payment and amount of dividends we pay are subject to the discretion of our Directors and depend on our financial condition, earnings and capital requirements as well as contractual and legal restrictions and our ability to receive dividend payments from our subsidiaries in addition to other factors. Subject to the factors described above, our Directors expect that, in the future, interim and final dividends will be paid from time to time in an aggregate amount of no less than 30% of profits attributable to the equity holders of the parent (i.e., net profit). Cash dividends on the Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to the Company's Shareholders by any means our Directors deem legal, fair and practical.

Share Premium and Reserves

Movements in the share premium and reserves of the Group during the Review Period are set out on pages 68 and 69 to the consolidated statement of changes in equity.

Distributable Reserves

The Company's total distributable reserves as at December 31, 2018 amounted to US$3,684 million.

Donations

The Group attaches great importance to the establishment of a friendly and harmonious relationship between the Group and the community and actively communicates with the community and gives back to it through donations and volunteer service. During the Review Period, charitable donations made by the Group amounted to US$9 million.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 15 to the consolidated financial statements.

Share Capital

Movements in the share capital of the Company during the Review Period and as at December 31, 2018 are set out in Note 38 to the consolidated financial statements.

Borrowings and Capitalisation of Interests

Details of borrowings are set out in Note 32 to the consolidated financial statements. Details of the Group's capitalised interest expenses and other borrowing costs during the Review Period are set out in Note 9 to the consolidated financial statements.

Compliance with Relevant Laws and Regulations

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Review Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Relationship with Employees, Customers and Suppliers

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the Review Period, there was no material and significant dispute between the Group and its employees, customers and suppliers.

Remuneration Policy and Retirement Benefits of the Group

For remuneration policy of the Group, please see the section headed "Human Resources" of the section headed "Financial Review".

The Group entities which operate in U.S. provide pension benefits for all their qualified employees, through defined benefit pension plans. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2018 by credentialed actuaries, Mercer (US), Inc., who meet the Qualification Standards of the American Academy of Actuaries. As of December 31, 2018, the fair value of plan assets was approximately 78.5% of our pension benefits obligations under such defined benefits plans. Given the foregoing, we have met or exceeded our funding requirements for our obligations under such defined benefits plans as required by the relevant U.S. regulations for the year ended December 31, 2018.

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

Basis of Determining Remuneration to Directors

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

Financial Review

The results highlights of the Group is set out on page 4 of this report, while a financial review of the Group is set out on pages 27 to 34 of this report.

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

Certain information on the members of the Board during the Review Period and up to the date of this report is set out on page 36 of this report:

In accordance with Article 16.18 of the Articles of Association, Mr. Guo Lijun, Mr. Sullivan Kenneth Marc and Mr. Lee Conway Kong Wai shall retire by rotation and, being eligible, offer themselves for re-election at the 2019 AGM.

In accordance with Article 16.2 of the Articles of Association, Mr. Wan Hongjian and Mr. Ma Xiangjie shall retire from their office and, being eligible, offer themselves for re-election at the 2019 AGM.

Brief biographical details of the Directors and senior management are set out on pages 8 to 15 of this report.

Directors' Service Contracts

None of the Directors who is proposed for re-election at the 2019 AGM has a service contract with any member of the Group which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

Directors' Interests in Transaction, Arrangement or Contract of Significance

No transaction, arrangement or contract of significance in which any Director or any entity connected with the Director is or was materially interested, either directly or indirectly, subsisted during the Review Period or at the end of the financial year.

Controlling Shareholders' Interests in Contract of Significance

No contract of significance between any members of the Group and any of the controlling shareholders of the Company, or any of their subsidiaries, subsisted during the Review Period.

Directors' Rights to Purchase Shares or Debentures

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

Disclosure of Interests

Directors

As at December 31, 2018, the interests and short positions of the Directors and chief executive officer of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interests in Shares of the Company

Name of Director/ Chief Executive Officer	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Mr. Wan Long	Interest in a controlled corporation(1)	1,734,965,441(L)	11.82%
	Beneficiary of a trust(2)	974,753,158(L)	6.64%
	Beneficial owner	1,500,000(L)	0.01%
	Others(3)	350,877,333(L)	2.39%
Mr. Guo Lijun	Interest in a controlled corporation(4)	1,899,000(L)	0.01%
	Beneficiary of a trust(5)	76,144,602(L)	0.52%
	Beneficial owner	100,000(L)	0.00%
Mr. Ma Xiangjie	Beneficiary of a trust(6)	16,113,357(L)	0.11%
	Interest of spouse(7)	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 22.03% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Wan Long was deemed to be interested in the 1,161,865,796 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 18.48% 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 974,753,158 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 owned Luohe Jiaxin Investment Company Limited* (漯河嘉昕投資有限公司) as to 100%, which held 100% of the beneficial interest in Axin Enterprises Company Limited, which in turn owned 1,899,000 Shares. Accordingly, Mr. Guo Lijun was deemed to be interested in the 1,899,000 Shares which Axin Enterprises Company Limited was interested in by virtue of his interest in Luohe Jiaxin Investment Company Limited* (漯河嘉昕投資有限公司),

(5) Mr. Guo Lijun was one of the participants of the Heroic Zone Share Plan, through which he held approximately 1.44% 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 76,144,602 Shares which Heroic Zone was interested in.

(6) Mr. Ma Xiangjie was one of the participants of the Heroic Zone Share Plan, through which he held approximately 0.31% 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 16,113,357 Shares which Heroic Zone was interested in.

(7) 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.

* For identification purposes only

(ii) Interests in underlying shares of the Company

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

Notes:

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

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

(iii) Interests in associated corporations

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

Notes:

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

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

Save as disclosed above, as at December 31, 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 December 31, 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 of the Company

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%
Xing Tong Limited(3)	Beneficiary of a trust	1,161,865,796(L)	7.92%
Teeroy Limited	Trustee	982,457,333(L)	6.69%
Mondrian Investment Partners Limited	Investment manager	884,468,325(L)	6.03%
Ms. Wang Meixiang (王梅香)(4)	Interest of spouse	3,208,294,821(L)	21.86%

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 December 31, 2018, the beneficial interest of Rise Grand was owned by 252 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 22.03% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Xing Tong Limited was deemed to be interested in the 1,161,865,796 Shares which Heroic Zone was interested in.

(4) Ms. Wang Meixiang is the spouse of Mr. Wan Long. Therefore, Ms. Wang Meixiang was deemed to have interest in the 3,208,294,821 Shares which Mr. Wan Long was interested in.

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

Save as disclosed above, as at December 31, 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 December 31, 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
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
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
CHAU Ho (周豪)	July 10, 2014	3,500,000	—	—	—	3,500,000	6.20	Note

Grantee	Date of Grant	As at January 1, 2018	Exercised	Cancelled	Lapsed	As at December 31, 2018	Exercise Price (HK$)	Exercise Period
Other grantees who have been granted the Pre-IPO Share Options to subscribe for 4,500,000 Shares or more								
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	115,084,203	3,430,500	405,183	268,507	110,980,013	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 Company's Prospectus.

2013 Share Award Plan

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

Under the 2013 Share Award Plan, Mr. Wan Long and Mr. Jiao Shuge, both Directors of the Company, are entitled to jointly select the recipients of share awards, who may include (i) any full-time or part-time 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 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. Save as aforementioned, no other award has been made under the 2013 Share Award Plan as at December 31, 2017. For more details about our 2013 Share Award Plan, please refer to the Company's Prospectus.

Pre-Emptive Rights

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

Tax Relief

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holdings in the Shares.

Competing Interests

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

Corporate Governance Measures in Relation to Non-Competition Undertakings

Rise Grand, Heroic Zone, Chang Yun, High Zenith, Sure Pass and Rich Matrix (collectively, the "**Covenantors**") have entered into a deed of non-competition in favour of the Company on July 18, 2014 (the "**Deed of Non-competition**"). Details of the Deed of Non-competition have been set out in the Prospectus. There has been no change to the terms of the Deed of Non-competition during the Review Period.

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

Management Contracts

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

Major Suppliers and Customers

The purchases and revenue attributable to the Group's five largest suppliers and five largest customers combined, respectively, was each less than 30% for the year ended December 31, 2018.

None of the Directors, their close associates, nor any Shareholders (which to the knowledge of the Directors own more than 5% of the number of issued Shares) had any interest in the five largest customers or suppliers of the Group.

Corporate Governance Practices

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

Sufficient Public Float

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

Connected Transactions

During the Review Period, there was no connected transaction of the Group that need to be disclosed pursuant to Chapter 14A of the Listing Rules. The related party transactions disclosed under Note 45 to the consolidated financial statements do not constitute connected transactions of the Company.

Events After the End of the Reporting Period

Details of significant events occurring after the end of the reporting period are set out in Note 49 to the consolidated financial statements.

Future Development

Please refer to page 5 and the section headed "Chairman's Statement" of this report for the prospects of the Company's business.

Auditors

The consolidated financial statements for the year ended December 31, 2018 have been audited by Ernst & Young.

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

Hong Kong, March 15, 2019

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of WH Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 64 to 185, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of live hogs included in biological assets	
The carrying value of the Group's live hogs included in biological assets amounted to US$942 million, representing 6.2% of the Group's total assets as at 31 December 2018. The carrying value of live hogs was measured at fair value less costs to sell, which was determined based on the price of hogs in the actively traded market, reduced by the breeding costs required to raise the hogs to be slaughtered, the estimated margins that would be required by a raiser, and costs to sell with reference to the latest budgets approved by the management. The Group engaged an independent qualified valuer to perform the live hog valuations. We identified the fair value measurement of these live hogs as a key audit matter because of the significant degree of judgement involved in the valuations to determine the fair value less costs to sell of live hogs. Disclosures of determination of the fair value less costs to sell and the key assumptions involved are included in notes 4 and 18 to the consolidated financial statements.	Our procedures in relation to assessing the fair value measurement of live hogs included in biological assets included: • Understanding how the management determined the fair value measurement of live hogs included in biological assets, including the involvement of the independent valuer; • Evaluating the competence, capabilities, independence and objectivity of the independent valuer; • Reviewing the valuation model prepared by the independent valuer in determining the fair value less costs to sell of live hogs; • Checking the market price of live hogs to the available market data, on a sample basis; and • Checking the estimates of breeding costs required to raise the live hogs and estimated margins that would be required by a raiser and costs to sell against the historical performance and budgets approved by the management.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Ms. CHIU, Caroline Su Yuen.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
15 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

		2018			2017		
	Notes	Results before biological fair value adjustments US$'million	Biological fair value adjustments US$'million	Total US$'million	Results before biological fair value adjustments US$'million	Biological fair value adjustments US$'million	Total US$'million
Revenue	5	**22,605**	**—**	**22,605**	22,379	—	22,379
Cost of sales		**(18,103)**	**196**	**(17,907)**	(17,766)	(295)	(18,061)
Gross profit		**4,502**	**196**	**4,698**	4,613	(295)	4,318
Distribution and selling expenses		**(2,139)**	**—**	**(2,139)**	(1,930)	—	(1,930)
Administrative expenses		**(732)**	**—**	**(732)**	(823)	—	(823)
(Loss) gain arising from agricultural produce at fair value less costs to sell at the point of harvest		**—**	**(209)**	**(209)**	—	305	305
(Loss) gain arising from changes in fair value less costs to sell of biological assets		**—**	**(130)**	**(130)**	—	13	13
Other income	6	**98**	**—**	**98**	113	—	113
Other gains and (losses)	7	**(21)**	**—**	**(21)**	7	—	7
Other expenses	8	**(74)**	**—**	**(74)**	(326)	—	(326)
Finance costs	9	**(115)**	**—**	**(115)**	(198)	—	(198)
Share of profits of associates		**8**	**—**	**8**	8	—	8
Share of profits of joint ventures		**23**	**4**	**27**	14	—	14
PROFIT BEFORE TAX	10	**1,550**	**(139)**	**1,411**	1,478	23	1,501
Taxation	12	**(293)**	**35**	**(258)**	(165)	(17)	(182)
PROFIT FOR THE YEAR		**1,257**	**(104)**	**1,153**	1,313	6	1,319
Other comprehensive (expense) income for the year:	48						
Items that will not be reclassified subsequently to profit or loss:							
— remeasurement on defined benefit pension plans				**(6)**			(75)
— remeasurement on deferred tax assets related to amounts recorded in accumulated other comprehensive (expense) income				**—**			(30)
				(6)			(105)

	Note	2018 Results before biological fair value adjustments US$'million	2018 Biological fair value adjustments US$'million	2018 Total US$'million	2017 Results before biological fair value adjustments US$'million	2017 Biological fair value adjustments US$'million	2017 Total US$'million
Items that may be reclassified subsequently to profit or loss:							
— exchange differences arising on translation of foreign operations				(198)			333
— fair value change in cash flow hedge, net of tax				6			(11)
				(192)			322
Other comprehensive (expense) income for the year, net of tax				(198)			217
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				955			1,536
Profit for the year attributable to							
— owners of the Company				943			1,133
— non-controlling interests				210			186
				1,153			1,319
Total comprehensive income for the year attributable to							
— owners of the Company				783			1,301
— non-controlling interests				172			235
				955			1,536
EARNINGS PER SHARE	14						
— Basic (US cents)				6.43			7.79
— Diluted (US cents)				6.40			7.76

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2018

	Notes	2018 US$'million	2017 US$'million
NON-CURRENT ASSETS			
Property, plant and equipment	15	5,300	5,037
Prepaid lease payments	17	175	197
Biological assets	18	147	181
Goodwill	19	1,847	1,838
Intangible assets	20	1,734	1,742
Interests in associates	21	150	155
Interests in joint ventures	22	202	140
Other receivables	25	40	41
Available-for-sale investments	26	—	7
Financial assets at fair value through profit or loss	26	7	—
Pledged bank deposits	28	4	5
Deferred tax assets	33	57	58
Other non-current assets		175	191
Total non-current assets		9,838	9,592
CURRENT ASSETS			
Properties under development	16	30	—
Prepaid lease payments	17	5	5
Biological assets	18	947	990
Inventories	23	2,022	1,905
Trade and bills receivables	24	1,135	989
Prepayments, other receivables and other assets	25	358	222
Taxation recoverable		67	115
Financial assets at fair value through profit or loss	26	317	—
Pledged/restricted bank deposits	28	54	69
Bank balances and cash	28	525	1,371
Total current assets		5,460	5,666
CURRENT LIABILITIES			
Trade payables	29	977	1,076
Accrued expenses and other payables	30	1,430	1,472
Taxation payable		61	50
Borrowings	32	819	809
Bank overdrafts	32	41	92
Total current liabilities		3,328	3,499
NET CURRENT ASSETS		2,132	2,167
TOTAL ASSETS LESS CURRENT LIABILITIES		11,970	11,759

