


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

# 2017
# 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. GUO Lijun (Executive Vice President and Chief Financial Officer)
Mr. ZHANG Taixi (General Manager of Shuanghui Group)
Mr. SULLIVAN Kenneth Marc (President and Chief Executive Officer of Smithfield)
Mr. YOU Mu (Vice President of Shuanghui Development)

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

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

## Company Secretary
Mr. CHAU Ho

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

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

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

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

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

## Risk Management Committee
Mr. WAN Long (Chairman)
Mr. GUO Lijun
Mr. SULLIVAN Kenneth Marc
Mr. YOU Mu
Mr. LEE Conway Kong Wai

## Auditor
Ernst & Young

## Legal Advisor
Paul Hastings

## Principal Bankers
AgFrist Farm Credit Bank
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

| | 2017 | 2016 |
|---|---|---|
| **Key operating data** | | |
| Hogs produced (thousand heads) | 20,226 | 19,184 |
| Hogs processed (thousand heads) | 53,782 | 49,286 |
| Packaged meats sold (thousand metric tons) | 3,285 | 3,238 |

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | 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 | 22,379 | 22,379 | 21,534 | 21,534 |
| Underlying EBITDA | 2,348 | 2,371 | 2,238 | 2,263 |
| Underlying operating profit | 1,861 | 1,861 | 1,788 | 1,788 |
| Underlying profit attributable to owners of the Company | 1,090 | 1,097 | 1,014 | 1,036 |
| Underlying basic earnings per share (US$ cents) | 7.50 | 7.54 | 7.42 | 7.58 |
| Interim dividend per share (HK$) | 0.05 | 0.05 | 0.05 | 0.05 |
| Final dividend per share (HK$) | 0.22 | 0.22 | 0.21 | 0.21 |
| | 0.27 | 0.27 | 0.26 | 0.26 |

- Revenue increased by 3.9%
- Underlying operating profit increased by 4.1%
- Underlying profit attributable to owners of the Company, before biological fair value adjustments, increased by 7.5%

Note:

To present our *de facto* operation this year, our results of 2017 indicated as "underlying" in this Report were adjusted by the following two non-recurrent and non-cash items: (1) a net benefit of US$314 million from the U.S. Tax Reform and (2) a share-based payment of US$278 million recognised for the fair value of the share award under the 2013 Share Award Plan wherever applicable.

## Major Achievements

RECORD

Record-breaking year in terms of
revenue and profits

恒生指數
HANG SENG INDEXES

Became a constituent of the Hang Seng index,
effective on September 4, 2017

# CHAIRMAN'S STATEMENT

**Wan Long**
*Chairman and Chief Executive Officer*

# Carry on for a better future

## 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, 2017.

2017 was a year of accomplishments for WH Group. We delivered four consecutive years of record-breaking results. In 2017, the underlying net profit was US$1,090 million, an increase of 7.5%. The Board has recommended a final dividend of HK$0.22 per Share for 2017. Together with the interim dividend already paid, our total dividend in 2017 is HK$0.27 per Share, slightly higher than that of HK$0.26 per Share for 2016. We were also honoured to become one of the 50 constituent stocks of the Hang Seng Index in Hong Kong in 2017, which reflects the affirmation of the capital market for the company.

Looking back to our history in the past five years, we endeavoured to unleash our competitive advantages and create values for our shareholders. Since the acquisition of Smithfield in 2013, we realised the ascendency of its scale and vertically integrated business through continuous integration and strengthened management which led to new records year after year. In China, we focused on the expansion of fresh pork production and adjustment of packaged meats portfolio to actively response to the upgrade and transformation of consumers' taste in this new era and to attain stable development. We also relied on the location of our establishments and our access to global resources and markets to achieve synergy and foster our coordinated development in the globe.

Our operating success bought us strong cash flows. As such, we managed to pay down the debts caused by the acquisition of Smithfield rapidly and emancipated ourselves for future growth. The issuance of initial ratings of WH Group and the subsequent upgrade of the ratings of Smithfield by several international rating agencies validated the credit profile of the Group.

Having said that, we are not satisfied with our current achievements and will look at the growing opportunities globally. In China, we are in the process of upgrade and transformation of our packaged meats. We will increase our efforts in product innovation and marketing to drive volume expansion. In U.S., we have already achieved substantial growth for some years. Going forward, we will deepen our "Earnings Improvement & Growth Plan" to excavate our internal potential and further enhance our profitability. In Europe, following the completion of our acquisitions in 2017, we have removed the limitation relating to its scale and facilities. We will accelerate the integration process to incarnate the competitive advantages of that region.

Today, the world economy is improving, in which consumption in China is picking up, U.S. tax reform is in effect and Europe is recovering steadily. The macro environment is conducive to the continuous development of WH Group. We are confident in overcoming the challenges and seizing the opportunities to ensure the Group can achieve sustainable growth.

Overall speaking, as a consumer goods company, branded packaged meats will continue to be our core business. Relying on our rigorous quality control and food safety systems, we will assure our customers with products of superior quality. Meanwhile, through targeted and disciplined bolt-on acquisitions, we will deepen our globalisation and strengthen our competitiveness to solidify our leadership position in the global animal protein industry. We expect to take our Group to the next level in steps for the creation of greater and more enduring value to our shareholders, employees and community.

**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 77, 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 has been the chairman of the board of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 20, 2012. Mr. Wan joined Henan Luohe Meat Products Processing United Factory (河南省漯河市肉類聯合加工廠) in May 1968 and became the general manager of the factory in 1984. Under Mr. Wan's direction, our business has grown from a local state-owned enterprise in Henan Province into an international company with operations spanning various continents. Mr. Wan has over 40 years of experience in the meat processing industry. He 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 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 is the father of Mr. Wan Hongjian.

### JIAO Shuge (焦樹閣)

*Non-Executive Director and Deputy Chairman*

JIAO Shuge (焦樹閣), age 52, was appointed as our Director on April 28, 2006 and as the deputy chairman of our Board on November 26, 2010. 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.

## GUO Lijun (郭麗軍)

*Executive Director, Executive Vice President and Chief Financial Officer*

GUO Lijun (郭麗軍), age 47, 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 Factor (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.

## ZHANG Taixi (張太喜)

*Executive Director; General Manager of Shuanghui Group*

ZHANG Taixi (張太喜), age 45, was appointed as an executive Director on December 31, 2013 and will retire as an executive Director with effect from the conclusion of the forthcoming annual general meeting of the Company. Mr. Zhang has been appointed as a director of Shuanghui Group since January 2014, and has been its general manager since September 2015. He also holds directorships in various subsidiaries of the Group. From 1996 to September 2007, Mr. Zhang worked as a workshop manager in Luohe Shuanghui Canned Foods Company Limited (漯河雙匯罐頭食品股份有限公司); as the deputy director of the control center, the workshop manager and the deputy factory director of the Shuanghui Development Meat Products Division Factory (雙匯發展肉製品分廠); and as a general manager of the Ham Sausage Factory of Shuanghui Development (雙匯發展火腿腸分廠). He served as the general manager of Tangshan Shineway Food Co., Ltd. (唐山雙匯食品有限責任公司) from July 2008 to September 2008 and Jiangsu Huai'an Shuanghui Food Co., Ltd. (江蘇淮安雙匯食品有限責任公司) from October 2008 to May 2011. From June 2011 to August 2012, Mr. Zhang worked as the general manager of the business division of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary). Mr. Zhang served as the president of Shuanghui Development from August 2012 to August 2015, and as a director of Shuanghui Development from March 2014 to August 2015. Mr. Zhang graduated from Luoyang Agricultural College (洛陽農業高等專科學校) and obtained his associate degree of sanitary inspection of foodstuffs (食品衛生檢驗) in July 1995.

### SULLIVAN Kenneth Marc

*Executive Director; President and Chief Executive Officer of Smithfield*

SULLIVAN Kenneth Marc, age 54, 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.

### YOU Mu (游牧)

*Executive Director; Vice President of Shuanghui Development*

YOU Mu (游牧), age 50, was appointed as an executive Director on January 22, 2016 and will retire as an executive Director with effect from the conclusion of the forthcoming annual general meeting of the Company. He has served in various positions within the Group. He has served as director of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 2015 and vice president of Shuanghui Development since December 25, 2017. He also holds directorships in various subsidiaries of the Group. Previously, he served as president of Shuanghui Development from August 27, 2015 to December 24, 2017. He served as vice president and general manager of the meat products division of Shuanghui Development from November 2014 to August 2015. He also served as the general manager of Shuanghui Group from July 2007 to November 2014 and has been appointed as a director of Shuanghui Group since January 2014. In addition, Mr. You served as the manager of the Hangzhou branch of Shuanghui Group Sales Company (雙匯集團銷售公司) from March 2002 to February 2003, the head of sales department of Shuanghui Group Sales Company from February 2003 to June 2004, the general manager from June 2004 to October 2004, the general manager of the meat products division from October 2004 to July 2007 and the director of Shuanghui Development from November 2007 to August 2012.

Mr. You graduated from Henan Business College majoring in planning and statistics in July 1991, and subsequently obtained the completion certificate for the master of business administration program of the Graduate School of Renmin University (中國人民大學研究生院) in March 2005. Mr. You received his assistant accountant certificate conferred by the Ministry of Finance of the PRC (中華人民共和國財政部) in October 1994 and business marketing economist certificate conferred by the Ministry of Personnel of PRC (中華人民共和國人事部) in November 2000.

## HUANG Ming (黃明)

*Independent Non-executive Director*

HUANG Ming (黃明), age 54, was appointed as one of our independent non-executive Directors on July 16, 2014 with effect from the Listing Date. Mr. Huang served as an assistant professor of finance at the Graduate School of Business, University of Chicago from April 1996 to June 1998; as an assistant professor of finance from July 1998 to August 2001 and as an associate professor from September 2001 to June 2005 at the Graduate School of Business, Stanford University; and as an associate dean and professor of finance from July 2004 to June 2005 and a professor of finance from July 2008 to June 2010 at the Cheung Kong Graduate School of Business (長江商學院). Mr. Huang was also appointed as the Dean of School of Finance of Shanghai University of Finance and Economics (上海財經大學) from April 2006 to April 2009. He has been a professor of finance with tenure at Cornell University since July 2005, and has been a chair professor of finance at China Europe International Business School (中歐國際工商學院) since July 2010.

Mr. Huang has served as an independent non-executive director of Yingli Green Energy Holding Company Limited (a company listed on the New York Stock Exchange with stock code YGE) since August 2008 and Fantasia Holdings Group Co., Ltd. (a company listed on the Stock Exchange with stock code 01777) since October 2009 . 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 63, 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 61, 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.

### WAN Hongjian (萬洪建)

WAN Hongjian (萬洪建), age 49, has been appointed by the Board as an executive Director with effect from the conclusion of the forthcoming annual general meeting of the Company. 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 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 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.

### MA Xiangjie (馬相傑)

MA Xiangjie (馬相傑), age 46, has been appointed by the Board as an executive Director with effect from the conclusion of the forthcoming annual general meeting of the Company. He has also served as the president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since December 26, 2017. 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 21 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.

He 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.

### QIAO Haili (喬海莉)

QIAO Haili (喬海莉), age 53, has served in various positions within the Group. She has been the vice president of the production and operations division of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since November 2014, responsible for the production and operations work stream of Shuanghui Development and the quality control management of Shuanghui Development since November 2016. She also holds directorships in various subsidiaries of the Group. Ms. Qiao has served as the vice president and general manager of Shuanghui Development's meat processing division from September 2012 to October 2014 and a deputy general manager of its meat product department from August 2009 to August 2012, where she has been primarily responsible for the general operation of meat products production. Ms. Qiao served as a deputy director of the hygiene inspection department and as a workshop manager of Shuanghui Group from August 1986 to September 1995. Ms. Qiao also served as a director of the hygiene inspection department and the third business division of Shuanghui Group from September 1995 to February 1998. In addition, Ms. Qiao served as the general manager in Luohe Shuanghui Canned Foods Company Limited (漯河雙匯罐頭食品股份有限公司) from February 1998 to October 2004; as a director in Shuanghui Development from November 2001 to October 2004; and as the general manager in Shuanghui Development Meat Processing Division Factory (雙匯發展肉製品分廠) from November 2004 to August 2009.

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

### WANG Yufen (王玉芬)

WANG Yufen (王玉芬), age 50, 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 18 years since March 1998. She also holds directorships in various subsidiaries of the Group. Ms. Wang has worked with the Group for over 26 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 41, has served as the vice president of Shuanghui Development (a company listed on the Shenzhen Stock Exchange with stock code 000895 and our subsidiary) since August 2012 and is in charge of finance, information technology and finance company. He also holds directorships in various subsidiaries of the Group. Previously, Mr. Liu served as a director of the finance department of Shuanghui Group from May 2003 to August 2012, as a director of the finance department of Shuanghui Development Luohe Slaughter Factory (雙匯發展漯河屠宰分廠) from March 2003 to May 2003, and as a director of the finance department of Luohe Huayi Food Co., Ltd. (漯河華意食品有限公司) from March 2002 to March 2003. 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 62, 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.