	Notes	2018 US$'million	2017 US$'million
NON-CURRENT LIABILITIES			
Other payables	30	214	199
Obligations under finance leases	31	23	23
Borrowings	32	2,259	2,297
Deferred tax liabilities	33	598	639
Deferred revenue	34	10	11
Pension liability and other retirement benefits	35	448	368
Total non-current liabilities		3,552	3,537
NET ASSETS		8,418	8,222
CAPITAL AND RESERVES			
Share capital	38	1	1
Reserves		7,745	7,444
Equity attributable to owners of the Company		7,746	7,445
Non-controlling interests		672	777
TOTAL EQUITY		8,418	8,222

The consolidated financial statements on pages 64 to 185 were approved and authorised for issue by the Board of Directors on March 15, 2019 and are signed on its behalf by:

Mr. Wan Long
Director

Mr. Guo Lijun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 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$'million (Note 48)	Statutory surplus reserve US$'million (Note (b))	Retained profits US$'million	Total US$'million	Non-controlling interests US$'million	Total equity US$'million
At January 1, 2017	1	2,905	(65)	(314)	715	238	2,836	6,316	722	7,038
Profit for the year	—	—	—	—	—	—	1,133	1,133	186	1,319
Exchange differences arising on translation of foreign operations	—	—	—	284	—	—	—	284	49	333
Remeasurement on defined benefit pension plans	—	—	—	—	(75)	—	—	(75)	—	(75)
Remeasurement of deferred tax assets related to amounts recorded in accumulated other comprehensive income (expense)	—	—	—	—	(30)	—	—	(30)	—	(30)
Fair value change in cash flow hedge	—	—	—	—	(11)	—	—	(11)	—	(11)
Total comprehensive income (expense) for the year	—	—	—	284	(116)	—	1,133	1,301	235	1,536
Acquisition of additional interests in subsidiaries	—	—	(4)	—	—	—	—	(4)	(3)	(7)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	(174)	(174)
Dividend (Note 13)	—	—	—	—	—	—	(489)	(489)	—	(489)
Share-based payments	—	—	—	—	310	—	—	310	3	313
Issue of shares upon exercise of share options	—*	16	—	—	(5)	—	—	11	—	11
Liquidation of subsidiaries	—	—	—	—	—	—	—	—	(12)	(12)
Contribution from non-controlling interest	—	—	—	—	—	—	—	—	6	6
	—*	16	(4)	—	305	—	(489)	(172)	(180)	(352)
At December 31, 2017	1	2,921	(69)	(30)	904	238	3,480	7,445	777	8,222

* Less than US$1 million.

	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$'million (Note 48)	Statutory surplus reserve US$'million (Note (b))	Retained profits US$'million	Total US$'million	Non-controlling interests US$'million	Total equity US$'million
At January 1, 2018	1	2,921	(69)	(30)	904	238	3,480	7,445	777	8,222
Profit for the year	—	—	—	—	—	—	943	943	210	1,153
Exchange differences arising on translation of foreign operations	—	—	—	(160)	—	—	—	(160)	(38)	(198)
Remeasurement on defined benefit pension plans	—	—	—	—	(6)	—	—	(6)	—	(6)
Fair value change in cash flow hedge	—	—	—	—	6	—	—	6	—	6
Total comprehensive income (expense) for the year	—	—	—	(160)	—*	—	943	783	172	955
Acquisition of additional interests in subsidiaries	—	—	(3)	—	—	—	—	(3)	—*	(3)
Deemed partial disposal of a subsidiary	—	—	(3)	—	—	—	—	(3)	3	—
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	(281)	(281)
Dividend (Note 13)	—	—	—	—	—	—	(505)	(505)	—	(505)
Share-based payments	—	—	—	—	20	—	—	20	1	21
Issue of shares upon exercise of share options	—*	13	—	—	(4)	—	—	9	—	9
Transfers	—	—	1	—	4	30	(35)	—	—	—
	—*	13	(5)	—	20	30	(540)	(482)	(277)	(759)
At December 31, 2018	1	2,934	(74)	(190)	924	268	3,883	7,746	672	8,418

* Less than US$1 million.

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. Statutory surplus reserve

Pursuant to the relevant regulations in Mainland China and the articles of association of the Group's subsidiaries registered in the 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

	2018 US$'million	2017 US$'million
OPERATING ACTIVITIES		
Profit before taxation	1,411	1,501
Adjustments for:		
Interest income	(12)	(12)
Finance costs	115	198
Share of profits of associates	(8)	(8)
Share of profits of joint ventures	(27)	(14)
Depreciation of property, plant and equipment	428	382
Loss (gain) on disposal of property, plant and equipment	2	(8)
Amortisation of intangible assets	9	7
Fair value gain on financial assets at fair value through profit or loss	(15)	—
Gain on maturity of available-for-sale investments	—	(8)
Release of prepaid lease payments	4	5
Write-down of inventories	106	49
Loss (gain) arising from changes in fair value less costs to sell of biological assets	130	(13)
Impairment loss on property, plant and equipment	4	12
Allowances on trade receivables	2	1
Impairment loss on other non-current assets	12	13
Share-based payments	21	313
Gain on disposal of a subsidiary	—	(4)
Gain on insurance recovery	(4)	—
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	2,178	2,414
(Increase) decrease in biological assets	(66)	8
Increase in inventories	(258)	(186)
Increase in trade, bills and other receivables	(247)	(169)
Increase in properties under development	(25)	—
Increase in trade and other payables	26	26
CASH FROM OPERATIONS	1,608	2,093
Taxation paid	(234)	(438)
Interest paid	(119)	(143)
Net cash from operating activities	1,255	1,512

	2018 US$'million	2017 US$'million
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(811)	(530)
Proceeds from disposal of financial assets at fair value through profit or loss	626	—
Purchase of financial assets at fair value through profit or loss	(951)	—
Proceeds from disposal of available-for-sale investments	—	540
Purchase of available-for-sale investments	—	(559)
Placement of pledged/restricted bank deposits	(56)	(64)
Withdrawal of pledged/restricted bank deposits	70	54
Proceeds from disposal of property, plant and equipment	20	40
Interest received	6	12
Dividends received from associates	4	7
Dividends received from joint ventures	1	—
Net cash outflow on acquisition of subsidiaries	(59)	(147)
Acquisition of equity interests in associates	—	(88)
Acquisition of equity interests in joint ventures	(15)	—
Net cash outflow on liquidation of subsidiaries	—	(10)
Settlement of contingent consideration in respect of acquisition of a subsidiary	(7)	(58)
Insurance claims on property, plant and equipment	3	19
Purchase of other non-current assets	(21)	—
Construction of assets to be sold	(27)	—
Net cash used in investing activities	(1,217)	(784)
FINANCING ACTIVITIES		
Proceeds from borrowings, net of transaction costs	8,658	4,181
Repayment of borrowings	(8,654)	(4,117)
Dividend paid to non-controlling interests	(290)	(179)
Dividend paid	(505)	(489)
Net cash outflow on acquisition of additional interests in subsidiaries	(3)	(4)
Proceeds from issue of shares	9	11
Capital contributed by non-controlling interests	—	6
Repayment of obligation under finance leases	(5)	—
Net cash used in financing activities	(790)	(591)
Net (decrease) increase in cash and cash equivalents	(752)	137
Effect of foreign exchange rate changes	(43)	19
Cash and cash equivalents at beginning of year	1,279	1,123
CASH AND CASH EQUIVALENTS AT END OF YEAR	484	1,279
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	525	1,371
Bank overdrafts	(41)	(92)
	484	1,279

1. CORPORATE AND GROUP INFORMATION

WH Group Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands. Its immediate holding company is Heroic Zone Investments Limited ("Heroic Zone"), which is incorporated in the British Virgin Islands, while its ultimate holding company is Rise Grand Group Limited, also incorporated in the British Virgin Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on August 5, 2014.

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

The Company acts as an investment holding company. The consolidated financial statements of the Company for the year ended December 31, 2018 comprise the Company and its entities (including structured entities, controlled by the Group) (collectively referred to as the "Group") and the Group's interests in associates and interests in joint ventures. The Group is primarily involved in production and sales of packaged meats and fresh pork as well as hog production. The principal activities of its principal subsidiaries are set out in note 50.

The functional currency of the Company is the 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.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for biological assets, financial assets at fair value through profit or loss, certain non-current assets and derivative financial assets and liabilities which have been measured at fair value. These financial statements are presented in US$, and all values are rounded to the nearest million ("US$'million") except when otherwise indicated.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its entities (including structured entities, controlled by the Group) during the year ended December 31, 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

(a) power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);

(b) exposure, or rights, to variable returns from its involvement with the investee; and

(c) the ability to use its power over the investee to affect its returns.

2.2 BASIS OF CONSOLIDATION (Continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement(s) with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following new and revised IFRSs for the first time for the current year's financial statements.

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	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

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.

Under IFRS 15, a transaction price is considered variable if a customer is provided with trade discounts or right of return. The Group estimates the amount of consideration to which it will be entitled in exchange for transferring goods. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group uses the expected value method or the most likely amount method, as appropriate, to estimate the amount of allowances, trade discounts and right to return as this method better predicts the amount of variable consideration to which the Group will be entitled.

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 15 *Revenue from Contracts with Customers* (Continued)

Reclassifications were made as at December 31, 2018 to be consistent with the terminology used under IFRS 15 and, accordingly, advances received from customers (2017: US$98 million) were reclassified from deposit received to contract liabilities under accrued expenses and other payables.

The amounts in the Group's consolidated financial statements would have remained largely the same if IFRS 15 had not been adopted.

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

On January 1, 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into appropriate IFRS 9 categories.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 9 *Financial Instruments* (Continued)

Classification and measurement (Continued)

On the date of initial application, January 1, 2018, the financial instruments of the Group were as follows:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original US$'million	New US$'million	Difference US$'million
Non-current financial assets					
Other receivables	Loans and receivables	Amortised cost	41	41	—
Available-for-sale investments	Amortised cost	N/A	7	—	(7)
Financial assets at fair value through profit or loss ("FVPL")	N/A	FVPL	—	7	7
Pledged bank deposits	Loans and receivables	Amortised cost	5	5	—
Other non-current assets	FVPL	FVPL	130	130	—
Current financial assets					
Trade and bills receivables	Loans and receivables	Amortised cost	989	989	—
Financial assets included in prepayments, other receivables and other assets	Loans and receivables	Amortised cost	21	21	—
Pledged/restricted bank deposits	Loans and receivables	Amortised cost	69	69	—
Bank balances and cash	Loans and receivables	Amortised cost	1,371	1,371	—
Derivatives	FVPL	FVPL	32	32	—
Current financial liabilities					
Trade payables	Amortised cost	Amortised cost	1,076	1,076	—
Financial liabilities included in accrued expenses and other payables	Amortised cost	Amortised cost	358	358	—
Borrowings	Amortised cost	Amortised cost	809	809	—
Bank overdrafts	Amortised cost	Amortised cost	92	92	—
Derivatives	FVPL	FVPL	27	27	—
Non-current financial liabilities					
Borrowings	Amortised cost	Amortised cost	2,297	2,297	—
Other payables	Amortised cost	Amortised cost	199	199	—
Obligations under finance leases	Amortised cost	Amortised cost	23	23	—

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 9 *Financial Instruments* (Continued)

Classification and measurement (Continued)

The available-for-sale investments (2017: US$7 million) were reclassified to financial asset at FVPL. Except for the reclassification mentioned above, 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

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

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date determined but available for early adoption

Further information about those IFRSs that are expected to have an impact to the Group upon adoption is described below. Whilst management has performed an assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Amendments to IFRS 3 *Definition of a Business*

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from January 1, 2020.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from January 1, 2019.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 16 *Leases* (Continued)

The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at January 1, 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed an assessment on the impact of adoption of IFRS 16. As at December 31, 2018, the Group has non-cancellable operating lease commitments of US$354 million as disclosed in note 41. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

Amendments to IAS 1 and IAS 8 *Definition of Material*

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from January 1, 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from January 1, 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

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

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

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

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or group of CGUs), that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

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

Fair value measurement

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly; and

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Interests in associates and joint ventures

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates and joint ventures (Continued)

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from January 1, 2018)

Revenue from contract with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Control of the goods or services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

Depending on the terms of the contract and the laws that apply to the contract, the control of the goods or services may be transferred over time or at a point in time.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Revenue from the sale of meat and related products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the meat and related products.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from January 1, 2018) (Continued)

Revenue from contract with customers (Continued)

Payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts for the sales of meat and related products provide customers with a right of return and rebates which give rise to variable consideration subject to constraint.

Service income is recognised over time when services are rendered because the customer simultaneously receives and consumes the benefit provided by the Group.

Revenue from other sources

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before January 1, 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for discounts and sales-related taxes.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Contract assets (applicable from January 1, 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from January 1, 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract costs (applicable from January 1, 2018)

Other than the costs which are capitalised as inventories, properties under development, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Right-of-return assets (applicable from January 1, 2018)

A right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned goods.

Refund liabilities (applicable from January 1, 2018)

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Leases

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee

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

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

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

Property, plant and equipment

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

Freehold land is not depreciated.

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as the Group's own assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Biological assets

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

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

Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired separately

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

Internally-generated intangible assets — Research and development expenditure

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

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

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

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

Derecognition of intangible assets

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

Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Financial instruments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (policies under IFRS 9 applicable from January 1, 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI"), and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from January 1, 2018)" above.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets at amortised cost includes trade, bills and other receivables, pledged/restricted bank deposits and bank balances and cash are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (policies under IFRS 9 applicable from January 1, 2018) (Continued)

Subsequent measurement (Continued)

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative and unquoted equity instruments which the Group had not irrevocably elected to classify at FVOCI. Dividends on equity investments classified as financial assets at FVPL are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (policies under IFRS 9 applicable from January 1, 2018) (Continued)

Subsequent measurement (Continued)

Impairment of financial assets (Continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1	—	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	—	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	—	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (policies under IAS 39 applicable before January 1, 2018)

Financial assets are classified into available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group's unlisted equity securities are classified as AFS financial assets.

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

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment losses of financial assets below).

Loans and receivables

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs for loans and in cost of sales or other gains and losses for receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (policies under IAS 39 applicable before January 1, 2018) (Continued)

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset, and such impairment loss will not be reversed in subsequent periods.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (policies under IAS 39 applicable before January 1, 2018) (Continued)

Impairment of financial assets (Continued)

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

Financial liabilities and equity instruments (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

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

Effective interest method

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

Offsetting of financial instruments (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018) (Continued)

Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges and cash flow hedges.

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is recognised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in other reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (other reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (policies under IFRS 9 applicable from January 1, 2018 and IAS 39 applicable before January 1, 2018)

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Provisions

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

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

Share-based payments arrangements

Awarded shares/share options granted to employees

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

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

When share options are exercised, the amount previously recognised in other reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in other reserve will be transferred to retained profits.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Government grants

Government grants are recognised where there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Retirement benefit costs and termination benefits

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period.