**NOWAKOWSKI Dariusz**

NOWAKOWSKI Dariusz, age 64, serves as the president of Smithfield's Europe division and is responsible for all of Smithfield's wholly owned investments in Europe, which comprise the majority of the International Division. He also holds directorships in various subsidiaries of the Group. Mr. Nowakowski has been a president of Animex Sp. Z o.o., our wholly owned subsidiary, since June 2006. He worked in Canada and U.S. for 25 years and prior to joining Smithfield group in 2006 he worked for major Canadian and U.S. food corporations, including ConAgra Foods and Maple Leaf Foods. Mr. Nowakowski received his master's of science degree in animal sciences from Krakow University of Agriculture in 1980 and his master's of science degree in food science from the University of Saskatchewan, Canada in 1986.

**NUNZIATA Glenn**

NUNZIATA Glenn, age 44, 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 has been a certified public accountant in the State of New York, U.S., since March, 2000 and in the Commonwealth of Virginia, U.S., since 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 52, 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

## Industry Overview

### China

China is the largest pork producer and consumption market in the world and the market is expected to expand further. Generally, the growth of the pork industry in China is largely dependent on the pace of its economic growth and improvement of people's living standard. Nevertheless, the short term trend is impacted by the industry cycle. According to the statistics of the National Bureau of Statistics of China, the total production of pork in 2017 was 53.4 million tons, an increase of 0.8% as compared to last year. The total production of hogs was 689 million heads, 0.5% higher than last year.

The pork prices in China are reflections of the supply and demand of hogs in the market. With reference to the statistics published by MOA, the average hog price in China during the year was RMB15.4 (approximately US$2.3) per kg, a reduction of 17.4% from last year. In 2017, hog prices started to come down since the beginning of the year and reached the lowest point of the year in June. The decline in hog prices was primarily due to the increase in supply as high level of profitability incentivised hog farmers to expand production. The descending hog prices improved the overall consumption of fresh pork but weakened the demand for importation of pork from foreign countries. According to the statistics of the General Administration of Customs of the People's Republic of China, the total volume of imported pork in 2017 decreased by 24.9% year-on-year.

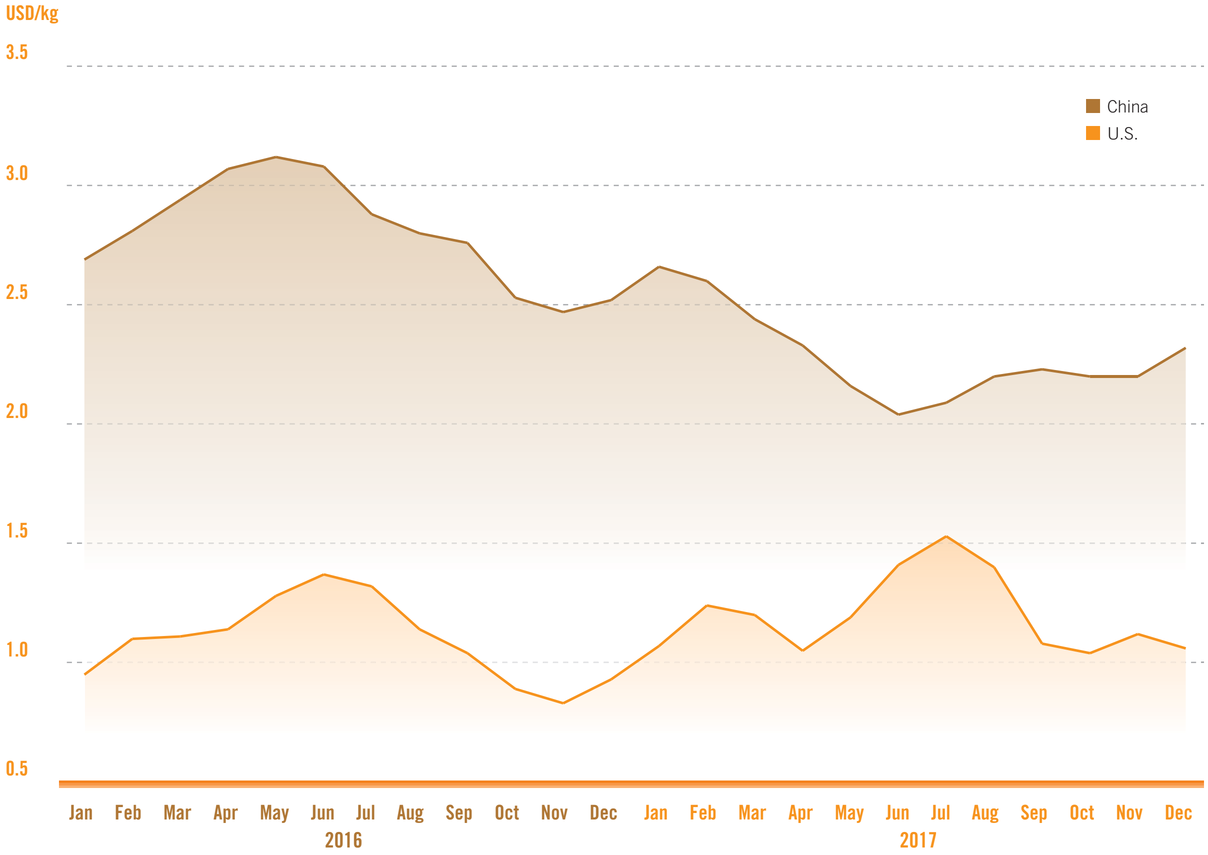
### U.S.

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

In 2017, overall animal protein production in U.S. was up, in which pork rose 2.6%, chicken rose 2.4% and beef rose 3.8%. Exports were strong during the year. According to USDA, the export volume of pork, in terms of carcass weight equivalent, during the year of 2017 reached 5.6 billion pounds, an increase of 7.5% over the year of 2016, The increase was mainly contributed by the growth in exports to Mexico and South Korea. Exports to China, on the other hand, recorded a reduction. New slaughtering facilities were added to the industry which increased the total production capacity of the nation.

As a result, the average hog price during the year was US$1.2 per kg according to CME, an increase of 10.0% over the last year. The increase was mainly driven by the market expectation of higher demand for hogs caused by the additional slaughtering capacity. On the other hand, the pork values in U.S. increased by a lesser extent by 6.9% as the increase in meat supply partially offset the favourable impact of the robust demand for pork, which was supported by stable local consumption and strong exports.

## Hog prices in China and U.S. during 2016 and 2017




*Sources: MOA and CME*

## Results of Operations

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

| | 2017<br>US$ million | 2016<br>US$ million | Change<br>% |
|---|---|---|---|
| Revenue[1] | | | |
| – Packaged meats | **11,777** | 11,074 | 6.3 |
| – Fresh pork | **9,526** | 9,178 | 3.8 |
| – Hog production | **572** | 844 | (32.2) |
| – Others[2] | **504** | 438 | 15.1 |
| | **22,379** | 21,534 | 3.9 |
| Underlying operating profit/(loss) | | | |
| – Packaged meats | **1,435** | 1,475 | (2.7) |
| – Fresh pork | **547** | 545 | 0.4 |
| – Hog production | **56** | (40) | N/A |
| – Others[2][3] | **(177)** | (192) | (7.8) |
| | **1,861** | 1,788 | 4.1 |

Notes:

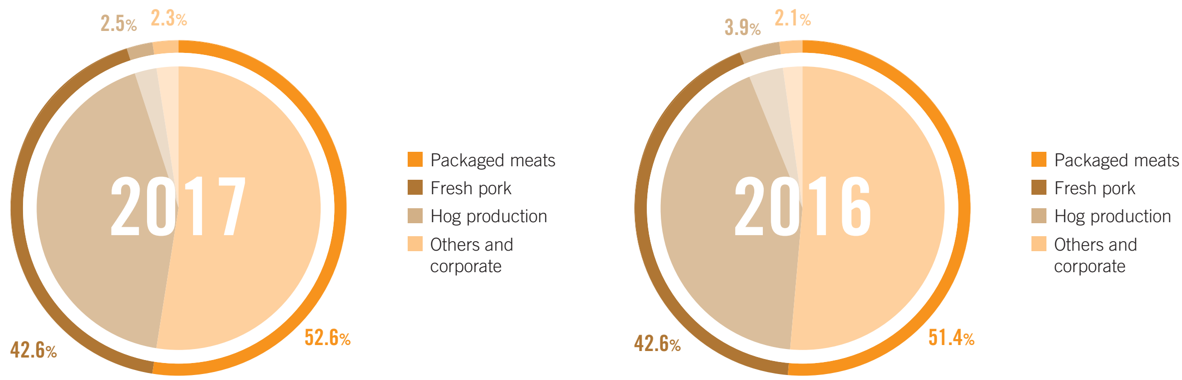
(1) Revenue refers to net external sales.

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

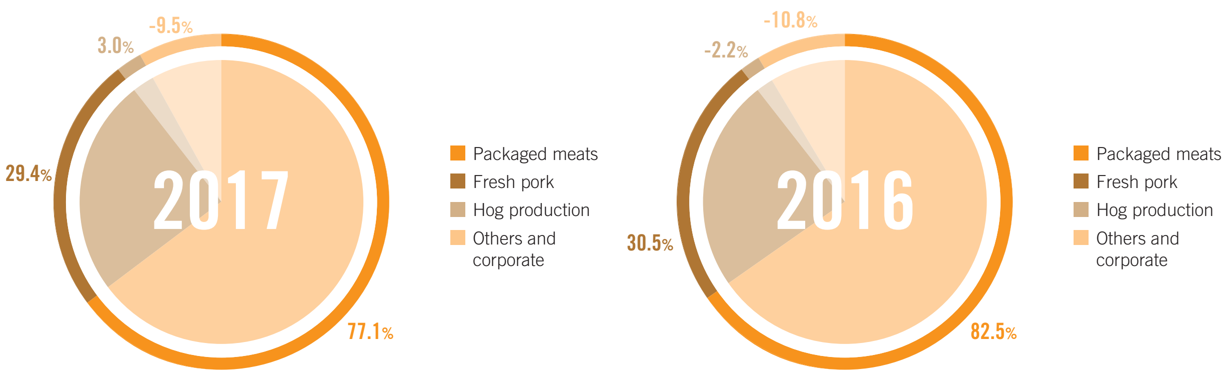
(3) Underlying operating loss for our others segment in 2017 excluded the share-based payment of US$278 million relating to our 2013 Share Award Plan.

The packaged meats segment has always been our core business. It accounted for 52.6% of the Group's revenue in 2017 (2016: 51.4%). Its contribution to the Group's underlying operating profit was 77.1% in 2017 (2016: 82.5%).

## Revenue by Operating Segment

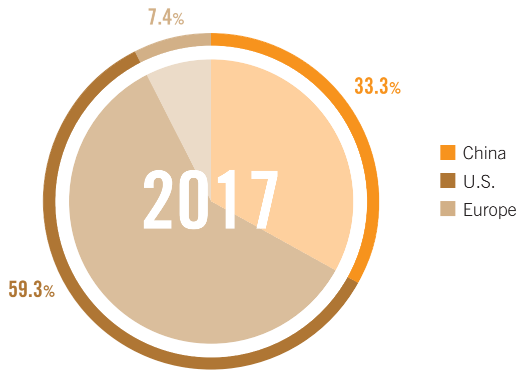


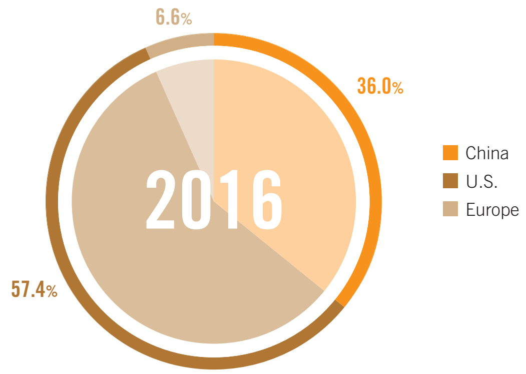

## Underlying Operating Profit by Operating Segment



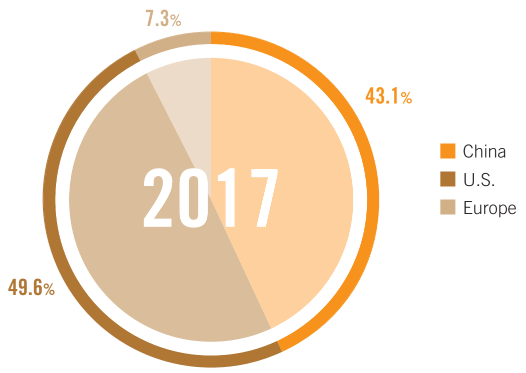
Geographically speaking, our operations in China contributed 33.3% and 43.1% of the revenue and underlying operating profit of the Group in 2017 respectively (2016: 36.0% and 46.0%). Contribution of our operation in U.S. to the revenue and underlying operating profit of the Group in 2017 were 59.3% and 49.6% respectively (2016: 57.4% and 49.7%). The rest of the revenue and underlying operating profit of the Group came from our operations in Europe.