Defined benefit costs are categorised as follows:

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

- net interest expense or income; and

- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss as employee benefit expense. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs and termination benefits (Continued)

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

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Fair value measurement of live hogs included in biological assets

The Group engaged an independent qualified valuer to perform the live hog valuations at the end of each reporting period, the fair values less costs to sell are determined based on the price of hogs in the actively traded market, subtracting the breeding costs required to raise the hogs to be slaughtered and the margins that would be required by a raiser and less costs to sell, with reference to the latest budgets approved by management. This determination involved the use of significant judgements and estimates. If the actual results differ to the original estimates made by management, such differences from the original estimates will impact the fair value change recognised in profit or loss in the reporting period. The carrying amount of live hogs is US$942 million as at December 31, 2018 (2017: US$985 million) (see note 18).

Goodwill

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

The carrying amount of goodwill is US$1,847 million as at December 31, 2018 (2017: US$1,838 million). Details of the recoverable amount calculation are disclosed in note 19.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Intangible assets

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

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

The carrying amount of intangible assets is US$1,734 million as at December 31, 2018 (2017: US$1,742 million) (see note 20).

Inventories

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

Management of the Group periodically reviews inventories for slow-moving inventories, obsolescence or declines in market value. This review requires them to estimate the net realisable value based upon assumptions about future demand and market conditions. If the estimate of net realisable value is below the cost of inventories, the Group will record a write-down of inventories for the difference between cost and net realisable value, which will result in a corresponding increase in cost of sales. If the net realisable value is less than the carrying amount, write-down on inventories may be required. The carrying amount of inventories is US$2,022 million as at December 31, 2018 (2017: US$1,905 million) (see note 23).

Valuation of the obligation in respect of defined benefit plans

In determining the obligation in respect of defined benefit plans, the Group engaged an actuarial expert to perform the actuarial valuation of plan assets and the present value of the defined benefit obligations, and the key assumptions used including discount rates, expected salary increases and mortality rates. The discount rates assumptions are determined by reference to yields on high-quality corporate bonds and government bonds yields of appropriate duration and currency at the end of the reporting period. The expected returns on plan assets is determined on the historical returns and asset allocations by considering the future market and economic conditions. The expected rate of salary increase is referenced by the salary scale projected by management and the mortality rates are referenced by demographic market data.

During the year ended December 31, 2018, remeasurement losses after tax effect amounting to US$6 million are recognised directly in equity in the period in which they occur (2017: US$105 million). The Group's obligation in respect of net pension liability as at December 31, 2018 amounted to US$446 million (2017: US$362 million) (see note 35).

5. REVENUE AND SEGMENT INFORMATION

An analysis of revenue is as follows:

	2018 US$'million	2017 US$'million
Packaged meats	12,147	11,777
Fresh pork	9,136	9,526
Hog production	688	572
Others	634	504
	22,605	22,379

The timing of revenue recognition is as follows:

	For the year ended December 31, 2018				
	Packaged meats US$'million	Fresh pork US$'million	Hog production US$'million	Others US$'million	Total US$'million
People's Republic of China ("China")					
Goods transferred at a point in time	3,458	3,584	8	278	7,328
The United States of America ("United States")					
Goods transferred at a point in time	7,773	4,732	619	—*	13,124
Services transferred over time	—	58	—*	—	58
Revenue	7,773	4,790	619	—*	13,182
Europe					
Goods transferred at a point in time	915	761	58	356	2,090
Services transferred over time	1	1	3	—*	5
Revenue	916	762	61	356	2,095
Total revenue	12,147	9,136	688	634	22,605

* Less than US$1 million.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Set out below is the amount of revenue recognised from:

	2018 US$'million
Amounts included in contract liabilities at the beginning of the year	98
Performance obligations satisfied in previous years	—
	98

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, 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 finance companies, 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.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

	For the year ended December 31, 2018				
	Packaged meats US$'million	Fresh pork US$'million	Hog production US$'million	Others US$'million	Total US$'million
China					
Gross segment revenue	3,458	4,355	59	545	8,417
Less: Inter-segment revenue	—	(771)	(51)	(267)	(1,089)
Revenue	3,458	3,584	8	278	7,328
Reportable segment profit	712	179	5	26	922
United States					
Gross segment revenue	7,777	7,333	2,761	—*	17,871
Less: Inter-segment revenue	(4)	(2,543)	(2,142)	—	(4,689)
Revenue	7,773	4,790	619	—*	13,182
Reportable segment profit (loss)	785	48	(147)	(71)	615
Europe					
Gross segment revenue	957	1,273	686	461	3,377
Less: Inter-segment revenue	(41)	(511)	(625)	(105)	(1,282)
Revenue	916	762	61	356	2,095
Reportable segment profit	50	19	29	15	113
Total					
Gross segment revenue	12,192	12,961	3,506	1,006	29,665
Less: Inter-segment revenue	(45)	(3,825)	(2,818)	(372)	(7,060)
Revenue	12,147	9,136	688	634	22,605
Reportable segment profit (loss)	1,547	246	(113)	(30)	1,650
Net unallocated expenses					(16)
Biological fair value adjustments					(139)
Finance costs					(115)
Share of profits of associates					8
Share of profits of joint ventures					23
Profit before tax					1,411

* Less than US$1 million.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

	For the year ended December 31, 2017				
	Packaged meats US$'million	Fresh pork US$'million	Hog production US$'million	Others US$'million	Total US$'million
China					
Gross segment revenue	3,312	4,491	75	456	8,334
Less: Inter-segment revenue	—	(603)	(64)	(221)	(888)
Revenue	3,312	3,888	11	235	7,446
Reportable segment profit (loss)	692	103	23	(293)	525
United States					
Gross segment revenue	7,810	7,916	2,854	—	18,580
Less: Inter-segment revenue	(3)	(2,955)	(2,344)	—	(5,302)
Revenue	7,807	4,961	510	—	13,278
Reportable segment profit (loss)	726	433	(68)	(168)	923
Europe					
Gross segment revenue	696	1,143	636	354	2,829
Less: Inter-segment revenue	(38)	(466)	(585)	(85)	(1,174)
Revenue	658	677	51	269	1,655
Reportable segment profit	17	11	101	6	135
Total					
Gross segment revenue	11,818	13,550	3,565	810	29,743
Less: Inter-segment revenue	(41)	(4,024)	(2,993)	(306)	(7,364)
Revenue	11,777	9,526	572	504	22,379
Reportable segment profit (loss)	1,435	547	56	(455)	1,583
Net unallocated income					71
Biological fair value adjustments					23
Finance costs					(198)
Share of profits of associates					8
Share of profits of joint ventures					14
Profit before tax					1,501

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

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

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

	2018 US$'million	2017 US$'million
Non-current assets		
China	2,421	2,636
U.S.	5,649	5,318
Europe	1,539	1,397
	9,609	9,351

6. OTHER INCOME

	2018 US$'million	2017 US$'million
Government subsidy	43	47
Bank interest income	12	12
Income on sales of raw materials	8	9
Rental income	—*	7
Others	35	38
	98	113

* Less than US$1 million

7. OTHER GAINS AND (LOSSES)

	2018 US$'million	2017 US$'million
(Loss) gain on non-qualified retirement plan assets	(6)	14
Gain on maturity of available-for-sale investments	—	8
Fair value gain on financial assets at fair value through profit or loss	15	—
Gain on disposal of a subsidiary	—	4
(Loss) gain on disposal of property, plant and equipment	(2)	8
Impairment loss on other non-current assets	(12)	(13)
Impairment loss recognised in respect of property, plant and equipment	(4)	(12)
Net exchange losses	(15)	(9)
Others	3	7
	(21)	7

8. OTHER EXPENSES

	2018 US$'million	2017 US$'million
Share-based payments	(21)	(313)
Others	(53)	(13)
	(74)	(326)

9. FINANCE COSTS

	2018 US$'million	2017 US$'million
Amortisation of transaction costs	(5)	(4)
Interests on senior unsecured notes	(61)	(64)
Interests on medium-term unsecured notes	(4)	(6)
Interests on bank and other loans	(55)	(55)
Loss on debt extinguishment	—	(70)
Less: Amounts capitalised in the cost of qualifying assets	10	1
	(115)	(198)

10. PROFIT BEFORE TAX

Profit before taxation has been arrived at after charging:

	2018 US$'million	2017 US$'million
Auditor's remuneration		
Audit services	4	3
Non-audit services	—*	—*
Depreciation of property, plant and equipment	428	382
Amortisation of intangible assets included in administrative expenses	9	7
Release of prepaid lease payments	4	5
Write-down of inventories included in cost of sales	106	49
Net allowance on trade receivables	2	1
Minimum lease payments under operating leases	223	206
Research and development expenses	131	99
Staff costs (excluding directors' remuneration)	3,501	3,354

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

* Less than US$1 million.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("the Listing Rules") and the Hong Kong Companies Ordinance, is as follows:

Name of director	Fees US$'million	Basic salaries and allowances US$'million	Performance bonus US$'million (Note (i))	Share-based payments US$'million	Retirement benefit scheme contributions US$'million	2018 Total US$'million
A) EXECUTIVE DIRECTORS						
Mr. Wan Long	—	2	—	6	—*	8
Mr. Wan Hongjian	—	—*	—	—	—*	—*
Mr. Guo Lijun	—	1	—	2	—*	3
Mr. Sullivan Kenneth Marc	—	1	2	1	—*	4
Mr. Ma Xiangjie	—	—*	—	—*	—*	1
Mr. Zhang Taixi	—	—*	—	1	—*	1
Mr. You Mu	—	—*	—	—*	—*	—*
Sub-total	—	5	2	10	—*	17

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

B) NON-EXECUTIVE DIRECTOR						
Mr. Jiao Shuge	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—

No emoluments was paid to the non-executive director shown above for his services as director of the Company or its subsidiaries.

C) INDEPENDENT NON-EXECUTIVE DIRECTORS						
Mr. Huang Ming	—*	—	—	—	—	—*
Mr. Lee Conway Kong Wai	—*	—	—	—	—	—*
Mr. Lau, Jin Tin Don	—*	—	—	—	—	—*
Sub-total	—*	—	—	—	—	—*

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

Total for the year ended December 31, 2018						17

* Less than US$1 million.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Name of director	Fees US$'million	Basic salaries and allowances US$'million	Performance bonus US$'million (Note (i))	Share-based payments US$'million	Retirement benefit scheme contributions US$'million	2017 Total US$'million
A) EXECUTIVE DIRECTORS						
Mr. Wan Long	—	2	—*	289	—*	291
Mr. Guo Lijun	—	1	—*	3	—*	4
Mr. Zhang Taixi	—	—*	—	3	—*	3
Mr. Sullivan Kenneth Marc	—	1	14	1	—*	16
Mr. You Mu	—	1	—	—*	—*	1
Sub-total	—	5	14	296	—*	315

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

B) NON-EXECUTIVE DIRECTOR						
Mr. Jiao Shuge	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—

No emoluments was paid to the non-executive director shown above for his services as director of the Company or its subsidiaries.

C) INDEPENDENT NON-EXECUTIVE DIRECTORS						
Mr. Huang Ming	—*	—	—	—	—	—*
Mr. Lee Conway Kong Wai	—*	—	—	—	—	—*
Mr. Lau, Jin Tin Don	—*	—	—	—	—	—*
Sub-total	—*	—	—	—	—	—*

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

Total for the year ended December 31, 2017	315

* Less than US$1 million.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Notes:

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

(ii) No director nor the chief executive waived any emoluments in respect of the years ended December 31, 2018 and December 31, 2017.

(iii) Mr. Wan Long is also the Chief Executive for the years ended December 31, 2018 and December 31, 2017.

The five highest paid individuals for the year ended December 31, 2018 included three directors of the Company (2017: two), details of whose emoluments are set out above. The emoluments of the remaining two (2017: three) non-director highest paid individuals during the year were as follows:

	2018 US$'million	2017 US$'million
Employees		
Basic salaries and allowances	2	3
Performance bonus	4	19
Share-based payments	—*	1
Retirement benefit scheme contributions	—*	4
	7	27

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

	Number of employees	
	2018	2017
HK$21,500,001 to HK$22,000,000	1	—
HK$32,500,001 to HK$33,000,000	1	—
HK$56,500,001 to HK$57,000,000	—	1
HK$63,500,001 to HK$64,000,000	—	1
HK$85,000,001 to HK$85,500,000	—	1

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil).

* Less than US$1 million.

12. TAXATION

	2018 US$'million	2017 US$'million
China Enterprise Income Tax ("EIT")	(196)	(188)
U.S. income tax	(51)	(219)
Other income taxes	(16)	8
Withholding tax	(33)	(46)
Deferred taxation	38	263
	(258)	(182)

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

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

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

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

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

12. TAXATION (Continued)

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

On December 22, 2017, the U.S. Tax Act (the "Tax Act") was signed into law by the U.S. President. The Tax Act significantly revised the U.S. corporate income tax laws by, among other things, lowering the U.S. corporate tax rate from a top rate of 35% to a flat rate of 21% effective from January 1, 2018, while also repealing the deduction for domestic production activities, implementing a territorial tax system and imposing a transition tax on deemed repatriated earnings of foreign subsidiaries ("U.S. Tax Reform"). As a result of the Tax Act, the Group had recorded tax benefits due to a remeasurement of deferred tax assets and liabilities, and a tax charge on deemed repatriation of deferred foreign income in the year ended December 31, 2017.

The effects of the Tax Act were estimated and initially recognised in the year ended December 31, 2017. Upon further analyses of the Act and Notices and regulations issued and proposed by the U.S. Department of the Treasury and the Internal Revenue Service, the Group finalised the calculation of the transition tax liability in 2018.

Other overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

12. TAXATION (Continued)

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

	2018		2017	
	US$'million	**%**	US$'million	%
Profit before tax	**1,411**		1,501	
Tax at the applicable rates (Note)	**(353)**	**(25.0)**	(492)	(32.8)
Tax effect of share of profits of associates and joint ventures	**7**	**0.5**	6	0.4
Tax effect of income that are not taxable in determining current year taxable profit	**9**	**0.6**	8	0.5
Tax effect of expenses that are not deductible in determining current year taxable profit	**(14)**	**(1.0)**	(68)	(4.5)
Tax effect of tax losses not recognised	**(—*)**	**—**	(5)	(0.3)
Utilisation of tax losses previously not recognised	**1**	**0.1**	—*	—
Effect of tax exemptions and preferential tax rates granted to China subsidiaries	**54**	**3.8**	32	2.1
Effect of tax exemptions and preferential tax rates granted to U.S. subsidiaries	**12**	**0.9**	11	0.7
Decrease in opening deferred tax liability resulting from decrease in applicable tax rate	**—**	**—**	341	22.8
U.S. Tax Reform — transition tax	**(13)**	**(0.9)**	(27)	(1.8)
Withholding tax on undistributed earnings of subsidiaries	**(10)**	**(0.7)**	(28)	(1.9)
Over (under) provision in prior years	**15**	**1.1**	(3)	(0.2)
Tax effect of tax losses recognised on intra-group transactions	**34**	**2.4**	43	2.9
Tax charge and effective tax rate for the year	**(258)**	**(18.3)**	(182)	(12.1)

Note: As the Group's revenue is generated in several jurisdictions, the directors of the Company consider that it is more meaningful to aggregate the separate reconciliations prepared using the domestic rate in each individual jurisdiction.

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

* Less than US$1 million.

13. DIVIDENDS

	2018 US$'million	2017 US$'million
Dividend recognised as distribution during the year:		
2017 final dividend of HK 22 cents per share (2016: HK 21 cents)	411	395
2018 interim dividend of HK 5 cents per share (2017: HK 5 cents)	94	94
	505	489

The final dividend of HK 15 cents per share in respect of the year ended December 31, 2018 has been proposed by the directors and is subject to approval at the forthcoming annual general meeting.

14. 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:

	2018 US$'million	2017 US$'million
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	943	1,133
	million	million
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	14,674.83	14,541.85
Effect of dilutive potential ordinary shares: Share options	65.06	49.33
Weighted average number of ordinary shares for the purpose of diluted earnings per share	14,739.89	14,591.18

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$'million	Buildings US$'million	Motor vehicles US$'million	Plant, machinery and equipment US$'million	Construction in progress US$'million	Total US$'million
Cost:						
At January 1, 2017	479	2,125	140	2,953	305	6,002
Currency realignment	7	105	6	123	8	249
Additions	—	1	1	9	552	563
Acquisition of subsidiaries (Note 36)	57	34	3	73	6	173
Transfer	1	133	3	283	(420)	—
Eliminated on disposals	(5)	(9)	(8)	(32)	(8)	(62)
At December 31, 2017 and January 1, 2018	539	2,389	145	3,409	443	6,925
Currency realignment	(4)	(76)	(9)	(98)	(4)	(191)
Additions	—	—*	14	16	788	818
Acquisition of subsidiaries (Note 36)	1	20	4	10	1	36
Transfer	8	190	5	463	(666)	—
Eliminated on disposals	(4)	(4)	(16)	(38)	—	(62)
At December 31, 2018	**540**	**2,519**	**143**	**3,762**	**562**	**7,526**
Depreciation and impairment:						
At January 1, 2017	—	405	76	992	—	1,473
Currency realignment	—	31	—*	20	—	51
Provided for the year	—	101	12	269	—	382
Impairment loss recognised in profit or loss	—	—	—	12	—	12
Eliminated on disposals	—	(3)	(8)	(19)	—	(30)
At December 31, 2017 and January 1, 2018	—	534	80	1,274	—	1,888
Currency realignment	—	(18)	(1)	(35)	—	(54)
Provided for the year	—	110	13	305	—	428
Impairment loss recognised in profit or loss	—	1	—*	3	—	4
Eliminated on disposals	—	(3)	(13)	(24)	—	(40)
At December 31, 2018	**—**	**624**	**79**	**1,523**	**—**	**2,226**
Carrying values:						
At December 31, 2018	**540**	**1,895**	**64**	**2,239**	**562**	**5,300**
At December 31, 2017	539	1,855	65	2,135	443	5,037

* Less than US$1 million.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Certain of the Group's buildings of US$902 million as at December 31, 2018 (2017: US$953 million) are erected on land held in China while the rest are erected on freehold land situated in U.S. and Europe.

As at December 31, 2018, the application for obtaining the ownership certificates of buildings in China with an aggregate carrying value of approximately US$169 million (2017: US$217 million) was still in process.

Included in the carrying value of property, plant and equipment as at December 31, 2018 was an amount of US$25 million (2017: US$28 million) in respect of assets held under finance leases.

Property, plant and equipment with a carrying amount of approximately US$4 million (2017: US$12 million) have been fully impaired and recognised in profit or loss for the year ended December 31, 2018.

16. PROPERTIES UNDER DEVELOPMENT

Properties under development expected to be completed:

	2018 US$'million	2017 US$'million
Within normal operating cycle included under current assets	30	—
	30	—

Properties under development expected to be completed within normal operating cycle and recovered:

	2018 US$'million	2017 US$'million
Within one year	—	—
After one year	30	—
	30	—

17. PREPAID LEASE PAYMENTS

	2018 US$'million	2017 US$'million
Cost:		
At January 1	248	238
Currency realignment	(12)	16
Additions	—	—*
Transfer to properties under development	(5)	—
Elimination on disposal	(3)	(6)
At December 31	228	248
Amortisation:		
At January 1	46	38
Currency realignment	(2)	3
Charged for the year	4	5
Elimination on disposal	—	—*
At December 31	48	46
Carrying value:		
At December 31	180	202
Analysed for reporting purposes as:		
Current	5	5
Non-current	175	197
	180	202

The amount mainly represents the prepayment of rentals for land use rights situated in China for unexpired lease periods of 10 to 48 years.

* Less than US$1 million.

18. BIOLOGICAL ASSETS

Nature of the Group's agricultural activities

The biological assets of the Group are live hogs and poultry at various stages of development, including suckling hogs, nursery hogs and 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 quantities of live hogs, broilers and breeding stock owned by the Group at the end of each reporting period are as follows:

	2018 Head'000	2017 Head'000
Live hogs		
— suckling	**1,757**	1,685
— nursery	**2,122**	2,100
— finishing	**8,010**	7,446
	11,889	11,231
Breeding stock (hogs)	**1,120**	1,106
	13,009	12,337
Broilers	**3,990**	4,245
Breeding stock (poultry)	**525**	517
	4,515	4,762

Hogs

In general, once a sow is inseminated, it will gestate for a period of 114 days. New born hogs are classified as "suckling". The suckling hogs will stay with their mother for three to four weeks at which time they will be weaned. Once the suckling hogs are weaned, at approximately 1 to 8 kilograms, they are transferred to the "nursery".

The nursery facilities are designed to meet the needs of newly weaned pigs. They are fed a series of specially formulated diets to meet their changing nutritional needs. The pigs will stay in the nursery for approximately 6 weeks where they will grow to approximately 7 to 45 kilograms and then be transferred to the "finishing" farm.

Finishing hogs typically stay in this phase for 13 to 19 weeks. During that time, they will grow to approximately 23 to 132 kilograms and be considered as a live hog with market value. Once the hog reaches the ideal weight, they are loaded onto specially designed trucks for transport to the processing facility.

18. BIOLOGICAL ASSETS (Continued)

Nature of the Group's agricultural activities (Continued)

Poultry

In general, once a pullet lays eggs, the eggs will be sent to the hatchery and it will take approximately 21 days to be hatched. The hatched chicks are then sent to the broiler farm.

The chicks are fed with a series of specially formulated diets to meet their nutrition needs. The chicks will stay in the broiler farm for approximately 38 to 42 days where they will grow to approximately 2.1 kilograms and then be considered as a broiler with market value.

Once the broiler reaches the market weight, they are loaded onto specially designed trucks for transport to the processing facility.

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

(i) *Regulatory and environmental risks*
The Group is subject to laws and regulations in the location in which it operates breeding of hogs and poultry. The Group has established environmental policies and procedures aiming at complying with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

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

Carrying value of the Group's biological assets

	Live hogs		Breeding stock (hogs)		Broilers		Breeding stock (poultry)		Total	
	2018 US$'million	2017 US$'million	2018 US$'million	2017 US$'million	2018 US$'million	2017 US$'million	2018 US$'million	2017 US$'million	2018 US$'million	2017 US$'million
Carrying value at January 1	985	927	177	184	5	6	4	2	1,171	1,119
Currency realignment	(11)	20	(3)	3	—*	—*	—*	—*	(14)	23
Add: Breeding costs	7,141	7,267	124	195	140	133	9	8	7,414	7,603
Acquisition of subsidiaries (Note 36)	—	14	—	5	—	—	—	—	—	19
Loss (gain) arising from changes in fair value less costs to sell of biological assets	(71)	42	(55)	(25)	(1)	(1)	(3)	(3)	(130)	13
Transfer to inventories at the point of harvest	(6,912)	(7,103)	(64)	(149)	(116)	(94)	(6)	(1)	(7,098)	(7,347)
Decrease due to culling	(190)	(182)	(34)	(36)	(23)	(39)	(2)	(2)	(249)	(259)
Carrying value at December 31	942	985	145	177	5	5	2	4	1,094	1,171

* Less than US$1 million.

18. BIOLOGICAL ASSETS (Continued)

Carrying value of the Group's biological assets (Continued)

Analysed for reporting purposes as:

	2018 US$'million	2017 US$'million
Current	947	990
Non-current	147	181
	1,094	1,171

Fair value measurement — Level 3

	2018 US$'million	2017 US$'million
Biological assets		
Live hogs	942	985
Breeding stock (hogs)	145	177
Broilers	5	5
Breeding stock (poultry)	2	4
	1,094	1,171

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

The fair values of live hogs and broilers are mainly determined based on the 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.

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 both years. The Group's biological assets were valued by the independent qualified valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") situated at 6/F, Three Pacific Place, 1 Queen's Road East, Hong Kong.

18. BIOLOGICAL ASSETS (Continued)

Fair value measurement — Level 3 (Continued)

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

	2018 RMB	2017 RMB
China		
Breeding stock (hogs)		
Per head market price[(1)]	2,127	2,190
Suckling hogs		
Per head cost[(2)]	86	67
Finishing hogs		
Per head market price[(3)]	1,260	1,512
Per head weekly average breeding costs required to raise to finishing hogs[(4)]	68	66
Breeding stock (poultry)		
Per head market price[(1)]	25	25
Broilers		
Per head market price[(3)]	19	17
Per head average breeding costs required to raise to broilers[(4)]	16	16

	2018 US$	2017 US$
U.S.		
Breeding stock — Sow (hogs)		
Per head market price[(1)]	127	159
Breeding stock — Boar (hogs)		
Per head market price[(1)]	56	76
Suckling hogs		
Per head cost[(2)]	32	32
Finishing hogs		
Per head market price[(3)]	131	149
Per head weekly average breeding costs required to raise to finishing hogs[(4)]	5.7	5.5

18. BIOLOGICAL ASSETS (Continued)

Fair value measurement — Level 3 (Continued)

Notes:

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

19. GOODWILL

	2018 US$'million	2017 US$'million
Cost:		
At January 1	1,838	1,784
Acquisition of subsidiaries (Note 36)	28	26
Currency realignment	(19)	28
At December 31	1,847	1,838
Accumulated impairment losses:		
At January 1 and December 31	—	—
Carrying value:		
At December 31	1,847	1,838

19. GOODWILL (Continued)

Impairment testing on goodwill

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

- Fresh pork
- Packaged meats

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

	2018 US$'million	2017 US$'million
Allocated to		
Fresh pork — China	48	51
Packaged meats — China	138	147
Fresh pork — U.S.	31	31
Packaged meats — U.S.	1,510	1,510
Fresh pork and packaged meats — Europe	120	99
	1,847	1,838

An impairment review of these CGUs is undertaken annually or when events or circumstances indicate that the carrying amounts of CGUs may not be recoverable. The recoverable amounts of these CGUs have been determined by the value in use method using cash flow projections performed by the management for both years ended December 31, 2018 and December 31, 2017.

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

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

	China		U.S.	
	2018 %	2017 %	2018 %	2017 %
Revenue growth rate (Note i)	6.0–22.2	1.5–23.1	2.0–8.8	(3.3)–2.0
Long-term growth rate (Note ii)	2	2	2	2
Discount rate (Note iii)	13	12	8	8

19. GOODWILL (Continued)

Impairment testing on goodwill (Continued)

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

	China		U.S.	
	2018	2017	**2018**	2017
	%	%	**%**	%
Revenue growth rate (Note i)	**10.9–15.4**	9.6–9.7	**2.1–3.1**	2.1–7.9
Long-term growth rate (Note ii)	**2**	2	**2**	2
Discount rate (Note iii)	**13**	12	**8**	8

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

	2018	2017
	%	%
Revenue growth rate (Note i)	**2.0–3.0**	4.3–19.6
Long-term growth rate (Note ii)	**3**	3
Discount rate (Note iii)	**9**	9

Notes:

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

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

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

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

20. INTANGIBLE ASSETS

	Trademarks US$'million	Distribution network US$'million	Patents US$'million	Customer relations US$'million	Contract farm relations US$'million	Rights and permits US$'million	Total US$'million
Cost:							
At January 1, 2017	1,602	5	1	54	40	3	1,705
Acquisition of subsidiaries (Note 36)	27	—	—	—	—	3	30
Currency realignment	37	—	—	1	—	—*	38
At December 31, 2017 and January 1, 2018	1,666	5	1	55	40	6	1,773
Acquisition of subsidiaries (Note 36)	25	—	—	1	—	—	26
Currency realignment	(24)	—	—	(1)	—	—	(25)
At December 31, 2018	**1,667**	**5**	**1**	**55**	**40**	**6**	**1,774**
Amortisation and impairment:							
At January 1, 2017	—	—	1	17	6	—*	24
Currency realignment	—	—	—	—*	—	—*	—*
Provided for the year	—	—	—	5	2	—*	7
At December 31, 2017 and January 1, 2018	—	—	1	22	8	—*	31
Currency realignment	—	—	—	—*	—	—*	—*
Provided for the year	—	—	—	6	2	1	9
At December 31, 2018	**—**	**—**	**1**	**28**	**10**	**1**	**40**
Carrying values:							
At December 31, 2018	**1,667**	**5**	**—***	**27**	**30**	**5**	**1,734**
At December 31, 2017	1,666	5	—*	33	32	6	1,742

Patents, customer relations, contract farm relations and rights and permits are amortised over their estimated useful lives of 5 to 25 years.

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

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

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

* Less than US$1 million.

20. INTANGIBLE ASSETS (Continued)

Impairment testing on intangible assets

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

- Fresh pork
- Packaged meats

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

	2018 US$'million	2017 US$'million
Allocated to		
Fresh pork — China	48	51
Packaged meats — China	286	299
Fresh pork — U.S.	243	243
Packaged meats — U.S.	983	984
Fresh pork and packaged meats — Europe	112	94
	1,672	1,671

An impairment review of these CGUs is undertaken annually or when events or circumstances indicate that the carrying amounts of CGUs may not be recoverable. The recoverable amounts of these CGUs have been determined by the value in use method using cash flow projection by management for the years ended December 31, 2018 and December 31, 2017.