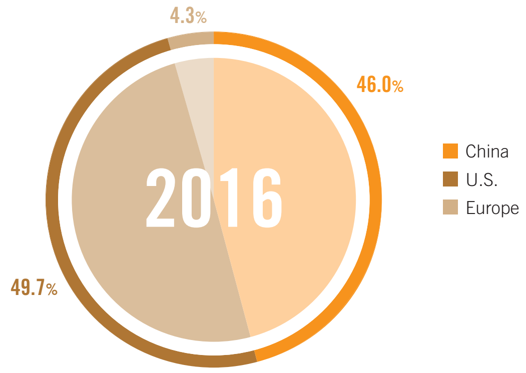
## Revenue by Location




## Underlying Operating Profit by Location



## Packaged Meats

| | 2017 US$ million | 2016 US$ million | Change % |
|---|---|---|---|
| Revenue | | | |
| China | **3,312** | 3,344 | (1.0) |
| U.S. | **7,807** | 7,123 | 9.6 |
| Europe | **658** | 607 | 8.4 |
| | **11,777** | 11,074 | 6.3 |
| Operating profit | | | |
| China | **692** | 725 | (4.6) |
| U.S. | **726** | 714 | 1.7 |
| Europe | **17** | 36 | (52.8) |
| | **1,435** | 1,475 | (2.7) |

Sales volume of our packaged meats increased by 1.5% year-on-year to 3,285 thousand metric tons in 2017. In China, our sales volume reduced by 1.4% as we were still in the process of transformation. On a positive note, our new products and new channels were performing well. In U.S., our sales volume grew by 3.2%. The increase was brought by the inclusion of Farmer John in our product portfolio as a result of the Acquisition of Clougherty (as defined hereinafter). In Europe, the volume of our packaged meats sold was 10.3% higher than last year. The increase was largely attributable to the organic growth and supplemented by the Acquisition of Pini (as defined hereinafter). Our strategy is to achieve better growth in Europe by production capacity expansion and product innovation.

Revenue of our packaged meats in 2017 was US$11,777 million, an increase of 6.3% as compared to 2016. The increase was mainly driven by the higher revenue in U.S. and Europe due to volume expansion. We also achieved higher sale prices in U.S. as compared to last year because of the soaring bacon price. Unlike U.S. and Europe, revenue in China reported a slight decline. The decline was wholly caused by the depreciation of local currency. Disregarding the adverse effect generated from the exchange rate applied in reporting the RMB business in US$, revenue in China increased by 0.7% notwithstanding the decrease in sales volume.

Operating profit of our packaged meats this year was down by 2.7% to US$1,435 million as operating profit in both China and Europe decreased as a result of higher raw material costs. In China, despite the descending hog prices, costs of many other raw materials such as chicken meat, sugar, packaging materials were relatively high during the year. To maintain a stable operating profit margin, we managed our raw material costs through disciplined purchase strategy. The deployment of imported meat in the production of packaged meats is also our effective measure to control the raw materials costs. In Europe, high hog prices drove the raw material costs up. Meanwhile, our operating profit was also impacted by certain integration costs caused by the Acquisition of Pini. In contrast, operating profit in U.S. grew by 1.7% as the increase in sales prices, particularly for bacon and smoked sausage, outpaced their corresponding costs.

## Fresh Pork

| | 2017 US$ million | 2016 US$ million | Change % |
|---|---|---|---|
| Revenue | | | |
| China | 3,888 | 4,194 | (7.3) |
| U.S. | 4,961 | 4,441 | 11.7 |
| Europe | 677 | 543 | 24.7 |
| | 9,526 | 9,178 | 3.8 |
| Operating profit/(loss) | | | |
| China | 103 | 98 | 5.1 |
| U.S. | 433 | 472 | (8.3) |
| Europe | 11 | (25) | N/A |
| | 547 | 545 | 0.4 |

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 maximize the profits.

Total number of hogs processed in 2017 was 53,782 thousand heads, an increase of 9.1% over 2016. In China, market demand was supported by the descending pork prices. Hog processing volume increased by 15.5% as we enlarged our sales network. We also brought about the synergy of distributing both local and imported pork products. Through certain strategic collaboration schemes, our sales volume in supermarkets, authorised stores and catering channels increased considerably. Our strategy is to capture more market share by continuous volume growth as we keep improving the utilization of our existing facilities. In U.S., our hog processing volume was 8.0% higher than that of last year as a result of the Acquisition of Clougherty and expansion of market demand. In Europe, the level of hogs processed remained stable at approximately 5,000 thousand heads.

External sales volume of fresh pork during the year was 4,489 thousand metric tons, 8.2% more than that of last year. The volume increased in both China and U.S., at 11.6% and 5.2% respectively, while the sales volume in Europe was similar to last year. In U.S., even though the export volume to China reduced in 2017, the total export volume went up by 9.0% over last year due to strong sales to Mexico and South Korea.

Fresh pork revenue grew 3.8% to US$9,526 million in 2017 as revenue in U.S. and Europe increased. Revenue in U.S. rose as both volume and prices went up during the year. Revenue in Europe rose as pork prices ascended. Unlike U.S. and Europe, revenue in China declined as the impact of the decrease in pork prices outweighed the increase in sales volume.

Our operating profit of fresh pork remained stable at US$547 million in 2017. In China, our operating profit grew by 5.1% as we took the opportunity of better consumer demand when pork prices were sloping downward to expand our volume and maximise profitability. On the other hand, operating profit in U.S. decreased. The decrease was primarily due to the compression in the spread between hog prices and pork prices comparing to 2016. Having said that, our profit margin also benefited from various improvement plans such as standardization of meat cuts. In Europe, 2017 was our first profitable year due to favourable pricing resulting from strong market demand.

## Hog Production

| | 2017<br>US$ million | 2016<br>US$ million | Change<br>% |
|---|---|---|---|
| Revenue | | | |
| China | 11 | 14 | (21.4) |
| U.S. | 510 | 794 | (35.8) |
| Europe | 51 | 36 | 41.7 |
| | 572 | 844 | (32.2) |
| Operating profit/(loss) | | | |
| China | 23 | 38 | (39.5) |
| U.S. | (68) | (144) | N/A |
| Europe | 101 | 66 | 53.0 |
| | 56 | (40) | N/A |

In 2017, hog production volume increased by 5.4% to 20,226 thousand heads. The vast majority of our hog production business is in U.S. and Europe. Revenue decreased by 32.2% to US$572 million as hedging gains on hogs reduced and fewer hogs were sold externally in U.S.. An operating profit of US$56 million (2016: loss of US$40 million) was recorded as our operation in U.S. reduced its operating loss by US$76 million and our operation in Europe increased its operating profit by US$35 million during the year. The improvement of results in both U.S. and Europe was primarily driven by the rise of hog prices in the local markets.

## Others

In addition to packaged meats, fresh pork and hog production, the Group also engages in certain other businesses, which are mainly slaughtering and sales of poultry, manufacturing and sales of packaging materials, provision of logistics services, operating a finance company and a chain of retail grocery stores, producing flavoring ingredients and natural casings, and sales of biological pharmaceutical materials. In 2017, revenue generated from our other businesses amounted to US$504 million, a 15.1% increase as compared to 2016.

These other businesses are ancillary to our three primary operating segments. For instance, our logistics business in China currently owns 17 logistics centers across 14 provinces covering the majority part of the nation. These facilities enable us to deliver our packaged meats and fresh pork to customers timely and safely.

## Production Capacity

The Group has production facilities with state-of-the-art equipment located in China, U.S. and part of Europe. As at the year end of 2017, we owned an annual production capacity of packaged meats of approximately 2.34 million, 1.76 million and 0.20 million metric tons with utilisation rates of 72.8%, 81.7% and 126.9% in China, U.S. and Europe, respectively. Annual production capacity of fresh pork were approximately 23.68 million, 33.07 million and 5.51 million heads in China, U.S. and Europe and their utilisation rates were 60.9%, 103.0% and 91.8%, respectively.

The capacity stated above included the additional capacity introduced by our acquisitions in 2017. The Acquisition of Clougherty brought in approximately 1.92 million heads of processing capacity and 0.09 million metric tons of packaged meats production capacity to the Group. The completed portion of the Acquisition of Pini also brought in approximately 0.07 million metric tons in total of packaged meats production capacity to the Group.

## 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 environmental, social and governance report.

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 environmental, social and governance 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.

## Prospects

The operating landscape, led by economic growth, consumers' preference, industry cycle and epidemics, will continue to impact our businesses. To cope with these challenges and achieve more vigorous growth in competition, we will respond proactively.

In China, we will enhance the optimisation of our product portfolio, develop our sales channels and increase our investment in marketing to grow our packaged meats volume. We will also expand our market share in hog slaughtering to capture the opportunity brought by industry consolidation and our built facilities. In U.S., we continue to focus on the realization of the full value of our vertically integrated business. We will build stronger consumer brands and improve operating efficiency to achieve better margins. In Europe, we endeavour to integrate the newly acquired businesses and upgrade the existing businesses to enlarge scale and enhance profitability.

As a consumer goods company, branded packaged meats will continue to be our core business. Coupled with our stringent quality control and food safety systems, we will assure customers with high quality products. We will also strive to strengthen our competitiveness globally through disciplined acquisitions. We believe that our relentless pursuit of our strategies will lead to sustainable growth, solidify our global leadership and create long-term value for our shareholders, employees and community.

# FINANCIAL REVIEW

In 2017, revenue of the Group was US$22,379 million, up 3.9% as compared to 2016. Operating profit was US$1,583 million, down 11.5%. Disregarding any biological fair value adjustments, profit for the year of 2017 was US$1,313 million, 8.0% higher than 2016; and profit attributable to owners of the Company grew 11.0% to US$1,126 million.

Excluding the adjustments in relations to the U.S. Tax Reforms of US$314 million benefit and share-based payment of US$278 million charges, our underlying operating profit in 2017 was US$1,861 million, an increase of 4.1% over last year. Our underlying profit for the year before biological fair value adjustments was US$1,277 million, an increase of 5.0%. Our underlying profit attributable to owners of the Company before biological fair value adjustments was US$1,090 million, an increase of 7.5%.

## Key Financial Performance Indicators

| | | 2017 | 2016 | Change |
|---|---|---|---|---|
| Revenue growth rate | %/pp | **3.9** | 1.5 | 2.4 |
| Underlying EBITDA (before biological fair value adjustments) margin | %/pp | **10.5** | 10.4 | 0.1 |
| Underlying operating profit margin | %/pp | **8.3** | 8.3 | 0.0 |
| – Packaged meat products | %/pp | **12.2** | 13.3 | (1.1) |
| – Fresh pork | %/pp | **4.2** | 4.5 | (0.3) |
| – Hog production | %/pp | **1.6** | (1.2) | 2.8 |
| Per unit operating profit (loss) | | | | |
| – Packaged meat products | US$ per metric ton | **436.9** | 455.4 | (18.5) |
| – Fresh pork | US$ per head | **10.2** | 11.1 | (0.9) |
| – Hog production | US$ per head | **2.8** | (2.1) | 4.9 |
| Underlying net profit (before biological fair value adjustments) margin | %/pp | **5.7** | 5.6 | 0.1 |
| Current ratio | times | **1.6** | 1.5 | 0.1 |
| Cash conversion cycle | days | **31.5** | 31.6 | (0.1) |
| Debt to equity ratio | %/pp | **38.9** | 40.9 | (2.0) |
| Debt to underlying EBITDA (before biological fair value adjustments) ratio | times | **1.4** | 1.3 | 0.1 |
| Return on total assets | %/pp | **9.1** | 8.9 | 0.2 |
| Return on equity | %/pp | **16.5** | 17.2 | (0.7) |

## Analysis of Capital Resources

### Liquidity

The Group continues to maintain a strong level of liquidity. We had bank balances and cash of US$1,371 million as at December 31, 2017, which were held primarily in RMB, US$, PLN and RON (2016: US$1,139 million).

Our current ratio (ratio of consolidated current assets to consolidated current liabilities) was 1.6:1 as at December 31, 2017 (2016: 1.5:1). The aggregate amount of unutilised banking facilities as at December 31, 2017 was US$2,471 million (2016: US$2,720 million).

### Cash flows

We fund our operations principally from cash generated by our operations, bank loans and other debt instruments and equity financing from investors. Our cash requirements related 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 2017, our net cash from operating activities amounted to US$1,512 million (2016: US$1,850 million). The decrease was mainly due to the net payments for income taxes in U.S. compared to net receipts in last year. Our net cash used in investing activities in 2017 amounted to US$784 million (2016: US$141 million). The change was mainly resulted from our payments for acquisitions and less receipts from available-for-sale investments upon their maturity as compared to last year. Our net cash from financing activities in 2017 amounted to US$591 million (2016: net cash used amounted to US$1,673 million). The change was mainly attributable to the repayment of a substantial amount of borrowings in last year and the increase in our borrowings in this year. After all, our net increase in cash and cash equivalents was US$137 million in 2017 (2016: US$36 million).

### Major Financing Activities

On February 1, 2017, the Group completed the issuance of US$1,400 million aggregate principal amount of senior unsecured notes, which is comprised of US$400 million aggregate principal amount of 2.700% senior notes due 2020, US$400 million aggregate principal amount of 3.350% senior notes due 2022 and US$600 million aggregate principal amount of 4.250% senior notes due 2027 (Collectively, the "**New Notes**").

On February 17, 2017, the Group refinanced an inventory-based revolving credit facility, entering into a credit agreement, which consists of a US$1,000 million senior unsecured revolving facility and a US$500 million senior unsecured term loan, with a bank group (the "**New Credit Facility**"). The net proceeds from the New Notes and the term loan portion of the New Credit Facility were used to fund the repurchase of an aggregate US$1,786 million principal amount of senior unsecured notes due 2017, 2018, 2021 and 2022 ("**US$1,400 million Refinancing Plan**"). The US$1,400 million Refinancing Plan is expected to reduce future finance costs and improve debt maturity profile.

On October 3, 2017, the Group further issued US$400 million aggregate principal amount of 2.650% senior unsecured notes due 2021 to repay primarily its outstanding borrowings on the New Credit Facility.