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

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

	China		U.S.	
	2018 %	2017 %	2018 %	2017 %
Revenue growth rate (Note i)	6.0–22.2	1.5–23.1	2.0–8.8	(3.3)–2.0
Long-term growth rate (Note ii)	2	2	2	2
Discount rate (Note iii)	16	15	8	8

20. INTANGIBLE ASSETS (Continued)

Impairment testing on intangible assets (Continued)

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

	China		U.S.	
	2018	2017	**2018**	2017
	%	%	**%**	%
Revenue growth rate (Note i)	**10.9–15.4**	9.6–9.7	**2.1–3.1**	2.1–7.9
Long-term growth rate (Note ii)	**2**	2	**2**	2
Discount rate (Note iii)	**16**	15	**8**	8

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

	2018	2017
	%	%
Revenue growth rate (Note i)	**2.0–3.0**	4.3–19.6
Long-term growth rate (Note ii)	**3**	3
Discount rate (Note iii)	**9**	9

Notes:

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

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

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

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

21. INTERESTS IN ASSOCIATES

	2018 US$'million	2017 US$'million
Share of net assets	150	155

All the Group's associates are not considered as individually material as at December 31, 2018 and December 31, 2017. The aggregate amounts of its share of these associates are set out in the consolidated financial statements.

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

	2018 US$'million	2017 US$'million
The Group's share of profits and total comprehensive income for the year from these associates	8	8
Dividends received from these associates during the year	4	7

22. INTERESTS IN JOINT VENTURES

	2018 US$'million	2017 US$'million
Share of net assets	**202**	140

All the Group's joint ventures are not considered as individually material as at December 31, 2018 and 2017. The aggregate amounts of its share of these joint ventures are set out in the consolidated financial statements.

23. INVENTORIES

	2018 US$'million	2017 US$'million
Raw materials	**733**	700
Work in progress	**99**	116
Finished goods	**1,190**	1,089
	2,022	1,905

24. TRADE AND BILLS RECEIVABLES

	2018 US$'million	2017 US$'million
Trade receivables	1,137	994
Impairment	(12)	(10)
	1,125	984
Bills receivable	10	5
	1,135	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 channel and customers for U.S. and other countries' operations. The following is an ageing analysis of the trade and bills receivables net of loss allowance presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

	2018 US$'million	2017 US$'million
Age		
Current to 30 days	957	882
31 to 90 days	178	105
91 to 180 days	—*	2
	1,135	989

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

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

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

* Less than US$1 million.

24. TRADE AND BILLS RECEIVABLES (Continued)

Movement in loss allowance for impairment of trade receivables:

	2018 US$'million	2017 US$'million
At January 1	(10)	(8)
Impairment losses, net	(2)	(1)
Currency realignment	—*	(1)
At December 31	(12)	(10)

Impairment under IFRS 9 for the year ended December 31, 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At December 31, 2018

	Current	More than 90 days past due	More than 180 days past due	Total
Expected loss rate	1.02%	3.00%	5.14%	1.02%
Gross carrying amount (US$'million)	1,137	—*	—*	1,137
Loss allowance provision (US$'million)	12	—*	—*	12

Impairment under IAS 39 for the year ended December 31, 2017

At December 31, 2017, included in the Group's trade receivable balances are debtors with an aggregate carrying amount of US$107 million that were aged between 31 and 180 days and past due at the end of the reporting period for which the Group has not provided for an impairment loss considering the payment history and that substantial repayment was noted subsequent to the end of the reporting period. The Group does not hold any collateral over these balances. The average age of these receivables as at December 31, 2017 was 62 days.

* Less than US$1 million.

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 US$'million	2017 US$'million
Loans receivables	65	41
Deposits paid to suppliers	20	17
Deposits placed with financial institutions	9	10
Receivables from financial institutions	66	—
Derivative financial instruments (Note 27)	12	16
Value-added tax receivables	96	74
Prepayments	63	48
Others	67	57
	398	263
Analysed for reporting purposes as:		
Current assets	358	222
Non-current assets	40	41
	398	263

26. AVAILABLE-FOR-SALE INVESTMENTS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 US$'million	2017 US$'million
Available-for-sale investments		
Unlisted investments:		
Equity investments	—	7
Financial assets at fair value through profit or loss		
Unlisted investments:		
Financial products	317	—
Equity investments	7	—
	324	—
Analysed for reporting purposes as:		
Current assets	317	—
Non-current assets	7	7
	324	7

26. AVAILABLE-FOR-SALE INVESTMENTS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

At December 31, 2017, the Group's AFS investments represented unlisted investments in equity securities issued by private entities which do not have a quoted market price in an active market. They were measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates are so significant that the directors of the Group are of the opinion that their fair value cannot be measured reliably. The investments are classified as non-current as the management considered the investments are held for strategic purpose and are not to be disposed of in the foreseeable future.

The investments classified as current at December 31, 2018 are mainly wealth management products issued by banks in China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The above non-current equity investments were measured at FVPL as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

27. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives under hedge accounting

	2018		2017	
	Assets US$'million	Liabilities US$'million	Assets US$'million	Liabilities US$'million
Fair value hedges				
Grain contracts	1	—*	1	—
Livestock contracts	1	—*	—	—
Cash flow hedges				
Foreign currency forward	—*	—	—*	—
Grain contracts	2	12	8	18
Livestock contracts	10	2	—*	2
Interest rate contracts	—	—*	—*	—*
	14	14	9	20

* Less than US$1 million.

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Fair value hedges

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

At December 31, 2018

Derivative instruments	Notional volume Minimum	Maximum	Metric	Maturity	Change in fair value used for measuring hedge ineffectiveness for the year US$'million
Commodities contracts					
Grains					4
— Soybeans	—	415,000	Bushels	Up to November 2019	
— Corn	1,615,000	56,460,000	Bushels	Up to December 2019	
Lean hogs	—	90,440,000	Pounds	Up to December 2020	2

At December 31, 2017

Derivative instruments	Notional volume Minimum	Maximum	Metric	Maturity
Commodities contracts				
Grain				
— Corn	1,660,000	6,855,000	Bushels	Up to March 2019

The hedge ineffectiveness can arise from:

- changes to the forecasted amounts of cash flows of hedged items and hedging instruments
- differences in the timing of cash flows of the forecasted transactions and the hedging instruments

The commodities contracts as at December 31, 2018 are recorded in “Other receivables” and “Other payables” in the consolidated statement of financial position.

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Cash flow hedges

At December 31, 2018 and December 31, 2017, the Group had the following foreign exchange forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency forecast sales and purchases.

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

At December 31, 2018

Derivative instruments	Notional volume Minimum	Maximum	Metric	Maturity	Change in fair value used for measuring hedge ineffectiveness for the year US$'million
Commodities contracts					
Grains					(5)
— Corn	157,900,000	216,485,000	Bushels	Up to March 2021	
— Soybean meal	1,067,600	1,634,800	Tons	Up to January 2021	
Lean hogs	39,840,000	902,160,000	Pounds	Up to December 2019	125
Interest rate contracts	18,486,729	21,057,065	US$	Up to November 2019	—*
Foreign currency forward contracts	10,361,996	52,624,265	Various currencies	Up to September 2019	—*

At December 31, 2017

Derivative instruments	Notional volume Minimum	Maximum	Metric	Maturity
Commodities contracts				
Grains				
— Corn	70,610,000	210,010,000	Bushels	Up to December 2020
— Soybean meal	763,900	1,770,800	Tons	Up to December 2020
Lean hogs	198,720,000	1,867,480,000	Pounds	Up to December 2018
Interest rate contracts	16,717,216	19,596,316	US$	Up to November 2019
Foreign currency forward contracts	7,620,397	45,316,424	Various currencies	Up to September 2018

* Less than US$1 million

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Cash flow hedges (Continued)

The hedge ineffectiveness can arise from:

- changes to the forecasted amounts of cash flows of hedged items and hedging instruments
- differences in the timing of cash flows of the forecasted transactions and the hedging instruments

The impact of the hedged items on the consolidated financial statements are as follows:

	Total hedging gain (loss) recognised in other comprehensive income US$'million	Amount reclassified from other comprehensive income to profit or loss US$'million	Hedge ineffectiveness recognised in profit or loss US$'million	Deferred net gain (loss) included in other reserve US$'million	Change in fair value used for measuring hedge ineffectiveness for the year US$'million
As at December 31, 2018					
Highly probable forecast lean hog transactions	125	115	5	11	130
Highly probable forecast grain transactions	(5)	(1)	2	(21)	(3)

The commodities contracts, interest rate contracts and foreign currency forward contracts as at December 31, 2018 are recorded in "Other receivables" and "Other payables" in the consolidated statement of financial position.

The hedge ineffectiveness for forecast lean hog and grain transactions are recognised in "Revenue" and "Cost of sales" in the consolidated statement of profit or loss.

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives not under hedge accounting

	2018		2017	
	Assets US$'million	Liabilities US$'million	Assets US$'million	Liabilities US$'million
Foreign currency forward	2	—*	—*	—*
Grain contracts	—*	1	4	1
Livestock contracts	—*	—*	13	5
Energy contracts	2	5	6	1
	5	7	23	7

Major terms of such derivatives are as follows:

Derivative instruments	Notional volume Minimum	Notional volume Maximum	Metric	Maturity
At December 31, 2018				
Commodities contracts				
Grains				
— Wheat	65,000	1,805,000	Bushels	Up to July 2020
— Soybean meal	—	6,900	Tons	Up to August 2019
— Corn	13,535,000	32,515,000	Bushels	Up to March 2020
— Soybeans	10,000	8,040,000	Bushels	Up to November 2019
Lean hogs	480,000	291,160,000	Pounds	Up to November 2019
Natural gas	14,660,000	18,660,000	British Thermal Units	Up to December 2021
Heating oil	—	1,680,000	Gallons	Up to April 2019
Diesel	2,100,000	18,186,000	Gallons	Up to December 2020
Foreign currency forward contracts	4,849,775	215,246,768	Various currencies	Up to April 2019

* Less than US$1 million.

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives not under hedge accounting (Continued)

Major terms of such derivatives are as follows: (Continued)

Derivative instruments	Notional volume Minimum	Notional volume Maximum	Metric	Maturity
At December 31, 2017				
Commodities contracts				
Grains				
— Wheat	—	355,000	Bushels	Up to July 2018
— Soybean meal	100	33,000	Tons	Up to July 2018
— Corn	26,195,000	41,810,000	Bushels	Up to March 2018
— Soybeans	10,000	6,230,000	Bushels	Up to January 2019
Lean hogs	5,000,000	232,160,000	Pounds	Up to February 2019
Natural gas	8,535,000	17,570,000	British Thermal Units	Up to November 2020
Live cattle	—	10,980,000	Pounds	Up to August 2018
Diesel	12,600,000	19,320,000	Gallons	Up to December 2018

Derivative financial assets and liabilities of US$1 million, US$11 million, US$8 million and US$6 million (2017: US$2 million, US$14 million, US$7 million and US$4 million) are recorded as non-current assets, current assets, non-current liabilities and current liabilities, respectively.

28. PLEDGED/RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

At December 31, 2018, bank balances carry interest at market rates ranging from 0.01% to 4.80% (2017: 0.01% to 6.25%) per annum. The pledged and restricted bank deposits carry fixed interest rates from 0.01% to 3.58% (2017: 0.01% to 3.90%) per annum.

At December 31, 2018, pledged bank deposits represented deposits of US$4 million (2017: US$7 million) pledged to banks for securing banking and trading facilities such as letters of credit and bank loans granted to the Group, and US$3 million (2017: US$3 million) pledged for securing a loan from a third party. These pledged bank deposits will be released upon the settlement of relevant borrowings or the release of the relevant facilities.

Bank balance of US$1 million (2017: US$1 million) is pledged for worker's compensation insurance claims in U.S.. Bank balance of US$10 million (2017: Nil) is pledged for construction of a plant in Poland.

At December 31, 2018, a subsidiary of the Group which engaged in financial services, was governed by the law to place US$40 million (2017: US$63 million) of a statutory deposit in the People's Bank of China.

29. TRADE PAYABLES

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

	2018 US$'million	2017 US$'million
Trade payables	977	1,076

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

	2018 US$'million	2017 US$'million
Age		
0 to 30 days	923	1,058
31 to 90 days	40	13
91 to 180 days	7	2
181 to 365 days	7	3
	977	1,076

30. ACCRUED EXPENSES AND OTHER PAYABLES

	2018 US$'million	2017 US$'million
Accrued staff costs	373	486
Deposits received	104	190
Sales rebates payables	238	247
Payables in respect of acquisition of property, plant and equipment	110	146
Insurance payables	135	141
Interest payable	25	28
Balance of contingent consideration in respect of acquisition of subsidiaries	11	17
Growers payables	41	41
Pension liability (Note 35)	14	12
Amounts due to associates (Note 45(b))	11	9
Derivative financial instruments (Note 27)	14	11
Accrued professional expenses	64	40
Accrued rent and utilities	32	34
Dividend payable	10	13
Contract liabilities (Note)	161	—
Other accrued expenses	174	128
Other payables	127	128
	1,644	1,671
Analysed for reporting purposes as:		
Current liabilities	1,430	1,472
Non-current liabilities	214	199
	1,644	1,671

Note:

Advances received from customers in 2018 were reclassified to contract liabilities (2017: US$98 million as included in deposits received). The increase was driven by more advances received from customers in relation to sales of meat products and properties under development at the end of the reporting period.

31. OBLIGATIONS UNDER FINANCE LEASES

The Group has leased certain of its buildings, machinery, vehicles and other equipment under finance leases. As at December 31, 2018, the lease term ranged from 2 to 22 years (2017: 2 to 23 years). Interest rates underlying all obligations under finance leases are variable at respective contract dates with an average rate of 2.6% per annum for the year ended December 31, 2018 (2017: 0.3% per annum).

	Minimum lease payments		Present value of minimum lease payments	
	2018 US$'million	2017 US$'million	**2018 US$'million**	2017 US$'million
Amounts payable under finance leases:				
Within one year	**3**	5	**3**	5
One to two years	**3**	2	**2**	2
Two to five years	**6**	5	**4**	4
After five years	**19**	21	**16**	17
	31	33	**25**	28
Less: Future finance charges	**(6)**	(5)		
Present value of lease obligations	**25**	28		
Less: Amounts due for settlement within one year and shown under current liabilities (included in accrued expenses and other payables) (Note 30)			**(2)**	(5)
Amounts due after one year			**23**	23

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

32. BORROWINGS AND BANK OVERDRAFTS

	2018 US$'million	2017 US$'million
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	595	594
	1,788	1,785
Medium-term unsecured notes	—	154
Commercial papers (Note i)	236	—
Bank loans (Note ii):		
Secured	374	107
Unsecured	677	1,015
Loans from third parties (Note iii):		
Secured	1	1
Unsecured	2	2
Other loan (Note iv)	—	42
Total borrowings other than bank overdrafts	3,078	3,106
Bank overdrafts (Note v)	41	92
The borrowings other than bank overdrafts are repayable as follows (Note vi):		
Within one year	819	809
One to two years	451	131
Two to five years	1,211	1,569
After five years	597	597
	3,078	3,106
Less: Amounts due within one year shown under current liabilities	(819)	(809)
Amounts due after one year	2,259	2,297
Total borrowings other than bank overdrafts:		
At fixed rates	2,370	2,492
At floating rates	708	614
	3,078	3,106

32. BORROWINGS AND BANK OVERDRAFTS (Continued)

	2018 US$'million	2017 US$'million
Analysis of borrowings by currency:		
Denominated in US$	2,458	2,340
Denominated in RMB	464	625
Denominated in PLN	76	27
Denominated in RON	60	78
Denominated in HK$	18	34
Denominated in EUR	2	2
	3,078	3,106

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% (2017: 2.25% to 5.70%) and floating rates ranging from WIBOR+0.50% to the U.S. Prime+0.375% per annum at December 31, 2018 (2017: HIBOR+0.45% to WIBOR+3.20%).

iii. Loans from third parties carry interests at fixed rates of 0.9% per annum at December 31, 2018 (2017: 0.9% per annum).