## Debt Profile

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

| | As at December 31, 2017 US$ million | As at December 31, 2016 US$ million |
|---|---|---|
| **Borrowings by nature** | | |
| Senior unsecured notes | 1,785 | 1,882 |
| Bank borrowings | 1,164 | 833 |
| Medium term notes | 154 | 144 |
| Loans from third parties | 3 | 3 |
| Bank overdrafts | 92 | 16 |
| | 3,198 | 2,878 |
| **Borrowings by geographical region** | | |
| U.S. | 2,246 | 1,912 |
| China | 847 | 896 |
| Europe | 105 | 70 |
| | 3,198 | 2,878 |

The Group's total principal amount of outstanding borrowings as at December 31, 2017 was US$3,215 million (as at December 31, 2016: US$2,864 million). The maturity profile is analyzed as follows:

| | Total |
|---|---|
| In 2018 | 28% |
| In 2019 | 4% |
| In 2020 | 14% |
| In 2021 | 14% |
| In 2022 | 21% |
| 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. 73.3% of our borrowings was denominated in US$ as at December 31, 2017 (as at December 31, 2016: 87.0%). The rest of our borrowings was denominated in RMB, RON, HK$, PLN and EUR.

As at December 31, 2017, 96.6% of our borrowings were unsecured (as at December 31, 2016: 96.8%). 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, 2017, 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 38.9% and 22.2% respectively (as at December 31, 2016: 40.9% and 24.7% respectively). Our debt to underlying EBITDA ratio (ratio of consolidated borrowings and bank overdrafts to underlying EBITDA before biological fair value adjustments) and net debt to underlying EBITDA ratio (ratio of consolidated borrowings and bank overdrafts less bank balances and cash to underlying EBITDA, before biological fair value adjustments) as at December 31, 2017 were 1.4:1 and 0.8:1 respectively (as at December 31, 2016: 1.3:1 and 0.8:1 respectively).

### Finance Costs

Our finance costs increased from US$183 million in 2016 to US$198 million in 2017. The increase was mainly the net results of a loss on debt extinguishment of US$70 million and the subsequent interest savings of approximately US$40 million related to the US$1,400 million Refinancing Plan. As at December 31, 2017, the average interest rate of our total borrowings was 3.4% (as at December 31, 2016: 5.2%).

### 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.

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

## Taxation

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

The U.S. Tax Reform in late 2017 led to the re-measurement of our net deferred tax liabilities at the new federal statutory tax rate of 21% and the recognition of an obligation on the deemed repatriation of the historical earnings from and cash held abroad by our U.S. subsidiaries. Based on our current interpretation of the newly enacted Tax Cuts and Jobs Act, the net impact of such items resulted in a one-time non-cash benefit of US$314 million in 2017. We consider that the lower statutory tax rate in U.S. will continue to benefit our operations in U.S. and the Group as a whole. Our effective tax rate for 2018 is now estimated to be lower than that of 2017 on an underlying basis.

* *For identification purposes only*

## Capital Expenditures

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

In 2017, capital expenditures amounted to US$563 million (2016: US$451 million). The following table sets out our capital expenditures by geographical region for the years indicated:

| | 2017<br>US$ million | 2016<br>US$ million |
|---|---|---|
| China | 67 | 80 |
| U.S. | 437 | 306 |
| Europe | 59 | 65 |
| | 563 | 451 |

In China, our capital expenditures for the year were mostly related to the building of new production facility in Shenyang and renovation of old production facilities in Qingyuan and Dezhou. In U.S., our capital expenditures for the year were primarily related to construction of a new distribution centre, plant and hog farm improvement projects, as well as the upgrade of our ERP system. In Europe, our capital expenditures for the year were mainly to expand capacity and to optimize the existing facilities.

## Human Resources

We continued with our focus on talent management and employee engagement. As at December 31, 2017, we had approximately 110 thousand employees in total, in which approximately 57 thousand employees were with our China operation, approximately 41 thousand and 12 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 2017 amounted to US$3,669 million (2016: US$3,210 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. The increase in total remuneration expenses for the year was primarily due to the one-time charge in relation to the share-based payment of US$278 million recognised for the share award under the 2013 Share Award Plan.

## Biological Assets

As at December 31, 2017, we had a total of 12,337 thousand hogs, consisting of 11,231 thousand live hogs and 1,106 thousand breeding stock, an increase of 1.9% from 12,103 thousand hogs as at December 31, 2016. We also had a total of 4,762 thousand poultry, consisting of 4,245 thousand broilers and 517 thousand breeding stock. The fair value of our biological assets was US$1,171 million as at December 31, 2017, as compared to US$1,119 million as at December 31, 2016.

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 2017, the net impact of biological fair value adjustments on our profit was a profit in the amount of US$6 million, as compared to US$22 million of last year.

## Key Investment Interests

### Acquisition of Subsidiaries

On January 3, 2017, the Group completed the acquisition of an integrated producer and processor of pork products in U.S. which operates various brands including "Farmer John" ("**Acquisition of Clougherty**"). The Acquisition of Clougherty expands and strengthens the Group's vertically integrated supply chain with existing profitable fresh pork and packaged meats businesses. As the Farmer John brand is the leading branded bacon and fresh sausage in California, the Acquisition of Clougherty also provides the Group with an immediate entry into the U.S. West Coast market and further solidifies the Group's image as a premium pork products producer and processor.

On June 1, 2017, the Group completed the acquisitions of three meat companies in Poland which comprised of a meat processing and packaging plant, a case ready meat plant and an investment project in chicken processing which is currently under development. On July 28, 2017, the Group further acquired 33.5% and agreed to acquire the remaining 66.5% interest (conditional upon approval from regulatory authorities) in a hog slaughterhouse in Poland ("**Acquisition of Pini**"). The Acquisition of Pini aligns with the strategic growth plans of the Group by strengthening its vertically-integrated supply chain in resourceful regions and increasing its production of high-quality packaged meats products. It is expected to help our business in Poland to become more competitive in Europe and globally.

On June 22, 2017, the Group completed the acquisition of 100% equity interest in a biopharmaceutical company ("**Acquisition of Celsus**"). The Acquisition of Celsus will form part of the Group's new bioscience group, a strategic platform to leverage by-products from the meat production process for development of pharmaceuticals, nutraceuticals and medical device solutions.

In 2013, Smithfield formed a joint venture with a leading U.S. pre-rigor sausage producer and processor which has operations in Iowa and Missouri, and succeeded in growing our packaged meats business and brands. On August 14, 2017, the Group obtained its remaining 50% equity interest ("**Acquisition of additional interest in Kansas City Sausage**"). The Acquisition of additional interest in Kansas City Sausage enhances our vertically integrated supply chain and further harmonizes our live production and processing capabilities. We will strengthen our focus on branded pre-rigor pork products and leverage our expansive sales and distribution network to bring such premium offerings to more consumers.

On September 25, 2017, the Group entered into an agreement with two companies in Romania which operate three packaged meats manufacturing facilities, five distribution centers and related assets to acquire their 100% of share capital. The two companies manufacture and sell branded, packaged meats to a nationwide distribution network. ("**Acquisition of Elit & Vericom**"). We expect the Acquisition of Elit & Vericom to give our Group a leading position in the Romanian packaged meats market with a branded portfolio of products sold in the higher margin traditional channel. The transaction was completed in January 2018.

### Mexican Joint Ventures

The Group has joint venture interests in two pork companies in Mexico, GCM and Norson. GCM sells live hogs into the Mexico City market, one of the largest pork consumption markets in the world. Norson primarily produces hogs for use in its fresh pork operations. As at December 31, 2017, GCM and Norson had in aggregate approximately 136 thousand sows on the farms in the states of Veracruz, Puebla and Sonora. In 2017, share of profit from the Mexican joint ventures was US$14 million (2016: US$25 million). It is expected that GCM and Norson will continue to be our important investments in Mexico and bring in profit to the Group.

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

## Key Risks and 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. Risk management committee of the Company (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 2017, the Group conducted two 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 overseas import, strategic inventory management and effective transfer of raw material prices to end customers. In 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 appropriate to mitigate price risk. The main objectives of our hedges are to reduce hog production margin volatility and mitigate commodity price risk associated with forward sales in our packaged meats and fresh pork businesses. While these hedging activities may limit our ability to participate in gains from favorable commodity fluctuations, it also reduces the risk of loss from adverse changes in raw material prices. The Group has robust monitoring procedures in the approval and management of all its derivative activities under the leadership and execution of a dedicated and professional team.

### Currency 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. We selectively enter into foreign exchange forward, currency swaps and options contracts to hedge significant foreign currency exposure should the need arise.

### Interest Rate Risks

Our borrowings carry fixed or floating interest rates. At December 31, 2017, approximately 80.2% of our borrowings (other than bank overdrafts) were at fixed interest rates (2016: 82.4%). According to different market conditions, we monitor and regulate the debt portfolio of the Group from time to time and enter into interest rate swap contracts as needed to manage and hedge our interest rate exposure.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Company for the year ended December 31, 2017.

## 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, 2017 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. GUO Lijun | *(Executive Vice President, Chief Financial Officer, Chairman of the Environmental, Social and Governance Committee and member of the Risk Management Committee)* |
| Mr. ZHANG Taixi | *(General Manager of Shuanghui Group, and member of the Environmental, Social and Governance Committee and the Food Safety 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. YOU Mu | *(Vice President of Shuanghui Development and member of the Risk Management Committee)* |
| **Non-executive Director:** | |
| Mr. JIAO Shuge | *(Deputy Chairman and 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 acting as both the chairman and chief executive officer of the Company will provide a strong and consistent leadership to the Company and allow for more effective planning and management of the Company. Further, in view of Mr. Wan's extensive experience in the industry, personal profile and role in the Group and the historical development of the Group, the Board considers it is beneficial to the business prospects of the Group that Mr. Wan continues to act as both the Chairman and Chief Executive Officer of the Company.

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

During the 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 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:

| | Number of meetings attend/held | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Directors | 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 |
| GUO Lijun | 5/5 | N/A | N/A | N/A | 2/2 | N/A | 1/1 | 1/1 | N/A |
| ZHANG Taixi | 5/5 | N/A | N/A | N/A | 2/2 | 2/2 | 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 |
| YOU Mu | 5/5 | N/A | N/A | N/A | N/A | N/A | 0/1 | 0/1 | N/A |
| JIAO Shuge | 5/5 | N/A | 1/1 | N/A | N/A | N/A | N/A | 0/1 | N/A |
| HUANG Ming | 5/5 | 3/3 | 1/1 | 1/1 | N/A | N/A | N/A | 0/1 | N/A |
| LEE Conway Kong Wai | 4/5 | 3/3 | 1/1 | N/A | N/A | 2/2 | 1/1 | 1/1 | N/A |
| LAU, Jin Tin Don | 5/5 | 3/3 | 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:

| Name of Director | CPD Training<br>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. GUO Lijun | ✓ |
| Mr. ZHANG Taixi | ✓ |
| Mr. SULLIVAN Kenneth Marc | ✓ |
| Mr. YOU Mu | ✓ |
| **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 three 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 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 during the Review Period were within the following bands:

| | **Number of Senior Management** |
|---|---|
| HK$4,000,001 to HK$4,500,000 | 1 |
| HK$6,000,001 to HK$6,500,000 | 2 |
| HK$7,000,001 to HK$7,500,000 | 2 |
| HK$8,000,001 to HK$8,500,000 | 1 |
| HK$35,000,001 to HK$40,000,000 | 1 |
| HK$55,000,001 to HK$60,000,000 | 1 |
| HK$85,000,001 to HK$90,000,000 | 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 meeting during the Review Period to review the Board's composition, nominated Board candidates for re-election by Shareholders at the annual general meeting of the Company held on May 23, 2017 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 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. 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

Throughout the Review Period, the Environmental, Social and Governance Committee (the "**ESG 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. The ESG Committee held two 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 ESG 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 ESG Committee will continue to formulate guidelines and initiatives that can be implemented on a Group-wide level.

## Food Safety Committee

Throughout the Review Period, 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. The Food Safety Committee held two 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

Throughout the Review Period, 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. The Risk Management Committee held one 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, 2017 is set out in the Independent Auditor's Report on pages 58 to 62 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

Deloitte Touche Tohmatsu, Certified Public Accountants, retired as the auditor of the Group with effect from the conclusion of the AGM of the Company held on Tuesday, May 23, 2017 (the "**2017 AGM**"). Ernst & Young was appointed as the independent auditor of the Group following the retirement of Deloitte Touche Tohmatsu and held office from the conclusion of 2017 AGM until the conclusion of the 2018 AGM. 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 | 3 |
| 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.

# DIRECTORS' REPORT

The Board is pleased to present its report and the audited financial statements of the Group for the year ended December 31, 2017.

## 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 25 of this report.

## Results

Results of the Group for the year ended December 31, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 63 to 64.

## Dividends

The Board has proposed to recommend the payment of a final dividend of HK$0.22 per Share (2016: HK$0.21 per Share) in cash to the Shareholders for the year ended December 31, 2017. Taking into account of the interim dividend of HK$0.05 per Share paid on October 6, 2017, total dividend for the year ended December 31, 2017 will be HK$0.27 per Share (2016: HK$0.26 per Share), representing a total payment of approximately HK$3,961 million, or an equivalent to US$505 million (2016: approximately HK$3,809 million, or an equivalent to US$491 million). The final dividend is subject to approval of the Shareholders at the forthcoming AGM to be held on June 4, 2018 (the "**2018 AGM**").