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 December 31, 2018 carry interest at floating rates at 3.92% per annum (2017: 3.92% to 4.35% per annum).

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

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 years ended December 31, 2018 and December 31, 2017. Details of assets pledged to secure borrowings are set out in note 43.

33. DEFERRED TAXATION

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

	2018 US$'million	2017 US$'million
Deferred tax assets	57	58
Deferred tax liabilities	(598)	(639)
	(541)	(581)

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

Tax effect of deductible temporary differences:

	Impairment of financial assets US$'million	Impairment loss and accelerated accounting depreciation on property, plant and equipment US$'million	Unrealised profit in inventories US$'million	Write-down of inventories US$'million	Tax losses US$'million	Unpaid staff welfare US$'million	Fair value changes arising from biological assets US$'million	Other deductible temporary differences US$'million	Total US$ 'million
At January 1, 2017	—*	18	8	—*	50	144	12	11	243
Currency realignment	—*	—*	—*	—*	2	—*	—	—	2
Acquisition of subsidiaries (Note 36)	—	—	—	—	20	—	—	6	26
Credited (charged) to profit or loss	—	(12)	5	—*	2	(27)	(12)	37	(7)
Credited (charged) to equity	—	—	—	—	—	(5)	—	6	1
At December 31, 2017 and January 1, 2018	—*	6	13	—*	74	112	—	60	265
Currency realignment	—*	—*	—*	—*	(2)	—	—	(1)	(3)
Credited (charged) to profit or loss	—*	(1)	2	—*	(1)	13	33	12	58
Credited (charged) to equity	—	—	—	—	—	1	—	(2)	(1)
At December 31, 2018	**—***	**5**	**15**	**—***	**71**	**126**	**33**	**69**	**319**

* Less than US$1 million

33. DEFERRED TAXATION (Continued)

Tax effect of taxable temporary differences:

	Accelerated tax depreciation US$'million	Undistributed earnings of subsidiaries US$'million	Fair value changes arising from business combination US$'million	Fair value changes arising from biological assets US$'million	Other taxable temporary differences US$'million	Total US$'million
At January 1, 2017	(572)	(9)	(473)	—	(48)	(1,102)
Currency realignment	(5)	—	(6)	—	(2)	(13)
Acquisition of subsidiaries (Note 36)	—*	—	(2)	—	—	(2)
(Charged) credited to profit or loss	198	(18)	48	(5)	47	270
(Charged) credited to equity	(5)	—	6	—*	—	1
At December 31, 2017 and January 1, 2018	(384)	(27)	(427)	(5)	(3)	(846)
Currency realignment	6	—	5	—*	2	13
Acquisition of subsidiaries (Note 36)	(3)	—	(4)	—	—	(7)
(Charged) credited to profit or loss	(42)	17	5	2	(2)	(20)
At December 31, 2018	**(423)**	**(10)**	**(421)**	**(3)**	**(3)**	**(860)**

At December 31, 2018, the Group had unused tax losses of US$315 million (2017: US$326 million) available for offsetting against future profits of which a deferred tax asset has been recognised in respect of US$271 million (2017: US$279 million) of such losses. No deferred tax asset has been recognised in respect of such losses of US$44 million (2017: US$47 million) due to unpredictability of future profit stream. There are no unrecognised tax losses at December 31, 2018 (2017: Nil) that may be carried forward indefinitely and other losses will expire on or before 2038.

The unrecognised tax losses will expire on or before 2038 as follows:

	2018 US$'million	2017 US$'million
By end of		
2018	—	3
2019	6	3
2020	4	6
2021	2	3
after 2022	32	32
	44	47

* Less than US$1 million.

33. DEFERRED TAXATION (Continued)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$2,730 million (2017: US$1,989 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse in the foreseeable future.

34. DEFERRED REVENUE

	2018 US$'million	2017 US$'million
Government grant:		
Current (included in accrued expenses and other payables) (Note 30)	—*	—*
Non-current	10	11
	10	11

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

35. PENSION LIABILITY AND OTHER RETIREMENT BENEFITS

Defined benefit plans

The group entities which operate in U.S. operate funded defined benefit scheme for all their qualified employees. Pension benefits provided by the Group are currently organised primarily through defined benefit pension plans which cover virtually all U.S. employees and certain foreign employees of the Group. Salaried employees are provided benefits based on years of service and average salary levels. Hourly employees are provided benefits of stated amounts for each year of service.

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

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

* Less than US$1 million.

35. PENSION LIABILITY AND OTHER RETIREMENT BENEFITS (Continued)

Defined benefit plans (Continued)

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

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liability, the board of the pension fund considers it is appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estates to leverage the return generated by the fund.

Interest risk

A decrease in the interest rate of fixed income products will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Price risk

An increase in the market price of equity investments will increase the plan assets.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2018 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.

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

	Valuation at December 31	
	2018	2017
Discount rate	**4.50%**	3.90%
Expected rate of salary increase	**4%**	4%

The actuarial valuation showed that the market value of plan assets was US$1,625 million (2017: US$1,777 million).

35. PENSION LIABILITY AND OTHER RETIREMENT BENEFITS (Continued)

Defined benefit plans (Continued)

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

	2018 US$'million	2017 US$'million
Current service cost	72	57
Net interest expense	14	14
Total	86	71

Remeasurement of the net defined benefit liability included in other comprehensive expense are as follows:

	2018 US$'million	2017 US$'million
Return on plan assets (excluding amounts included in net interest expense)	(143)	108
Actuarial gains (losses) arising from change in financial assumptions	136	(208)
	(7)	(100)
Deferred taxation (Note 33)	1	(5)
Total	(6)	(105)

35. PENSION LIABILITY AND OTHER RETIREMENT BENEFITS (Continued)

Defined benefit plans (Continued)

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

	2018 US$'million	2017 US$'million
Present value of funded defined benefit obligations	2,071	2,139
Fair value of plan assets	(1,625)	(1,777)
Funded status and net liability arising from defined benefit obligation	446	362
Other retirement benefits, net	10	10
	456	372
Included in:		
Current liabilities (Note 30)	14	12
Non-current liabilities	448	368
Other non-current assets	(6)	(8)
	456	372

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

	2018 US$'million	2017 US$'million
Defined benefit obligation at January 1	2,139	1,895
Current service cost	72	57
Interest cost	82	84
Benefits paid	(86)	(105)
Remeasurement (gains) losses:		
Actuarial (gains) losses arising from change in financial assumptions	(136)	208
Defined benefit obligation at December 31	2,071	2,139

35. PENSION LIABILITY AND OTHER RETIREMENT BENEFITS (Continued)

Defined benefit plans (Continued)

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

	2018 US$'million	2017 US$'million
Fair value of plan assets at January 1	1,777	1,574
Interest income	68	70
Contributions from the employers	9	134
Benefits paid	(86)	(105)
Expenses paid	—	(4)
Remeasurement (losses) gains:		
Return on plan assets (excluding amounts included in net interest expense)	(143)	108
Fair value of plan assets at December 31	1,625	1,777

The fair values of the plan assets as at the end of the reporting period for each category are as follows:

	Fair value of plan assets at December 31	
	2018 US$'million	2017 US$'million
Cash and cash equivalents	219	178
Equity securities	426	514
Debt securities	942	982
Alternative investments	87	78
Limited partnerships	127	92
Insurance contracts	—	1
Total fair value	1,801	1,845
Unsettled transactions, net	(176)	(68)
Total plan assets	1,625	1,777

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of alternative investments, limited partnerships and insurance contracts are not based on quoted market prices in active markets. As at December 31, 2018, US$691 million, US$983 million and US$127 million of plan assets (2017: US$684 million, US$1,069 million and US$92 million) are classified as Level 1, Level 2 and Level 3, respectively.

The actual return on plan assets was 5.07% (2017: 7.90%) over 5 years.

35. PENSION LIABILITY AND OTHER RETIREMENT BENEFITS (Continued)

Defined benefit plans (Continued)

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

If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease (increase) by US$142 million (2017: decrease (increase) by US$156 million).

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

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

Pension plan assets may be invested in cash and cash equivalents, equities 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. Equity targets for the pension plans are as indicated in the following table. Maturity for fixed income securities is managed such that sufficient liquidity exists to meet near-term benefit payment obligations. The plans retain outside investment advisors to manage plan investments within parameters established by the plan trustees.

The following table presents the fair value of the qualified pension plan assets by major asset category as at the end of the reporting period. The allocation of the pension plan assets is based on the target range presented in the following table.

	At December 31, 2018		At December 31, 2017	
	US$'million	Target range	US$'million	Target range
Asset categories				
Cash and cash equivalents, net of unsettled transactions	**43**	**0–4%**	110	0–4%
Equity securities	**426**	**30–50%**	515	30–50%
Debt securities	**942**	**35–55%**	982	35–55%
Alternative assets	**214**	**5–20%**	170	5–20%
Total	**1,625**		1,777	

35. PENSION LIABILITY AND OTHER RETIREMENT BENEFITS (Continued)

Defined benefit plans (Continued)

The Group expects to make a contribution of US$89 million to the defined benefit plan during the next financial year.

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

Cash and cash equivalents

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

Equity securities

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

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

Debt securities

The fair values of debt securities are obtained from pricing services, broker quotes or other model-based valuation techniques with observable inputs and classified as Level 1 or Level 2. The nature of these debt securities include instruments for which quoted prices are available but traded less frequently, instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data and securities that are valued using other financial instruments, the parameters of which can be directly observed. Level 1 debt securities include corporate debt securities and government debt securities. Level 2 debt securities include commingled funds, asset-backed securities and emerging market securities.

Alternative investments

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

35. PENSION LIABILITY AND OTHER RETIREMENT BENEFITS (Continued)

Defined benefit plans (Continued)

Limited partnerships

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

Insurance contracts

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

Defined contribution plans

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

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

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

The amount charged to profit or loss of approximately US$98 million during the year ended December 31, 2018 (2017: US$90 million) represents contribution paid or payable to the plans by the Group at rates specified in the rules of the plans.

36. BUSINESS COMBINATIONS

On January 9, 2018, the Group acquired from an independent third party 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.

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

	Fair value recognised on acquisition US$'million
Property, plant and equipment	36
Intangible assets	26
Inventories	5
Trade and bills receivables	8
Prepayments, other receivables and other assets	—*
Bank balances and cash	7
Trade payables	(3)
Accrued expenses and other payables	(3)
Deferred tax liabilities	(7)
Other liabilities	(13)
Total identifiable net assets at fair value	56
Goodwill	28
Satisfied by cash	84

* Less than US$1 million.

36. BUSINESS COMBINATIONS (Continued)

The Group incurred transaction costs of US$1 million for the acquisition. These transaction costs have been expensed and are included in other expenses in the profit or loss.

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 reporting period	18
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(59)
Transaction costs paid during the year included in cash flows from operating activities	(1)
	(60)

Since the acquisition, Elit and Vericom contributed US$117 million to the Group's revenue and US$9 million to the consolidated profit before tax for year ended December 31, 2018.

The revenue and profit of the Group for the year ended December 31, 2018 would remain unchanged as the acquisition of Elit and Vericom had taken place at the beginning of the year.

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 Package Meat") 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, a strategic platform to leverage by-products from the meat production process for the development of pharmaceuticals, nutraceuticals and medical device solutions.

36. 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.

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 year included in cash flows from operating activities	(3)
	(150)

Since the acquisition, Clougherty, Pini Package Meat and Celsus contributed US$559 million to the Group's revenue and US$37 million to the consolidated profit before tax for the year ended December 31, 2017.

Had the acquisitions of Clougherty, Pini Packaged Meats and Celsus taken place at the beginning of the year, the revenue and the profit of the Group for the year ended December 31, 2017 would have been US$22,379 million and US$1,319 million, respectively.

37. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Dividend payable US$'million	Borrowings and other loans and obligations under finance leases US$'million
At January 1, 2017	17	2,886
Changes from financing cash flows	(668)	64
Interest expense and amortisation of transaction costs	—	30
Loss on debt extinguishment	—	70
Increase arising from acquisition of subsidiaries	—	56
Dividends declared	663	—
Currency realignment	1	28
At December 31, 2017 and January 1, 2018	13	3,134
Changes from financing cash flows	(795)	(1)
Interest expense and amortisation of transaction costs	—	5
Dividends declared	786	—
Currency realignment	6	(35)
At December 31, 2018	10	3,103

38. SHARE CAPITAL

	Number of shares 'million	Amount US$'million
Ordinary shares of US$0.0001 each:		
Authorised:		
At January 1, 2017, December 31, 2017, January 1, 2018, and December 31, 2018	50,000.00	5
Issued and fully paid:		
At January 1, 2017	14,651.07	1
Issue of shares on exercise of share options (Note)	13.16	—*
At December 31, 2017 and January 1, 2018	14,664.23	1
Issue of shares on exercise of share options (Note)	11.25	—*
At December 31, 2018	14,675.48	1

Note:

The share options exercised during the year are under the pre-IPO share option scheme.

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

* Less than US$1 million.

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

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

Categories of financial instruments

Financial assets

As at December 31, 2018

Asset categories	Financial assets at fair value through profit or loss* US$'million	Financial assets at amortised cost US$'million	Total US$'million
Unlisted equity investments	7	—	7
Unlisted financial products	317	—	317
Derivatives financial assets	19	—	19
Other non-current assets	121	—	121
Trade, bills and other receivables and other assets	—	1,268	1,268
Pledged/restricted bank deposits	—	58	58
Bank balances and cash	—	525	525
Total	464	1,851	2,315

As at December 31, 2017

Asset categories	Available-for-sale financial assets US$'million	Financial assets at fair value through profit or loss US$'million	Loans and receivables US$'million	Total US$'million
Unlisted equity investments	7	—	—	7
Derivatives financial assets	—	32	—	32
Other non-current assets	—	130	—	130
Trade, bills and other receivables	—	—	1,051	1,051
Pledged/restricted bank deposits	—	—	74	74
Bank balances and cash	—	—	1,371	1,371
Total	7	162	2,496	2,665

* The financial assets at fair value through profit or loss are mandatorily measured at FVPL.