Upon the Shareholders' approval being obtained at the 2018 AGM, the final dividend will be payable on or around June 27, 2018 to the Shareholders whose names appear on the register of members of the Company on June 8, 2018.

## 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 Monday, June 11, 2018 to Wednesday, June 13, 2018, 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 Friday, June 8, 2018.

## Share Premium and Reserves

Movements in the share premium and reserves of the Group during the Review Period are set out on pages 67 and 68 to the consolidated statement of changes in equity.

## Distributable Reserves

The Company's total distributable reserves as at December 31, 2017 amounted to US$3,684 million.

## Donations

Charitable donations made by the Group during the Review Period amounted to less than US$1 million (2016: US$1 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, 2017 are set out in Note 37 to the consolidated financial statements.

## Borrowings and Capitalisation of Interests

Details of borrowings are set out in Note 31 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, 2017 by credentialed actuaries, Mercer (US), Inc., who meet the Qualification Standards of the American Academy of Actuaries. As of December 31, 2017, the fair value of plan assets was approximately 83.1% 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, 2017.

Please see Note 34 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 26 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. Wan Long, Mr. Jiao Shuge, Mr. Zhang Taixi and Mr. You Mu shall retire by rotation of Directors at the 2018 AGM. Mr. Wan and Mr. Jiao, being eligible, will offer themselves for re-election at the 2018 AGM. Each of Mr. Zhang and Mr. You has informed the Board that they will not offer themselves for re-election at the 2018 AGM and will retire as executive Directors with effect from the conclusion of the 2018 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 2018 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, 2017, 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) | 1,552,989,700(L) | 10.59% |
| | Beneficiary of a trust(2) | 944,356,128(L) | 6.44% |
| | Beneficial owner | 1,500,000(L) | 0.01% |
| | Others(3) | 350,877,333(L) | 2.39% |
| Mr. Guo Lijun | Beneficiary of a trust(4) | 71,932,808(L) | 0.49% |
| | Beneficial owner | 100,000(L) | 0.00% |
| Mr. Zhang Taixi | Beneficiary of a trust(5) | 1,158,954(L) | 0.01% |

Notes:

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

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

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

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

(5) Mr. Zhang Taixi was one of the participants of the Heroic Zone Share Plan, through which he held approximately 0.02% of the beneficial interest in Rise Grand, which in turn owned 100% of the equity interest of Heroic Zone. Accordingly, Mr. Zhang Taixi was deemed to be interested in the 1,158,954 Shares which Heroic Zone was interested in.

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

**(ii) Interests in underlying shares of the Company**

| Name of Director/ Chief Executive Officer | Capacity/Nature of Interest | Number of Underlying Shares subject to the Pre-IPO Share Options | Approximate Percentage of Shareholding[(1)] |
|---|---|---|---|
| Mr. Wan Long | Beneficial owner | 146,198,889[(L)] | 0.96% |
| Mr. Guo Lijun | Beneficial owner | 40,000,000[(L)] | 0.26% |
| Mr. Zhang Taixi | Beneficial owner | 40,000,000[(L)] | 0.26% |
| Mr. Sullivan Kenneth Marc | Beneficial owner | 12,000,000[(L)] | 0.08% |
| Mr. You Mu | Beneficial owner | 3,674,969[(L)] | 0.02% |

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. Zhang Taixi | Shuanghai Development | Beneficial owner | 15,000[(L)] | 0.00% |
| Mr. You Mu | Shuanghai Development | Interest of spouse[(1)] | 15,000[(L)] | 0.00% |

Notes:

(1) Ms. Chen Ling Hua is the spouse of Mr. You Mu and is the beneficial owner of 15,000 shares of Shuanghai Development. Mr. You Mu is deemed to be interested in such 15,000 shares within the meaning of Part XV of the SFO.

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

Save as disclosed above, as at December 31, 2017, 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, 2017, 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) | 35.97% |
| He Xingbao(1) | Trustee | 5,274,991,111(L) | 35.97% |
| Zhang Liwen(1) | Trustee | 5,274,991,111(L) | 35.97% |
| Zhao Yinzhang(1) | Trustee | 5,274,991,111(L) | 35.97% |
| Heroic Zone(2) | Beneficial owner | 3,473,820,000(L) | 23.69% |
| | Interest in controlled corporation | 1,801,171,111(L) | 12.28% |
| Teeroy Limited | Trustee | 982,457,333(L) | 6.70% |
| Xing Tong Limited(3) | Beneficiary of a trust | 979,890,055(L) | 6.68% |
| Ms. Wang Meixiang (王梅香)(4) | Interest of spouse | 2,995,922,050(L) | 20.43% |

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, 2017, the beneficial interest of Rise Grand was owned by 269 participants (the "**HSP Participants**") of the Heroic Zone Share Plan. Pursuant to an entrustment agreement dated June 13, 2016, the employee share committee (the "**ESC**"), on behalf of all HSP Participants under the Heroic Zone Share Plan, entrusted three individual trustees, namely Messrs. Zhao Yinzhang, He Xingbao and Zhang Liwen, (each being an employee of the Group), to hold the legal title, and to exercise the voting rights attached to 100% equity interest in Rise Grand in joint tenancy (the "**HSP Trustees**"). Under the Heroic Zone Share Plan, the ESC, on behalf of all HSP Participants, is entitled to instruct the HSP Trustees as to how to exercise their rights as the registered shareholders of Rise Grand, which in turn will instruct Heroic Zone, a wholly owned subsidiary of Rise Grand, as to how to exercise its rights, including the voting rights attached to the Shares it holds in the Company. The members of the ESC are selected by the general meeting of the HSP participants. The ESC has been composed of five members since its establishment. For further details of the Heroic Zone Share Plan, please see the section headed "History, Development and Corporate Structure – Shareholding Changes – Shareholding Structure at Beginning of Track Record Period" of the Prospectus.

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

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

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

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

Save as disclosed above, as at December 31, 2017, 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, 2017 | Exercised | Cancelled | Lapsed | As at December 31, 2017 | 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 |
| ZHANG Taixi (張太喜) | 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 |
| YOU Mu (游牧) | July 10, 2014 | 3,674,969 | – | – | – | 3,674,969 | 6.20 | Note |
| **Connected persons** | | | | | | | | |
| 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 | – | – | – | 3,674,969 | 6.20 | Note |
| HE Jianmin (賀建民) | July 10, 2014 | 4,409,963 | 550,000 | – | – | 3,859,963 | 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 | 4,409,963 | 400,000 | – | – | 4,009,963 | 6.20 | Note |
| PAN Guanghui (潘廣輝) | July 10, 2014 | 4,409,963 | 500,000 | – | – | 3,909,963 | 6.20 | Note |
| ZHAO Sufang (趙朔方) | July 10, 2014 | 4,409,963 | – | – | – | 4,409,963 | 6.20 | Note |
| CAO Xiaojie (曹曉杰) | July 10, 2014 | 4,409,963 | – | – | – | 4,409,963 | 6.20 | Note |
| LI Jun (李駿) | July 10, 2014 | 2,756,469 | – | – | – | 2,756,469 | 6.20 | Note |
| ZHAO Guobao (趙國寶) | July 10, 2014 | 1,469,988 | 330,000 | – | – | 1,139,988 | 6.20 | Note |
| LI Yong (李永) | July 10, 2014 | 2,939,976 | 540,000 | – | – | 2,399,976 | 6.20 | Note |
| SONG Hongliang (宋紅亮) | July 10, 2014 | 2,939,976 | – | – | – | 2,939,976 | 6.20 | Note |
| YU Guangshan (芋廣山) | July 10, 2014 | 2,939,976 | – | 2,204,983 | 734,993 | – | 6.20 | Note |
| YIN Weihua (尹衛華) | July 10, 2014 | 2,939,976 | 1,322,500 | 1,616,988 | 488 | – | 6.20 | Note |
| CHAI Wenlei (柴文磊) | July 10, 2014 | 1,469,988 | – | – | – | 1,469,988 | 6.20 | Note |
| MA Xiangjie (馬相杰) | July 10, 2014 | 9,922,417 | – | – | – | 9,922,417 | 6.20 | Note |

| Grantee | Date of Grant | As at January 1, 2017 | Exercised | Cancelled | Lapsed | As at December 31, 2017 | Exercise Price (HK$) | Exercise Period |
|---|---|---|---|---|---|---|---|---|
| **Connected persons (Continued)** | | | | | | | | |
| 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 |
| MIHAIL Bogdan | July 10, 2014 | 250,000 | 110,000 | – | – | 140,000 | 6.20 | Note |
| HE Shenghua | July 10, 2014 | 1,500,000 | – | – | – | 1,500,000 | 6.20 | Note |
| THAMODARAN Dhamu R. | July 10, 2014 | 7,000,000 | – | – | – | 7,000,000 | 6.20 | Note |
| NOWAKOWSKI Dariusz | July 10, 2014 | 4,000,000 | – | – | – | 4,000,000 | 6.20 | Note |
| CHAU Ho (周豪) | July 10, 2014 | 3,500,000 | – | – | – | 3,500,000 | 6.20 | Note |
| **Other grantees who have been granted the Pre-IPO Share Options to subcribe 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 | 5,879,951 | 2,645,500 | – | – | 3,234,451 | 6.20 | Note |
| LI Hongwei (李紅偉) | July 10, 2014 | 4,410,451 | 35,500 | – | – | 4,374,951 | 6.20 | Note |
| WANG Yonglin (王永林) | July 10, 2014 | 5,879,951 | 400,000 | – | – | 5,479,951 | 6.20 | Note |
| FU Zhiyong (付志勇) | July 10, 2014 | 5,879,951 | – | – | – | 5,879,951 | 6.20 | Note |
| GUO Xinwen (郭新聞) | July 10, 2014 | 5,879,951 | – | – | – | 5,879,951 | 6.20 | Note |
| LIU Qingde (劉清德) | July 10, 2014 | 5,144,957 | 520,000 | – | – | 4,624,957 | 6.20 | Note |
| **Senior management and other employees (in aggregate)** | July 10, 2014 | 118,060,703 | 5,806,500 | 1,265,000 | 45,000 | 110,944,203 | 6.20 | Note |
| Total | | 549,633,028 | 13,160,000 | 5,086,971 | 780,481 | 530,605,576 | | |

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, Zhang Taixi and You Mu, and Mr. Yang Zhijun (who was then an executive Director until he retired with effect from the conclusion of the annual general meeting of the Company held on May 22, 2015) 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, Zhang Taixi, You Mu and Yang Zhijun, 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, 53,684,301 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, Zhang Taixi, You Mu and Yang Zhijun, 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, 2017.

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 6 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, 2017 have been audited by Ernst & Young.

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

Hong Kong, March 26, 2018

# INDEPENDENT AUDITOR'S REPORT

EY 安永

**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 63 to 161, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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$985 million, representing 6.5% of the Group's total assets as at 31 December 2017. 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 and the estimated margins that would be required by a raiser and less 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 valuation to determine the fair value less costs to sell of live hogs.<br><br>Disclosures of determination of the fair value less costs to sell and the key assumptions involved are included in notes 4 and 17 to the consolidated financial statements. | Our procedures in relation to assessing the fair value measurement of live hogs included in biological assets included:<br><br>• Understanding how the management determined the fair value measurement of live hogs included in biological assets, including the involvement of the independent valuer;<br><br>• Evaluating the competence, capabilities, independence and objectivity of the independent valuer;<br><br>• Reviewing the valuation model prepared by the independent valuer in determining the fair value less costs to sell of live hogs;<br><br>• Checking the market price of hogs to the available market data, on a sample basis; and<br><br>• 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. |

## Key Audit Matters (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of obligation in respect of defined benefit plans*** | |
| The carrying value of the Group's obligation in respect of net pension liability as at 31 December 2017 amounted to US$362 million, representing 5.1% of the Group's total liabilities as at 31 December 2017. The obligation in respect of defined benefit plans was determined using the projected unit credit method, with actuarial valuation being carried out at the end of the reporting period. The Group engaged an actuarial expert to perform the actuarial valuation of plan assets and the present value of the defined benefit obligations. Key assumptions applied in the actuarial valuation included discount rates, expected salary increases and mortality rates. We identified the valuation of the obligation in respect of defined benefit plans as a key audit matter because of the significant management judgement, assumptions and actuarial expert involved in the determination of the valuation.<br><br>Disclosures of the Group's obligation in respect of net pension liability and the key assumptions adopted in the valuation are included in notes 4 and 34 to the consolidated financial statements. | Our procedures in relation to assessing the valuation of the obligation in respect of defined benefit plans included:<br><br>• Understanding the management's valuation process, including the involvement of the actuarial expert in performing the actuarial valuation of plan assets and the present value of the defined benefit obligations;<br><br>• Evaluating the competence, capabilities, independence and objectivity of the actuarial expert;<br><br>• Evaluating the valuation method and key assumptions adopted in the valuation of obligation in respect of the defined benefit plans; and<br><br>• Involving our internal valuation specialist to evaluate the key assumptions adopted in the valuation of the obligation in respect of the defined benefit plans, including the discount rate, long-term inflation rate, and the mortality rates against externally derived data. |

## 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 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.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- 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.