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Categories of financial instruments (Continued)

Financial liabilities

	2018 US$'million	2017 US$'million
At amortised costs:		
Trade and other payables	1,329	1,633
Obligation under finance leases	23	23
Borrowings (fixed and floating rates)	3,078	3,106
Bank overdrafts	41	92
	4,471	4,854
At fair value through profit or loss:		
Derivative financial liabilities	21	27

Financial risk management objectives and policies

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

Market risk

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

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

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk management

Certain group entities have certain foreign currency sales, purchases, bank balances and cash and borrowings denominated in US$ and Euro ("EUR"), HK Dollar ("HK$") and Renminbi ("RMB"), which expose the Group to foreign currency risk. In order to mitigate the foreign currency risks, foreign currency forward contracts are entered into by the Group for certain material foreign currency transactions. The critical terms of these foreign currency forward contracts are similar to those of the hedged payments and receipts denominated in foreign currencies. These foreign currency forward contracts are designated as hedging instruments and hedge accounting is applied as the contracts are considered highly effective hedging items. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2018 US$'million	2017 US$'million
Assets		
US$		
Bank balances and cash	2	5
Trade, bills and other receivables	—	1
EUR		
Bank balances and cash	3	4
Trade, bills and other receivables	7	12
Liabilities		
US$		
Trade and other payables	—*	7
Borrowings	97	52
EUR		
Trade and other payables	4	16
Borrowings	2	2
HK$		
Borrowings	18	34
RMB		
Borrowings	24	—

* Less than US$1 million.

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk management (Continued)

Sensitivity analysis

The Group is mainly exposed to the effect of US$ against the functional currencies of respective group entities. The directors of the Company consider that the risks exposed to the effect of EUR, HK$ and RMB are not material.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in US$ against functional currencies of respective group entities which represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to the functional currencies of respective group entities at year end for a 5% (2017: 5%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit where US$ strengthens 5% (2017: 5%) against the relevant currency.

	2018 US$'million	2017 US$'million
US$ impact	**(4)**	(2)

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

Interest rate risk management

The Group's fair value interest rate risk relates primarily to its financial assets at FVPL, AFS investments and fixed-rate borrowings including finance lease obligations (see notes 26, 31 and 32 respectively for details). The Group currently does not enter into any derivative contracts to hedge its exposure to changes in fair values of financial assets at FVPL, AFS investments and fixed-rate borrowings including finance lease obligations. However, the management of the Group will consider hedging significant interest rate exposure should the need arise.

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

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Interest rate risk management (Continued)

Sensitivity analysis

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

If interest rates decreased by 25 basis points and all other variables were held constant, the potential effect on post-tax profit is as follows:

	2018 US$'million	2017 US$'million
(Decrease) increase in post-tax profit	(—*)	1

There would be an equal and opposite impact on the post-tax profit where the interest rates increased 25 basis points and all other variables were held constant.

Credit risk management

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

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

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

Information about credit risk exposure on the Group's trade receivables using provision matrix is disclosed in note 24 to the consolidated financial statements. As at December 31, 2018, the loss allowance provision for pledged/restricted bank deposits, bank balances and cash, bills receivable and financial assets included in prepayment, other receivables and other assets were not material.

The ECLs for financial assets included in prepayment, other receivables and other assets are based on assumptions about probability of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the ECLs calculations, based on the Group's historical loss record, current conditions as well as forward-looking information.

* Less than US$1 million.

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Credit risk management (Continued)

Maximum exposure and year-end staging as at December 31, 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at December 31, 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1 US$'million	Stage 2 US$'million	Stage 3 US$'million	Simplified approach US$'million	Total US$'million
Trade and bills receivables	10	—	—	1,125	1,135
Financial assets included in prepayments, other receivables and other assets	133	—	—	—	133
Pledged deposits	58	—	—	—	58
Cash and cash equivalents	525	—	—	—	525
	726	—	—	1,125	1,851

Liquidity risk management

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

As at December 31, 2018, the Group has available unutilised banking facilities of approximately US$2,893 million (2017: US$2,471 million).

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

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management (Continued)

In addition, the following table also details the Group's analysis of its derivative financial instruments that settle on a net basis, based on their fair value recorded in liabilities as at the end of the reporting period.

	On demand and 6 months or less US$'million	6 to 12 months US$'million	1 to 2 years US$'million	2 to 5 years US$'million	More than 5 years US$'million	Total US$'million
At December 31, 2018						
Trade payables	970	7	—	—	—	977
Other payables	302	—	50	—	—	352
Obligations under finance leases	1	2	3	6	19	31
Bank overdrafts	41	—	—	—	—	41
Fixed-rates borrowings	162	451	457	883	706	2,659
Floating-rates borrowings	236	42	46	408	—	732
	1,712	502	556	1,297	725	4,792
Derivative financial liabilities, net	6	—	8	—	—	14
At December 31, 2017						
Trade payables	1,073	3	—	—	—	1,076
Other payables	497	—	55	—	—	552
Obligations under finance leases	4	2	1	5	21	33
Bank overdrafts	94	—	—	—	—	94
Fixed-rates borrowings	453	303	68	1,343	706	2,873
Floating-rates borrowings	27	102	125	365	—	619
	2,148	410	249	1,713	727	5,247
Derivative financial liabilities, net	4	—	7	—	—	11

* Less than US$1 million.

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Fair value measurement

The directors of the Company consider that the carrying amounts of current financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to 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 management has assessed that the fair values of non-current financial assets and financial liabilities approximate to their carrying amounts. The Group's own non-performance risk for non-current financial liabilities as at December 31, 2018 was assessed to be insignificant.

Fair value measurements recognised in the 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).

	2018			
	Level 1 US$'million	Level 2 US$'million	Level 3 US$'million	Total US$'million
Financial assets at fair value through profit or loss	—	7	317	324
Derivative financial assets	12	6	1	19
Other non-current assets	29	70	22	121
	41	83	340	464
Derivative financial liabilities	7	10	4	21

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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

	2017			
	Level 1 US$'million	Level 2 US$'million	Level 3 US$'million	Total US$'million
Derivative financial assets	17	15	—	32
Other non-current assets	16	91	23	130
	33	106	23	162
Derivative financial liabilities	16	11	—	27

Financial assets at FVPL 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 4.0% to 5.3%.

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

Other non-current assets include 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 year, and no transfers into or out of Level 3 fair value measurements during the year ended December 31, 2018.

Movements in fair value measurement within Level 3

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

For the year ended December 31, 2018, the Group disposed of US$1 million other non-current assets, purchased US$1 million derivative financial assets and US$951 million financial assets at FVPL. The financial assets at FVPL of US$626 million were matured in 2018, with a fair value gain of US$15 million and exchange realignment of US$23 million recognised in the profit or loss for the year ended December 31, 2018.

39. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Fair value measurements and valuation processes

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

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

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

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

- are offset in the Group's consolidated statement of financial position; or

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

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

As at December 31, 2018

				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial assets US$'million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position US$'million	Net amounts of financial assets presented in the consolidated statement of financial position US$'million	Financial collateral US$'million	Cash collateral received US$'million	Net amount US$'million
Derivatives	12	(7)	5	—	9	14

				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities US$'million	Gross amounts of recognised financial assets set off in the consolidated statement of financial position US$'million	Net amounts of financial liabilities presented in the consolidated statement of financial position US$'million	Financial collateral US$'million	Cash collateral pledged US$'million	Net amount US$'million
Derivatives	7	(7)	—	—	—	—

39. CAPITAL RISK MANAGEMENT AND 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$'million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position US$'million	Net amounts of financial assets presented in the consolidated statement of financial position US$'million	Related amounts not set off in the consolidated statement of financial position		Net amount US$'million
				Financial collateral US$'million	Cash collateral received US$'million	
Derivatives	17	(16)	1	—	10	11

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

40. SHARE INCENTIVE SCHEMES

(a) 2010 Share Award Plan

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

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

The 2010 Share Award Plan was amended pursuant to a resolution in writing of all directors dated February 9, 2012 and the assessment period for vesting the Incentive Shares were set to be 2012 to 2014. Shares have been vested to the management or staff of the Company under the 2010 Share Award Plan up to the date of issue of these financial statements, but the relevant shares have not yet been transferred to the relevant parties.

Details of the 2010 Share Award Plan are as follows:

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

The management of the Company considers that the vesting condition on performance target is achieved and all Incentive Shares will be transferred from the Trustee ultimately. The estimated fair value of the Incentive Shares as at grant date amounted to US$128 million had been recognised in profit or loss during vesting period. It was determined by market approach.

40. SHARE INCENTIVE SCHEMES (Continued)

(b) 2013 Share Award Plan

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

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

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

Mr. Wan Long was granted 350,877,333 shares (the "Awarded 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. The estimated fair value of the Awarded Shares as at the grant date amounted to US$278 million has been recognised in profit or loss for the year ended December 31, 2017.

The fair value of the Awarded Shares are determined by the market approach by JLL at the grant date.

40. SHARE INCENTIVE SCHEMES (Continued)

(c) Pre-IPO share option

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

In July 2014, the number of shares in respect of which options had been granted under the pre-IPO share option scheme was 584,795,555, with an exercise price of HK$6.20 per share, representing no more than 5% of the then issued share capital of the Company upon completion of the listing on the Stock Exchange. No consideration was paid by the grantees for the grant of the pre-IPO share options.

The fair value of the pre-IPO share options granted using the Binomial Option Pricing Model was HK$1,883 million (equivalent to approximately US$243 million), which was measured by an independent qualified valuer, JLL.

The key inputs into the model were as follows:

Share price	HK$6.66
Exercise price	HK$6.20
Option life	10 years
Expected volatility	42%
Risk-free rate	2.06%

The expected volatility was determined by using the historical volatility of the selected comparable companies in the same industry.

The following table discloses details of the Group's outstanding share options under the pre-IPO share option scheme and their movements during the year:

Option type	Date of grant	As at January 1, 2017	Exercised	Cancelled	Lapsed	As at December 31, 2017	Exercised	Cancelled	Lapsed	As at December 31, 2018
Pre-IPO share option scheme	July 10, 2014	549,633,028	13,160,000	5,086,971	780,481	530,605,576	11,255,000	405,183	268,507	518,676,886
Exercisable at the end of the year						231,649,894				355,831,075

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$7.23 (2017: HK$8.29).

For the year ended December 31, 2018, the Group recognised a share-based payment expense of US$21 million (2017: US$35 million) in relation to the pre-IPO share option scheme.

41. OPERATING LEASE COMMITMENTS

The Group as lessee was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 US$'million	2017 US$'million
Within one year	96	99
In the second to fifth year inclusive	164	223
After five years	94	116
	354	438

Leases are negotiated for a lease term of 3 to 50 years. The Group does not have an option to purchase the leased assets upon the expiry of the lease periods.

42. CAPITAL COMMITMENTS

	2018 US$'million	2017 US$'million
Contracted, but not provided for:		
Capital contribution to a joint venture	125	—
Acquisition of property, plant and equipment	94	144

On July 28, 2017, the Group acquired 33.5% and agreed to acquire the remaining 66.5% equity interest 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. The acquisition of the remaining 66.5% equity interest has not been completed as at the date of approval of these financial statements.

43. PLEDGE OF ASSETS

The carrying amount of the assets of the Group pledged for banking and trading facilities, loan from a third party, worker's compensation claim and construction of a plant is analysed as follows:

	2018 US$'million	2017 US$'million
Pledged bank balances	**18**	11

As at December 31, 2018 and December 31, 2017, the Group's material U.S. subsidiaries are jointly and severally liable for, as primary obligors, the obligations under certain banking facilities.

Smithfield Receivables Funding, LLC, a wholly-owned subsidiary of the Group, has a securitisation facility that matures in November 2021. As part of the arrangement, certain trade receivables are sold to a wholly-owned "bankruptcy remote" special purpose vehicle ("SPV"). The SPV pledges the receivables as security for loans and letters of credit. The SPV is included in the consolidated financial statements of financial position of the Group. However, the trade receivables owned by the SPV are separate and distinct from the other assets and are not available to other creditors of Smithfield if Smithfield was to become insolvent. As at December 31, 2018, the SPV held US$835 million (2017: US$662 million) of trade receivables and had outstanding borrowings of US$237 million on the securitisation facility. No financial or other support to this SPV was provided by the Group as at December 31, 2018 and December 31, 2017.

44. CONTINGENT LIABILITIES

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

North Carolina Nuisance Litigation

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

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

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

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

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

44. CONTINGENT LIABILITIES (Continued)

North Carolina Nuisance Litigation (Continued)

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

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

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

The Group's policy for establishing accruals and disclosures for contingent liabilities is set out in note 3. The Group established a reserve for the estimated expenses to defend against these and similar potential claims, which was subsequently re-evaluated and increased in the fourth quarter of 2016, fourth quarter of 2017 and second quarter of 2018. As a result of the outcomes of the first five trials and further developments in facts and circumstances surrounding these matters, the Group re-evaluated and further increased the provision in the fourth quarter of 2018.

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

45. RELATED PARTY TRANSACTIONS

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

	2018 US$'million	2017 US$'million
Sales of goods to associates	6	6
Sales of goods to joint ventures	12	12
Purchase of goods from associates	61	50
Purchase of goods from joint ventures	22	16

(b) Balances with associates/joint ventures at the end of the reporting period:

	2018 US$'million	2017 US$'million
Included in:		
Trade and bills receivables	1	6
Trade payables	1	3
Accrued expenses and other payables	31	9

Note: The amounts due to associates/joint ventures are unsecured, interest-free and repayable on demand.

(c) 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 below:

	Year ended December 31	
	2018 US$'million	2017 US$'million
Director fees	—*	—*
Basic salaries and allowances	9	10
Performance bonuses	4	32
Retirement benefit scheme contributions	—*	3
Share-based payments	11	298
Total compensation paid to key management personnel	24	343

* Less than US$1 million.

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 US$'million	2017 US$'million
NON-CURRENT ASSETS		
Interests in unlisted subsidiaries	5,141	5,103
CURRENT ASSETS		
Amounts due from subsidiaries	122	119
Prepayments, other receivables and other assets	1	—*
Bank balances and cash	—*	1
	123	120
CURRENT LIABILITIES		
Amounts due to subsidiaries	364	341
Other payables	2	1
	366	342
NET CURRENT LIABILITIES	(243)	(222)
TOTAL ASSETS LESS CURRENT LIABILITIES	4,898	4,881
NET ASSETS	4,898	4,881
CAPITAL AND RESERVES		
Share capital	1	1
Share premium	2,934	2,921
Translation reserve	61	61
Other reserve	1,213	1,196
Retained profits	689	702
TOTAL EQUITY	4,898	4,881

* Less than US$1 million.