- 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
26 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2017

| | Notes | 2017 Results before biological fair value adjustments US$'million | 2017 Biological fair value adjustments US$'million | 2017 Total US$'million | 2016 Results before biological fair value adjustments US$'million | 2016 Biological fair value adjustments US$'million | 2016 Total US$'million |
|---|---|---|---|---|---|---|---|
| Revenue | 5 | **22,379** | **–** | **22,379** | 21,534 | – | 21,534 |
| Cost of sales | | **(17,766)** | **(295)** | **(18,061)** | (17,182) | (145) | (17,327) |
| Gross profit | | **4,613** | **(295)** | **4,318** | 4,352 | (145) | 4,207 |
| Distribution and selling expenses | | **(1,930)** | **–** | **(1,930)** | (1,794) | – | (1,794) |
| Administrative expenses | | **(823)** | **–** | **(823)** | (748) | – | (748) |
| Gain arising from agricultural produce at fair value less costs to sell at the point of harvest | | **–** | **305** | **305** | – | 180 | 180 |
| Gain (loss) arising from changes in fair value less costs to sell of biological assets | | **–** | **13** | **13** | – | (10) | (10) |
| Other income | 6 | **113** | **–** | **113** | 107 | – | 107 |
| Other gains and losses | 7 | **7** | **–** | **7** | (40) | – | (40) |
| Other expenses | 8 | **(326)** | **–** | **(326)** | (49) | – | (49) |
| Finance costs | 9 | **(198)** | **–** | **(198)** | (183) | – | (183) |
| Share of profits of associates | | **8** | **–** | **8** | 8 | – | 8 |
| Share of profits of joint ventures | | **14** | **–** | **14** | 25 | – | 25 |
| PROFIT BEFORE TAXATION | 10 | **1,478** | **23** | **1,501** | 1,678 | 25 | 1,703 |
| Taxation | 12 | **(165)** | **(17)** | **(182)** | (462) | (3) | (465) |
| PROFIT FOR THE YEAR | | **1,313** | **6** | **1,319** | 1,216 | 22 | 1,238 |
| Other comprehensive income (expense) for the year: | 48 | | | | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | | | | | |
| – remeasurement on defined benefit pension plans | | | | **(75)** | | | (31) |
| – remeasurement on deferred tax assets related to amounts recorded in accumulated other comprehensive income (expense) | | | | **(30)** | | | – |
| | | | | **(105)** | | | (31) |

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

For the year ended December 31, 2017

| | | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | Note | **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 |
| *Items that may be reclassified subsequently to profit or loss:* | | | | | | | |
| – exchange differences arising on translation of foreign operations | | | | **333** | | | (251) |
| – fair value change in cash flow hedge | | | | **(11)** | | | 18 |
| | | | | **322** | | | (233) |
| Other comprehensive income (expense) for the year, net of tax | | | | **217** | | | (264) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | | | **1,536** | | | 974 |
| Profit for the year attributable to | | | | | | | |
| – owners of the Company | | | | **1,133** | | | 1,036 |
| – non-controlling interests | | | | **186** | | | 202 |
| | | | | **1,319** | | | 1,238 |
| Total comprehensive income for the year attributable to | | | | | | | |
| – owners of the Company | | | | **1,301** | | | 827 |
| – non-controlling interests | | | | **235** | | | 147 |
| | | | | **1,536** | | | 974 |
| EARNINGS PER SHARE | 14 | | | | | | |
| – Basic (US$ cents) | | | | **7.79** | | | 7.58 |
| – Diluted (US$ cents) | | | | **7.76** | | | 7.25 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2017

| | Notes | 2017 US$'million | 2016 US$'million |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | **5,037** | 4,529 |
| Prepaid lease payments | 16 | **197** | 195 |
| Biological assets | 17 | **181** | 186 |
| Goodwill | 18 | **1,838** | 1,784 |
| Intangible assets | 19 | **1,742** | 1,681 |
| Interests in associates | 20 | **155** | 62 |
| Interests in joint ventures | 21 | **140** | 119 |
| Other receivables | 24 | **41** | 47 |
| Available-for-sale investments | 25 | **7** | 5 |
| Pledged bank deposits | 27 | **5** | 8 |
| Deferred tax assets | 32 | **58** | 28 |
| Other non-current assets | | **191** | 124 |
| | | **9,592** | 8,768 |
| **CURRENT ASSETS** | | | |
| Biological assets | 17 | **990** | 933 |
| Inventories | 22 | **1,905** | 1,678 |
| Trade and bills receivables | 23 | **989** | 793 |
| Prepayments, deposits and other receivables | 24 | **222** | 228 |
| Prepaid lease payments | 16 | **5** | 5 |
| Taxation recoverable | | **115** | 16 |
| Pledged/restricted bank deposits | 27 | **69** | 51 |
| Bank balances and cash | 27 | **1,371** | 1,139 |
| | | **5,666** | 4,843 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 28 | **1,076** | 854 |
| Accrued expenses and other payables | 29 | **1,472** | 1,422 |
| Taxation payable | | **50** | 36 |
| Borrowings | 31 | **809** | 995 |
| Bank overdrafts | 31 | **92** | 16 |
| | | **3,499** | 3,323 |
| **NET CURRENT ASSETS** | | **2,167** | 1,520 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **11,759** | 10,288 |

## Consolidated Statement of Financial Position (Continued)

At December 31, 2017

| | Notes | 2017 US$'million | 2016 US$'million |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | 31 | **2,297** | 1,867 |
| Other payables | 29 | **199** | 162 |
| Obligations under finance leases | 30 | **23** | 23 |
| Deferred tax liabilities | 32 | **639** | 887 |
| Deferred revenue | 33 | **11** | 8 |
| Pension liability and other retirement benefits | 34 | **368** | 303 |
| | | **3,537** | 3,250 |
| **NET ASSETS** | | **8,222** | 7,038 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 37 | **1** | 1 |
| Reserves | | **7,444** | 6,315 |
| Equity attributable to owners of the Company | | **7,445** | 6,316 |
| Non-controlling interests | | **777** | 722 |
| **TOTAL EQUITY** | | **8,222** | 7,038 |

The consolidated financial statements on pages 63 to 161 were approved and authorised for issue by the Board of Directors on March 26, 2018 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, 2017

| | 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$'million (Note 48) | Statutory surplus reserves US$'million (Note (b)) | Retained profits US$'million | Total US$'million | Non-controlling interests US$'million | Total equity US$'million |
| At January 1, 2016 | 1 | 2,902 | (55) | (118) | 665 | 229 | 2,139 | 5,763 | 940 | 6,703 |
| Profit for the year | – | – | – | – | – | – | 1,036 | 1,036 | 202 | 1,238 |
| Exchange differences arising on translation of foreign operations | – | – | – | (196) | – | – | – | (196) | (55) | (251) |
| Remeasurement on defined benefit pension plans | – | – | – | – | (31) | – | – | (31) | – | (31) |
| Fair value change in cash flow hedge | – | – | – | – | 18 | – | – | 18 | – | 18 |
| Total comprehensive income (expense) for the year | – | – | – | (196) | (13) | – | 1,036 | 827 | 147 | 974 |
| Acquisition of additional interests in subsidiaries | – | – | (10) | – | – | – | – | (10) | (23) | (33) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (347) | (347) |
| Dividends (Note 13) | – | – | – | – | 22 | – | (330) | (308) | – | (308) |
| Share-based payments | – | – | – | – | 42 | – | – | 42 | 5 | 47 |
| Issue of shares upon exercise of share options | –* | 3 | – | – | (1) | – | – | 2 | – | 2 |
| Transfers | – | – | – | – | – | 9 | (9) | – | – | – |
| | –* | 3 | (10) | – | 63 | 9 | (339) | (274) | (365) | (639) |
| At December 31, 2016 | 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 on 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) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (174) | (174) |
| Dividends (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.

# Consolidated Statement of Changes in Equity (Continued)

For the year ended December 31, 2017

Notes:

a. Capital reserve

Capital reserves 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, 2017

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | 1,501 | 1,703 |
| Adjustments for: | | |
| Interest income | (12) | (10) |
| Finance costs | 198 | 183 |
| Share of profits of associates | (8) | (8) |
| Share of profits of joint ventures | (14) | (25) |
| Depreciation of property, plant and equipment | 382 | 363 |
| (Gain) loss on disposal of property, plant and equipment | (8) | 16 |
| Amortisation of intangible assets | 7 | 9 |
| Gain on maturity of available-for-sale investments | (8) | (14) |
| Release of prepaid lease payments | 5 | 5 |
| Write-down of inventories | 49 | 24 |
| (Gain) loss arising from changes in fair value less costs to sell of biological assets | (13) | 10 |
| Impairment loss on property, plant and equipment | 12 | 47 |
| Allowances on trade receivables | 1 | 1 |
| Impairment loss on other non-current assets | 13 | – |
| Share-based payments | 313 | 47 |
| Gain on disposal of a subsidiary | (4) | – |
| **OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL** | 2,414 | 2,351 |
| Decrease (increase) in biological assets | 8 | (79) |
| (Increase) decrease in inventories | (186) | 9 |
| Increase in trade, bills and other receivables | (169) | (84) |
| Increase in trade, bills and other payables | 26 | 9 |
| **CASH FROM OPERATIONS** | 2,093 | 2,206 |
| Taxation paid | (438) | (171) |
| Interest paid | (143) | (185) |
| **Net cash from operating activities** | 1,512 | 1,850 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (530) | (514) |
| Purchase of available-for-sale investments | (559) | (1,348) |
| Proceeds from disposal of available-for-sale investments | 540 | 1,730 |
| Placement of pledged/restricted bank deposits | (64) | (69) |
| Withdrawal of pledged/restricted bank deposits | 54 | 33 |
| Proceeds from disposal of property, plant and equipment | 40 | 8 |
| Interest received | 12 | 6 |
| Dividends received from associates | 7 | 6 |
| Dividends received from joint ventures | – | 5 |
| Refund of investment cost in an associate | – | 2 |
| Net cash outflow on acquisition of subsidiaries | (147) | – |
| Acquisition of equity interest in associates | (88) | – |
| Net cash outflow on liquidation of subsidiaries | (10) | – |
| Settlement on contingent consideration in respect of acquisition of a subsidiary | (58) | – |
| Insurance claims on property, plant and equipment | 19 | – |
| **Net cash used in investing activities** | (784) | (141) |

## Consolidated Statement of Cash Flows (Continued)

For the year ended December 31, 2017

| | 2017<br>US$'million | 2016<br>US$'million |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Proceeds from borrowings, net of transaction costs | **4,181** | 3,024 |
| Repayment of borrowings | **(4,117)** | (4,028) |
| Dividends paid to non-controlling interests | **(179)** | (330) |
| Dividends paid | **(489)** | (308) |
| Acquisition of additional interests in subsidiaries | **(4)** | (33) |
| Proceeds from issue of shares | **11** | 2 |
| Capital contributed by non-controlling interests | **6** | – |
| **Net cash used in financing activities** | **(591)** | (1,673) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **137** | 36 |
| Effect of foreign exchange rate changes | **19** | (38) |
| Cash and cash equivalents at beginning of year | **1,123** | 1,125 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **1,279** | 1,123 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Bank balances and cash | **1,371** | 1,139 |
| Bank overdrafts | **(92)** | (16) |
| | **1,279** | 1,123 |

## 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 are 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, 2017 comprises 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 the principal subsidiaries are set out in note 50.

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

## 2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") 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, 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, 2017. 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 amount 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

**Amendments to IFRSs that are mandatorily effective for the current year**

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

| | |
|---|---|
| Amendments to IAS 7 | *Disclosure Initiative* |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014–2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the scope of IFRS 12* |

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 36 to the financial statements upon the adoption amendments to IAS 7, which required an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from the financing activities including both changes arising from cash flows and non-cash changes.

## 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 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1] |
| IFRS 9 | *Financial Instruments*[1] |
| Amendments to IFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| IFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to IFRS 15 | *Clarifications to IFRS 15 Revenue from Contracts with Customers*[1] |
| IFRS 16 | *Leases*[2] |
| IFRS 17 | *Insurance Contracts*[3] |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement*[2] |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures*[2] |
| Amendments to IAS 40 | *Transfers of Investment Property*[1] |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| IFRIC 23 | *Uncertainty over Income Tax Treatments*[2] |
| *Annual Improvements to IFRS 2014-2016 Cycle* | Amendments to IFRS 1 and IAS 28[1] |
| *Annual Improvements to IFRS 2015-2017 Cycle* | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
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)

### IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, hedge accounting and impairment requirements for financial assets.

**Classification and measurement**

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

**Impairment**

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

In general, the directors of the Company anticipate the application of the expected loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment losses to be recognised by the Group as at January 1, 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to the expected credit provision on trade receivables. Such further impairment recognised under the expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets as at January 1, 2018.

**Hedge accounting**

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon allocation of IFRS 9. Accordingly, the directors of the Company anticipate that the application of the new hedging requirement may not have a material impact on the Group's current hedge designation and hedge accounting.

### IFRS 15 Revenue from Contracts with Customers

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

## 2.4 Issued But Not Yet Effective International Financial Reporting Standards (Continued)

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

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

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

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

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on the business model of the Group as at December 31, 2017, the directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised.

### 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 right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability 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 initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to a lease liability will be allocated into a principal and an interest portion which will be represented as financing cash flows by the Group.

## 2.4 Issued But Not Yet Effective International Financial Reporting Standards (Continued)

### IFRS 16 Leases (Continued)

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of US$265 million as disclosed in note 41. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16. Upon the 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. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

## 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 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.

## 3. Summary of Significant Accounting Policies (Continued)

### Business combinations and goodwill (Continued)

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.

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.

## 3. Summary of Significant Accounting Policies (Continued)

### 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. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payments transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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)

### 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.

The results and assets and liabilities of associates and joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates or joint ventures used for equity method accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, 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 requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## 3. Summary of Significant Accounting Policies (Continued)

### Interests in associates and joint ventures (Continued)

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.

### Revenue recognition

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 service are provided.

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

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.

The Group's accounting policy for operating leases is described in the accounting policy below.

## 3. Summary of Significant Accounting Policies (Continued)

### 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.

**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 |

## 3. Summary of Significant Accounting Policies (Continued)

### Property, plant and equipment (Continued)

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.

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

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.

### 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, broiler and breeding stock (hogs and poultry) are measured on initial recognition and at each end of the reporting period at their fair value less costs to sell. A gain or loss arising on initial recognition of biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset is included in profit or loss for the period in which it arises.

The agricultural produce (i.e. carcass) harvested from the biological assets are measured at their fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2 *Inventories* 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.

## 3. Summary of Significant Accounting Policies (Continued)

### 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 asset 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).

**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.

## 3. Summary of Significant Accounting Policies (Continued)

### Inventories

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

### 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.

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

## 3. Summary of Significant Accounting Policies (Continued)

### Financial instruments (Continued)

**Financial assets**

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 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 of 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** (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 becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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, 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.

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

## 3. Summary of Significant Accounting Policies (Continued)

### Financial instruments (Continued)

**Financial liabilities and equity instruments**

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, trade, bills 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.

**Derivative financial instruments**

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.

*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 in profit or loss from that date.

## 3. Summary of Significant Accounting Policies (Continued)

### Financial instruments (Continued)

**Derivative financial instruments** (Continued)

*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.

**Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. 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.

## 3. Summary of Significant Accounting Policies (Continued)

### 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.

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

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

## 3. Summary of Significant Accounting Policies (Continued)

### Taxation (Continued)

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

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

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

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded 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 expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in the translation reserve (attributed to non-controlling interest as appropriate).

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 benefits 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 earnings 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 service entitling them to the contributions.

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

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 the management. This determination involved the use of significant judgement and estimates. If the actual results differ with the original estimates made by the management, such differences from the original estimates will impact the fair value change recognised in profit or loss in the reporting period. The carrying amount of live hogs is US$985 million as at December 31, 2017 (2016: US$927 million) (see note 17).

### 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$1,838 million as at December 31, 2017 (2016: US$1,784 million). Details of the recoverable amount calculation are disclosed in note 18.

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

The carrying amount of intangible assets is US$1,742 million as at December 31, 2017 (2016: US$1,681 million) (see note 19).

## 4. Key Sources of Estimation Uncertainty (Continued)

### Inventories

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

Management of the Group periodically reviews inventories for slow-moving 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$1,905 million as at December 31, 2017 (2016: US$1,678 million) (see note 22).

### 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 asset is determined on the historical returns and assets 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 is by referenced by demographic market data.

During the year ended December 31, 2017, remeasurement losses after tax effect amounting to US$105 million are recognised directly in equity in the period in which they occur (2016: US$31 million). The Group's obligation in respect of net pension liability as at December 31, 2017 amounted to US$362 million (2016: US$321 million) (see note 34).

## 5. Revenue and Segment Information

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

| | 2017<br>US$'million | 2016<br>US$'million |
|---|---|---|
| Packaged meats | 11,777 | 11,074 |
| Fresh pork | 9,526 | 9,178 |
| Hog production | 572 | 844 |
| Others | 504 | 438 |
| | 22,379 | 21,534 |

## 5. Revenue and Segment Information (Continued)

### 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 a finance company, retail business and biopharmaceuticals, retail of meat related products, and corporate expenses incurred by the Group.

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

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

Inter-segment sales 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, 2017 | | | | |
|---|---|---|---|---|---|
| | Packaged meats US$'million | Fresh pork US$'million | Hog production US$'million | Others US$'million | Total US$'million |
| **People's Republic of China ("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 |
| **The United States of America ("U.S.")** | | | | | |
| 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 taxation | | | | | 1,501 |

## 5. Revenue and Segment Information (Continued)

### Segment information (Continued)

| | For the year ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Packaged meats US$'million | Fresh pork US$'million | Hog production US$'million | Others US$'million | Total US$'million |
| **China** | | | | | |
| Gross segment revenue | 3,344 | 4,757 | 92 | 394 | 8,587 |
| Less: Inter-segment revenue | – | (563) | (78) | (191) | (832) |
| Revenue | 3,344 | 4,194 | 14 | 203 | 7,755 |
| Reportable segment profit (loss) | 725 | 98 | 38 | (38) | 823 |
| **U.S.** | | | | | |
| Gross segment revenue | 7,125 | 7,029 | 2,702 | – | 16,856 |
| Less: Inter-segment revenue | (2) | (2,588) | (1,908) | – | (4,498) |
| Revenue | 7,123 | 4,441 | 794 | – | 12,358 |
| Reportable segment profit (loss) | 714 | 472 | (144) | (154) | 888 |
| **Europe** | | | | | |
| Gross segment revenue | 652 | 896 | 518 | 309 | 2,375 |
| Less: Inter-segment revenue | (45) | (353) | (482) | (74) | (954) |
| Revenue | 607 | 543 | 36 | 235 | 1,421 |
| Reportable segment profit (loss) | 36 | (25) | 66 | –* | 77 |
| **Total** | | | | | |
| Gross segment revenue | 11,121 | 12,682 | 3,312 | 703 | 27,818 |
| Less: Inter-segment revenue | (47) | (3,504) | (2,468) | (265) | (6,284) |
| Revenue | 11,074 | 9,178 | 844 | 438 | 21,534 |
| Reportable segment profit (loss) | 1,475 | 545 | (40) | (192) | 1,788 |
| Net unallocated income | | | | | 40 |
| Biological fair value adjustments | | | | | 25 |
| Finance costs | | | | | (183) |
| Share of profits of associates | | | | | 8 |
| Share of profits of joint ventures | | | | | 25 |
| Profit before taxation | | | | | 1,703 |

* Less than US$1 million.

## 5. Revenue and Segment Information (Continued)

### Segment information (Continued)

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

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

### Geographical information

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

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

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Non-current assets | | |
| China | **2,636** | 2,567 |
| U.S. | **5,318** | 4,983 |
| Europe | **1,397** | 1,033 |
| | **9,351** | 8,583 |

## 6. Other Income

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Government subsidy directly credited to income | **47** | 63 |
| Interest income | **12** | 10 |
| Income on sales of raw materials | **9** | 9 |
| Rental income | **7** | 6 |
| Others | **38** | 19 |
| | **113** | 107 |

## 7. Other Gains and Losses

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Gain on non-qualified retirement plan assets | 14 | 5 |
| Gain on maturity of available-for-sale investments | 8 | 14 |
| Gain on disposal of a subsidiary | 4 | – |
| Gain (loss) on disposal of property, plant and equipment | 8 | (16) |
| Impairment loss on other non-current assets | (13) | – |
| Impairment loss recognised in respect of property, plant and equipment | (12) | (47) |
| Net exchange (loss) gain | (9) | 4 |
| Others | 7 | (–*) |
| | 7 | (40) |

## 8. Other Expenses

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Share-based payments | (313) | (47) |
| Donations | (–*) | (1) |
| Others | (13) | (1) |
| | (326) | (49) |

## 9. Finance Costs

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Amortisation of transaction costs | (4) | (14) |
| Interests on senior unsecured notes | (64) | (117) |
| Interests on medium-term unsecured notes | (6) | (6) |
| Interests on bank and other loans | (55) | (47) |
| Loss on debt extinguishment | (70) | – |
| Less: Amounts capitalised in the cost of qualifying assets | 1 | 1 |
| | (198) | (183) |

* Less than US$1 million

## 10. Profit Before Taxation

Profit before taxation has been arrived at after charging:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Auditor's remuneration | | |
| Audit services | 3 | 4 |
| Non-audit services | –* | 2 |
| Depreciation of property, plant and equipment | 382 | 363 |
| Amortisation of intangible assets included in administrative expenses | 7 | 9 |
| Release of prepaid lease payments | 5 | 5 |
| Write-down of inventories included in cost of sales | 49 | 24 |
| Net allowance on trade receivables | 1 | 1 |
| Operating leases rentals in respect of rented premises | 121 | 112 |
| Research and development expenses | 99 | 84 |
| Staff costs (excluding directors' remuneration) | 3,354 | 3,167 |

The cost of sales represented the cost of inventories 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$'million (Note (i)) | Retention bonus US$'million | 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 emolument 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. Lee Conway Kong Wai | –* | – | – | – | – | – | –* |
| Mr. Huang Ming | –* | – | – | – | – | – | –* |
| 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)

| Name of director | Fees US$'million | Basic salaries and allowances US$'million | Performance bonus US$'million (Note (i)) | Retention bonus US$'million | Share-based payments US$'million | Retirement benefit scheme contributions US$'million | 2016 Total US$'million |
|---|---|---|---|---|---|---|---|
| **A) EXECUTIVE DIRECTORS** | | | | | | | |
| Mr. Wan Long | – | 2 | –* | – | 15 | –* | 17 |
| Mr. Guo Lijun | – | 1 | –* | – | 4 | –* | 5 |
| Mr. Zhang Taixi | – | –* | – | – | 4 | –* | 4 |
| Mr. Sullivan Kenneth Marc | – | 1 | 12 | 1 | 1 | 1 | 16 |
| Mr. You Mu | – | 1 | – | – | –* | –* | 1 |
| Sub-total | – | 5 | 12 | 1 | 24 | 1 | 43 |
| 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 emolument 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. Lee Conway Kong Wai | –* | – | – | – | – | – | –* |
| Mr. Huang Ming | –* | – | – | – | – | – | –* |
| 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, 2016** | | | | | | | 43 |

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, 2017 and December 31, 2016.

(iii) Mr. Wan Long is also the Chief Executive for the years ended December 31, 2017 and December 31, 2016.

* Less than US$1 million.

## 11. Directors' and Employees' Emoluments (Continued)

The five highest paid individuals for the year ended December 31, 2017 included two directors of the Company (2016: two), details of whose emoluments are set out above. The emoluments of the remaining three (2016: three) non-director highest paid individuals during the year were as follows:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Employees | | |
| Basic salaries and allowances | 3 | 3 |
| Performance bonus | 19 | 14 |
| Retention bonus | – | 1 |
| Share-based payments | 1 | 2 |
| Retirement benefits scheme contributions | 4 | 7 |
| | 27 | 27 |

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

| | Number of employees | |
|---|---|---|
| | 2017 | 2016 |
| HK$45,000,001 to HK$45,500,000 | – | 1 |
| HK$56,500,001 to HK$57,000,000 | 1 | – |
| HK$63,500,001 to HK$64,000,000 | 1 | – |
| HK$76,000,001 to HK$76,500,000 | – | 1 |
| HK$85,000,001 to HK$85,500,000 | 1 | 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 (2016: Nil).

## 12. Taxation

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| China Enterprise Income Tax | (188) | (197) |
| U.S. and other overseas income tax | (210) | (6) |
| Hong Kong Profits Tax | (1) | – |
| Withholding tax | (46) | (49) |
| Deferred taxation | 263 | (213) |
| | (182) | (465) |

## 12. Taxation (Continued)

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 agriculture products are exempted from EIT.

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

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

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

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.

For the years ended December 31, 2016 and 2017, the U.S. income tax charge comprises federal income tax calculated at the rate ranging from 21% to 35% and state income tax calculated at the rates ranging from 0% to 9.9% on the estimated assessable profits of the subsidiaries of the Company which were incorporated in U.S..

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. Both the tax benefit and the tax charge represent provisional amounts and the Group's current best estimates. The amounts incorporate assumptions made based upon the Group's current interpretation of the Tax Act and may change as the Group receives additional clarification and implementation guidance from the tax authorities.

## 12. Taxation (Continued)

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

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended December 31, 2017. No provision for Hong Kong Profits Tax has been made for the year ended December 31, 2016 as the Group did not have assessable profits subject to Hong Kong Profits Tax or the assessable profits are wholly absorbed by tax losses brought forward from prior year.

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

| | 2017 US$'million | 2017 % | 2016 US$'million | 2016 % |
|---|---|---|---|---|
| Profit before taxation | **1,501** | | 1,703 | |
| Tax at the applicable rates (Note) | **(492)** | **(32.8)** | (499) | (29.3) |
| Tax effect of share of profits of associates and joint ventures | **6** | **0.4** | 10 | 0.6 |
| Tax effect of income that are not taxable in determining current year taxable profit | **8** | **0.5** | 25 | 1.5 |
| Tax effect of expenses that are not deductible in determining current year taxable profit | **(68)** | **(4.5)** | (45) | (2.7) |
| Tax effect of tax losses not recognised | **(5)** | **(0.3)** | –* | – |
| Utilisation of tax losses previously not recognised | **–*** | **–** | 3 | 0.2 |
| Effect of tax exemptions and preferential tax rates granted to China subsidiaries | **32** | **2.1** | 30 | 1.8 |
| Effect of tax exemptions and preferential tax rates granted to U.S. subsidiaries | **11** | **0.7** | 10 | 0.6 |
| Decrease in opening deferred tax liability resulting from decrease in applicable tax rate | **341** | **22.8** | 2 | 0.1 |
| U.S. Tax Reform – transition tax | **(27)** | **(1.8)** | – | – |
| Withholding tax on undistributed earnings of subsidiaries | **(28)** | **(1.9)** | (25) | (1.5) |
| (Under) over provision in prior years | **(3)** | **(0.2)** | 1 | 0.1 |
| China EIT tax on capital gain upon disposal of subsidiaries within the Group | **–** | **–** | (21) | (1.3) |
| Tax effect of tax losses recognised on intra-group transactions | **43** | **2.9** | 44 | 2.6 |
| Tax charge and effective tax rate for the year | **(182)** | **(12.1)** | (465) | (27.3) |

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

Details of recognised and unprovided deferred taxation are set out in note 32.