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Movements in the Company's reserves

	Share capital US$'million	Share premium US$'million	Translation reserve US$'million	Other reserve US$'million	Retained profits US$'million	Total US$'million
At January 1, 2017	1	2,905	61	888	689	4,544
Profit and total comprehensive income for the year	—	—	—	—	502	502
Dividend (Note 13)	—	—	—	—	(489)	(489)
Share-based payments	—	—	—	313	—	313
Issue of shares upon exercise of share options	—*	16	—	(5)	—	11
	—*	16	—	308	13	337
At December 31, 2017 and January 1, 2018	1	2,921	61	1,196	702	4,881
Profit and total comprehensive income for the year	—	—	—	—	492	492
Dividend (Note 13)	—	—	—	—	(505)	(505)
Share-based payments	—	—	—	21	—	21
Issue of shares upon exercise of share options	—*	13	—	(4)	—	9
	—*	13	—	17	(13)	17
At December 31, 2018	**1**	**2,934**	**61**	**1,213**	**689**	**4,898**

* Less than US$1 million.

47. NON-WHOLLY-OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows the details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests at the end of reporting period:

Name of subsidiary	Country of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018 US$'million	2017 US$'million	2018 US$'million	2017 US$'million
河南雙滙投資發展股份有限公司 Henan Shuanghui Investment & Development Co., Ltd. ("Shuanghui Development")	China	26.75%	26.75%	209	183	654	731
Individually immaterial subsidiaries with non-controlling interests				1	3	18	46
				210	186	672	777

Summarised financial information in respect of Shuanghui Development that has material non-controlling interests is set out below. The summarised financial information below represents the amounts before intragroup eliminations.

	As at December 31, 2018 US$'million	2017 US$'million
Non-current assets	1,833	2,070
Current assets	1,424	1,477
Current liabilities	(1,186)	(1,138)
Non-current liabilities	(32)	(33)
Equity attributable to owners of Shuanghui Development	(1,889)	(2,245)
Non-controlling interests of Shuanghui Development's subsidiaries	150	131
Non-controlling interests of Shuanghui Development	504	600
	654	731

47. NON-WHOLLY-OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (Continued)

	Year ended December 31	
	2018	2017
	US$'million	US$'million
Revenue	**7,390**	7,489
Total expenses	**(6,623)**	(6,821)
Profit for the year	**767**	668
Other comprehensive income	**—***	—
Total comprehensive income for the year	**767**	668
Profit attributable to owners of the Company	**558**	485
Profit attributable to the non-controlling interests of Shuanghui Development's subsidiaries	**10**	12
Profit attributable to the non-controlling interests of Shuanghui Development	**199**	171
	767	668
Dividends paid to non-controlling interests of Shuanghui Development's subsidiaries	**17**	21
Net cash inflow from operating activities	**785**	832
Net cash outflow from investing activities	**(340)**	(59)
Net cash outflow from financing activities	**(960)**	(363)
Net cash (outflow) inflow	**(515)**	410

* Less than US$1 million.

48. OTHER COMPREHENSIVE (EXPENSE) INCOME

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

	2018 US$'million	2017 US$'million
Other comprehensive (expense) income includes:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement on defined benefit pension plans	(7)	(100)
Income tax relating to defined benefit pension plans	1	25
Remeasurement on deferred tax assets related to amounts recorded in accumulated other comprehensive (expense) income	—	(30)
	(6)	(105)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(198)	333
Fair value change in cash flow hedge	8	(18)
Income tax relating to cash flow hedge	(2)	7
	(192)	322
Other comprehensive (expense) income, net of income tax	(198)	217

49. EVENTS AFTER THE END OF THE REPORTING PERIOD

On January 25, 2019, three major subsidiaries of the Company entered into a merger agreement ("Internal Restructuring"). The Internal Restructuring involves the merger by absorption of Henan Luohe Shuanghui Industry Group Co., Ltd. (an indirect wholly-owned subsidiary of the Company) by Shuanghui Development (an indirect non-wholly owned subsidiary of the Company) through the issuance of new shares in Shuanghui Development by Shuanghui Development to Rotary Vortex Limited (an indirect wholly-owned subsidiary of the Company). The Internal Restructuring has been approved by the board of directors of the Company and the completion of the Internal Restructuring is subject to the satisfaction of a number of conditions as set out in the merger agreement. Details are available in the announcements of the Company dated January 20, 2019 and January 25, 2019.

50. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at December 31, 2018 and December 31, 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/registered capital	Attributable proportion of issued/registered capital held by the Company Indirectly		Principal activities
			2018	2017	
Rotary Vortex Limited	Hong Kong	Ordinary shares HK$33,883,520,411 (2017: HK$33,883,520,411)	100%	100%	Investment holding and trading
Shuanghui Development (Note 1)	China	Shares RMB3,299,558,284 (2017: RMB3,299,558,284)	73.25%	73.25%	Investment holding, livestock breeding, livestock slaughtering, manufacture and sales of packaging materials and meat products
Smithfield	U.S.	Note 2	100%	100%	Investment holding, livestock breeding, livestock slaughtering, manufacture and sales of meat products

Note 1: This company is listed on the A-Shares Market of the Shenzhen Stock Exchange and registered as a limited liability company under People's Republic of China Law.

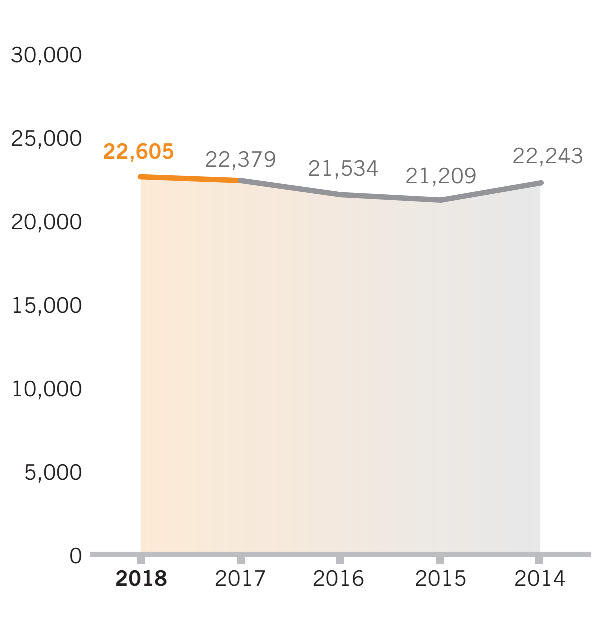
Note 2: The par value of the common shares of this subsidiary is zero.

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

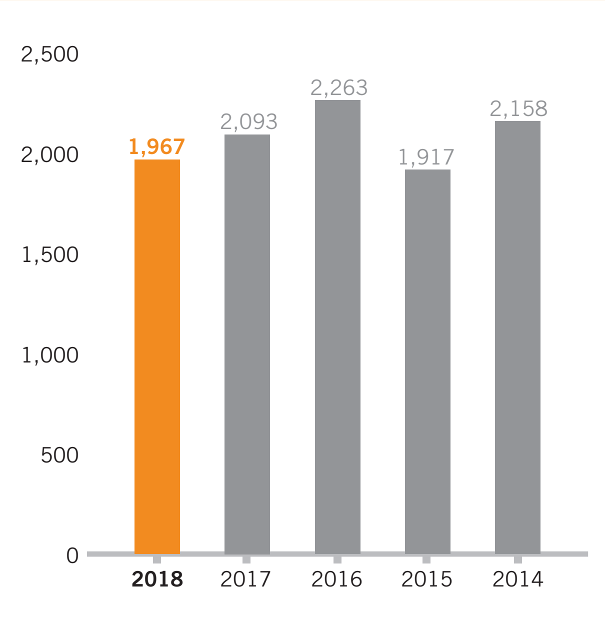
FIVE YEAR SUMMARY

As of and for the Year Ended December 31 US$ million (unless otherwise stated)	2018	2017	2016	2015	2014
Key operating data					
Hogs produced (million heads)	**21.0**	20.2	19.2	19.1	17.7
Hogs processed (million heads)	**56.1**	53.8	49.3	48.3	47.2
Packaged meats sold (million metric tons)	**3.4**	3.3	3.2	3.2	3.2
Key financial data					
Revenue	**22,605**	22,379	21,534	21,209	22,243
Revenue growth rate (%)	**1.0%**	3.9%	1.5%	(4.6%)	97.7%
Operating profit	**1,650**	1,583	1,788	1,557	1,614
Operating profit margin (%)	**7.3%**	7.1%	8.3%	7.3%	7.3%
Profit before taxation	**1,411**	1,501	1,703	1,302	1,420
Taxation	**(258)**	(182)	(465)	(307)	(448)
Profit for the year	**1,153**	1,319	1,238	995	972
Profit for the year attributable to:					
— owners of the Company	**943**	1,133	1,036	786	766
— non-controlling interests	**210**	186	202	209	206
	1,153	1,319	1,238	995	972
Profit attributable to owners of the Company, before biological fair value adjustments	**1,046**	1,126	1,014	866	737
Basic earnings per share (US$ cents)	**6.43**	7.79	7.58	5.75	6.44
Total assets	**15,298**	15,258	13,611	14,301	14,720
Total liabilities	**(6,880)**	(7,036)	(6,573)	(7,598)	(8,670)
Net assets	**8,418**	8,222	7,038	6,703	6,050
Equity attributable to owners of the Company	**7,746**	7,445	6,316	5,763	5,130
Non-controlling interest	**672**	777	722	940	920
Total equity	**8,418**	8,222	7,038	6,703	6,050

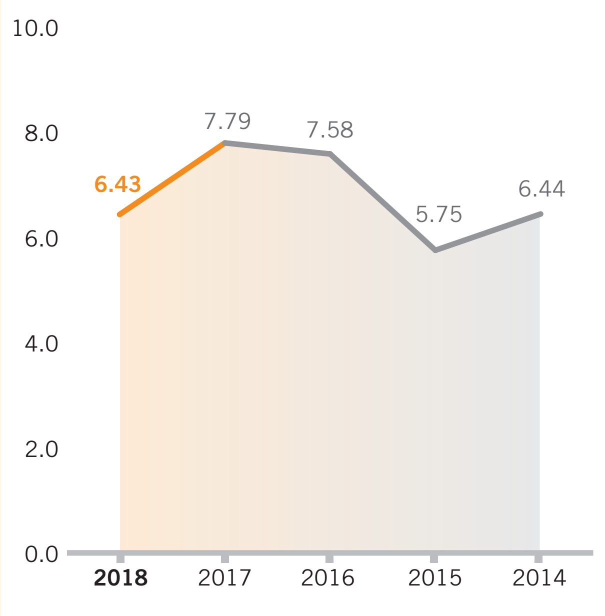
Revenue (US$ million)



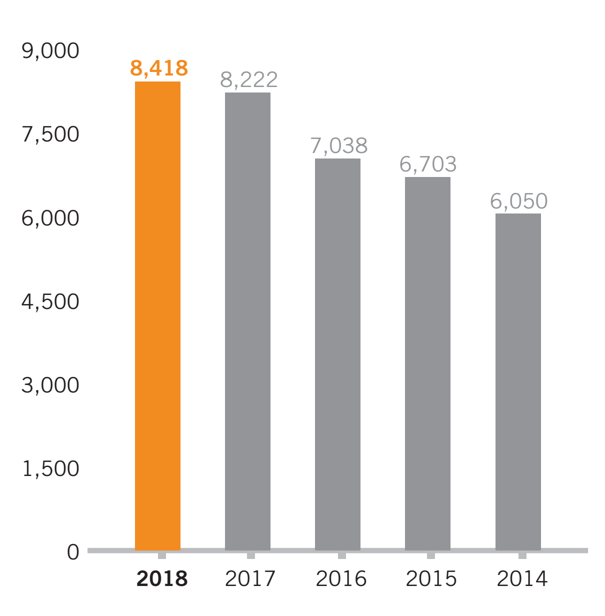
EBITDA (US$ million)



Basic earnings share (US cents)



Total equity (US$ million)



GLOSSARY

"2010 Share Award Plan"	the share award plan adopted by the Company on November 26, 2010, according to which, Teeroy Limited, as the trustee administering this share award plan, instructed Chang Yun to hold a pool of Shares subject to this share award plan; the principal terms of this share award plan are summarized in the section headed "Directors' Report — 2010 Share Award Plan"
"2013 Share Award Plan"	the share award plan adopted by the Company on October 23, 2013, according to which, Teeroy Limited, as the trustee administering this share award plan, instructed High Zenith to hold a pool of Shares subject to this share award plan; the principal terms of this share award plan are summarized in the section headed "Directors' Report — 2013 Share Award Plan"
"AGM"	the annual general meeting of the Company
"Articles of Association"	the articles of association of the Company currently in force
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors of the Company
"Board Committees"	collectively, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Environmental, Social and Governance Committee, the Food Safety Committee and the Risk Management Committee
"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
"CME"	Chicago Mercantile Exchange
"Code of Conduct"	the code of conduct regarding securities transactions by the Directors adopted by the Company

"Company"	WH Group Limited (萬洲國際有限公司), a limited liability company incorporated under the laws of the Cayman Islands the Shares of which are listing on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Rise Grand, Heroic Zone, Chang Yun, High Zenith, Sure Pass and Rich Matrix
"Director(s)"	the director(s) of the Company
"EBITDA"	Earnings before interest, taxation, depreciation and amortisation
"Environmental, Social and Governance Committee"	the environmental, social and governance committee of the Company
"EUR"	the Euro, the lawful currency of the member states of the European Union
"Fitch"	Fitch (Hong Kong) Limited or Fitch Ratings, Inc.
"Food Safety Committee"	the food safety committee of the Company
"GBP"	pound sterling, the lawful currency of the United Kingdom
"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 December 31, 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
"IFRS"	International Financial Reporting Standards
"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)
"MOA"	The Ministry of Agriculture of the People's Republic of China
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Moody's"	Moody's Investor Service Limited
"Nomination Committee"	the nomination committee of the Company
"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 December 31, 2018
"PLN"	Polish Zloty, the lawful currency of the Republic of Poland
"pp"	percentage points
"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 "Directors' Report — 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
"Remuneration Committee"	the remuneration committee of the Company
"Review Period"	the period from January 1, 2018 to December 31, 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 Company
"RMB"	Renminbi, the lawful currency of the PRC
"RON"	Romanian Leu, the lawful currency of Romania
"Rotary Vortex"	Rotary Vortex Limited (羅特克斯有限公司), a limited liability company incorporated under the laws of Hong Kong on February 28, 2006 and an indirect wholly-owned subsidiary of the Company
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"Share(s)"	ordinary share(s) with nominal value of US$0.0001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shine B"	Shine B Holding I Limited, 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 (stock code: 000895), 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 "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"USDA"	U.S. Department of Agriculture
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"U.S. Tax Reform"	the enactment of the Tax Cuts and Jobs Act in U.S. on December 22, 2017

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双汇发展
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Smithfield

This annual report is printed on environmental-friendly paper