* Less than US$1 million.

## 13. Dividends

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Dividend recognised as distribution during the year: | | |
| 2016 final dividend of HK$21 cents per share (2015: HK$12.5 cents) | 395 | 236 |
| 2017 interim dividend of HK$5 cents per share (2016: HK$5 cents) | 94 | 94 |
| | 489 | 330 |

The final dividend of HK$22 cents per share in respect of the year ended December 31, 2017 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:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | 1,133 | 1,036 |
| | million | million |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 14,541.85 | 13,666.40 |
| Effect of dilutive potential ordinary shares: | | |
| Incentive shares | – | 631.58 |
| Share options | 49.33 | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 14,591.18 | 14,297.98 |

The computation of diluted earnings per share for the year ended December 31, 2016 did not assume the exercise of the Company's share options (see note 39(c)) because the exercise price of those share options was higher than the average market price for shares for that year.

## 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, 2016 | 479 | 2,120 | 146 | 2,777 | 282 | 5,804 |
| Currency realignment | (2) | (86) | (5) | (98) | (3) | (194) |
| Additions | – | 1 | 1 | 13 | 436 | 451 |
| Transfer | 3 | 93 | 4 | 310 | (410) | – |
| Eliminated on disposals | (1) | (3) | (6) | (49) | – | (59) |
| At December 31, 2016 and 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 35) | 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** | **539** | **2,389** | **145** | **3,409** | **443** | **6,925** |
| **Depreciation and impairment:** | | | | | | |
| At January 1, 2016 | – | 327 | 69 | 734 | – | 1,130 |
| Currency realignment | – | (15) | (4) | (13) | – | (32) |
| Provided for the year | – | 94 | 15 | 254 | – | 363 |
| Impairment loss recognised in profit or loss | – | – | – | 47 | – | 47 |
| Eliminated on disposals | – | (1) | (4) | (30) | – | (35) |
| At December 31, 2016 and 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** | **–** | **534** | **80** | **1,274** | **–** | **1,888** |
| **Carrying values:** | | | | | | |
| **At December 31, 2017** | **539** | **1,855** | **65** | **2,135** | **443** | **5,037** |
| At December 31, 2016 | 479 | 1,720 | 64 | 1,961 | 305 | 4,529 |

* Less than US$1 million.

## 15. Property, Plant and Equipment (Continued)

Certain of the Group's buildings of US$953 million as at December 31, 2017 (2016: US$915 million) are erected on land held in China while the rest are erected on freehold land situated in U.S..

As at December 31, 2017, the application of obtaining the ownership certificates of buildings in China with an aggregate carrying value of approximately US$217 million (2016: US$317 million) are still in process.

Included in the carrying value of property, plant and equipment as at December 31, 2017, there was an amount of US$28 million (2016: US$24 million) in respect of assets held under finance leases.

Property, plant and equipment with carrying amount of approximately US$12 million has been fully impaired and recognised in profit or loss for the year ended December 31, 2017.

During the year ended December 31, 2016, the directors of the Company conducted a review on recoverable amounts of certain plant and machinery used in U.S. for hot dog production and considered the fair value of the relevant assets was minimal and would substantially be offset by the relevant costs to sell. Accordingly, a full impairment loss of US$39 million had been recognised in profit or loss.

## 16. Prepaid Lease Payments

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| **Cost:** | | |
| At January 1 | **238** | 255 |
| Currency realignment | **16** | (17) |
| Additions | **–*** | –* |
| Elimination on disposal | **(6)** | – |
| At December 31 | **248** | 238 |
| **Amortisation:** | | |
| At January 1 | **38** | 35 |
| Currency realignment | **3** | (2) |
| Charged for the year | **5** | 5 |
| Elimination on disposal | **–*** | – |
| At December 31 | **46** | 38 |
| **Carrying value:** | | |
| At December 31 | **202** | 200 |
| Analysed for reporting purposes as: | | |
| Current | **5** | 5 |
| Non-current | **197** | 195 |
| | **202** | 200 |

The amount mainly represents the prepayment of rentals for land use rights situated in China for unexpired lease periods of 10 to 49 years.

* Less than US$1 million.

## 17. 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 broiler which are classified as current assets. Biological assets also include breeding stock (hogs and poultry), which are used to produce future live hogs and broiler, are classified as non-current assets of the Group. The quantities of live hogs, broiler and breeding stock owned by the Group at the end of each reporting period are as follows:

| | **2017 Head '000** | 2016 Head '000 |
|---|---|---|
| Live hogs | | |
| Suckling | **1,685** | 1,574 |
| Nursery | **2,100** | 2,243 |
| Finishing | **7,446** | 7,220 |
| | **11,231** | 11,037 |
| Breeding stock (hogs) | **1,106** | 1,066 |
| | **12,337** | 12,103 |
| Broiler | **4,245** | 3,846 |
| Breeding stock (poultry) | **517** | 531 |
| | **4,762** | 4,377 |

### 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.

## 17. 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 kilogram 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 aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

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

### Carrying value of the Group's biological assets

| | Live hogs | | Breeding stock (hogs) | | Broiler | | Breeding stock (poultry) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017 US$'million** | 2016 US$'million | **2017 US$'million** | 2016 US$'million | **2017 US$'million** | 2016 US$'million | **2017 US$'million** | 2016 US$'million | **2017 US$'million** | 2016 US$'million |
| Carrying value at January 1 | **927** | 861 | **184** | 198 | **6** | 4 | **2** | 2 | **1,119** | 1,065 |
| Currency realignment | **20** | (11) | **3** | (3) | **–*** | –* | **–*** | (1) | **23** | (15) |
| Add: Breeding costs | **7,267** | 6,817 | **195** | 177 | **133** | 93 | **8** | 8 | **7,603** | 7,095 |
| Acquisition of subsidiaries (Note 35) | **14** | – | **5** | – | **–** | – | **–** | – | **19** | – |
| Gain (loss) arising from changes in fair value less costs to sell of biological assets | **42** | 1 | **(25)** | (6) | **(1)** | (1) | **(3)** | (4) | **13** | (10) |
| Transfer to inventories at the point of harvest | **(7,103)** | (6,564) | **(149)** | (151) | **(94)** | (84) | **(1)** | (3) | **(7,347)** | (6,802) |
| Decrease due to culling | **(182)** | (177) | **(36)** | (31) | **(39)** | (6) | **(2)** | – | **(259)** | (214) |
| Carrying value at December 31 | **985** | 927 | **177** | 184 | **5** | 6 | **4** | 2 | **1,171** | 1,119 |

* Less than US$1 million.

## 17. Biological Assets (Continued)

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

Analysed for reporting purpose as:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Current | **990** | 933 |
| Non-current | **181** | 186 |
| | **1,171** | 1,119 |

**Fair value measurement – Level 3**

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Biological assets | | |
| Live hogs | **985** | 927 |
| Breeding stock (hogs) | **177** | 184 |
| Broiler | **5** | 6 |
| Breeding stock (poultry) | **4** | 2 |
| | **1,171** | 1,119 |

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 hog and broiler are mainly determined based on the price of hogs and broiler in the actively traded market, subtracting the breeding costs required to raise the live hogs and broiler 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 significantly increase when there is a slight increase in the market price of hog and broiler or decrease in the breeding cost required to raise the live hogs and commercial chicken, 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.

## 17. Biological Assets (Continued)

### Carrying value of the Group's 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:

| | 2017 | 2016 |
|---|---|---|
| **China** | | |
| Breeding stock (hogs) | | |
| Per head market price[(1)] (RMB) | 2,190 | 2,187 |
| Suckling hogs | | |
| Per head cost[(2)] (RMB) | 67 | 63 |
| Finishing hogs | | |
| Per head market price[(3)] (RMB) | 1,512 | 1,807 |
| Per head weekly average breeding costs required to raise to finishing hogs[(4)] (RMB) | 66 | 65 |
| Breeding stock (poultry) | | |
| Per head market price[(1)] (RMB) | 25 | 25 |
| Broiler | | |
| Per head market price[(3)] (RMB) | 17 | 17 |
| Per head average breeding costs required raise to broiler[(4)] (RMB) | 16 | 17 |
| **U.S.** | | |
| Breeding stock – Sow (hogs) | | |
| Per head market price[(1)] (US$) | 159 | 172 |
| Breeding stock – Boar (hogs) | | |
| Per head market price[(1)] (US$) | 76 | 87 |
| Suckling hogs | | |
| Per head cost[(2)] (US$) | 32 | 31 |
| Finishing hogs | | |
| Per head market price[(3)] (US$) | 149 | 139 |
| Per head weekly average breeding costs required to raise to finishing hogs[(4)] (US$) | 5.5 | 5.5 |

Notes:

1. Market prices of breeding stock — Breeding stock is assumed to be sellable to the market as at the breeding stock 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 is finishing hogs/broilers 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 to complete 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.

## 18. Goodwill

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| **Cost:** | | |
| At January 1 | 1,784 | 1,801 |
| Acquisition of subsidiaries (Note 35) | 26 | – |
| Currency realignment | 28 | (17) |
| At December 31 | 1,838 | 1,784 |
| **Accumulated impairment losses:** | | |
| At January 1 and December 31 | – | – |
| **Carrying value:** | | |
| At December 31 | 1,838 | 1,784 |

### Impairment testing on goodwill

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

- Fresh pork
- Packaged meats

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

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Allocated to | | |
| Fresh pork – China | 51 | 47 |
| Packaged meats – China | 147 | 137 |
| Fresh pork – U.S. | 31 | 31 |
| Packaged meats – U.S. | 1,510 | 1,504 |
| Fresh pork and packaged meats – Others | 99 | 65 |
| | 1,838 | 1,784 |

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 performed by the management for both years ended December 31, 2017 and December 31, 2016.

## 18. Goodwill (Continued)

### Impairment testing on goodwill (Continued)

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

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

| | China | | U.S. | |
|---|---|---|---|---|
| | 2017 % | 2016 % | 2017 % | 2016 % |
| Revenue growth rate (Note i) | 1.45–23.07 | 5.40–27.33 | (3.3)–2.0 | 0–5.4 |
| Long-term growth rate (Note ii) | 2 | 2 | 2 | 2 |
| Discount rate (Note iii) | 12 | 11 | 8 | 8 |

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

| | China | | U.S. | |
|---|---|---|---|---|
| | 2017 % | 2016 % | 2017 % | 2016 % |
| Revenue growth rate (Note i) | 9.58–9.74 | 8.60–20.30 | 2.1–7.9 | (0.1)–2.9 |
| Long-term growth rate (Note ii) | 2 | 2 | 2 | 2 |
| Discount rate (Note iii) | 12 | 11 | 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 flow beyond the budget period are as follows:

| | 2017 % | 2016 % |
|---|---|---|
| Revenue growth rate (Note i) | 4.3–19.6 | 4.0–11.3 |
| Long-term growth rate (Note ii) | 3 | 3 |
| Discount rate (Note iii) | 9 | 9 |

Notes:

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

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

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

No impairment loss is recognised at the end of both years based on the impairment assessment performed. 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.

## 19. Intangible Assets

| | Trademarks US$'million | Distribution network US$'million | Patents US$'million | Customers relations US$'million | Contract farm relations US$'million | Rights and permits US$'million | Total US$'million |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At January 1, 2016 | 1,627 | 5 | 1 | 54 | 40 | 3 | 1,730 |
| Currency realignment | (25) | – | – | –* | – | –* | (25) |
| At December 31, 2016 and January 1, 2017 | 1,602 | 5 | 1 | 54 | 40 | 3 | 1,705 |
| Acquisition of subsidiaries (Note 35) | 27 | – | – | – | – | 3 | 30 |
| Currency realignment | 37 | – | – | 1 | – | –* | 38 |
| **At December 31, 2017** | **1,666** | **5** | **1** | **55** | **40** | **6** | **1,773** |
| **Amortisation and impairment:** | | | | | | | |
| At January 1, 2016 | – | – | 1 | 10 | 4 | –* | 15 |
| Currency realignment | – | – | – | –* | – | –* | –* |
| Provided for the year | – | – | – | 7 | 2 | –* | 9 |
| At December 31, 2016 and January 1, 2017 | – | – | 1 | 17 | 6 | –* | 24 |
| Currency realignment | – | – | – | –* | – | –* | –* |
| Provided for the year | – | – | – | 5 | 2 | –* | 7 |
| **At December 31, 2017** | **–** | **–** | **1** | **22** | **8** | **–*** | **31** |
| **Carrying values:** | | | | | | | |
| **At December 31, 2017** | **1,666** | **5** | **–** | **33** | **32** | **6** | **1,742** |
| At December 31, 2016 | 1,602 | 5 | – | 37 | 34 | 3 | 1,681 |

Patents, customers 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.

## 19. 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:

| | 2017<br>US$'million | 2016<br>US$'million |
|---|---|---|
| Allocated to | | |
| Fresh pork – China | 51 | 47 |
| Packaged meats – China | 299 | 281 |
| Fresh pork – U.S. | 243 | 235 |
| Packaged meats – U.S. | 984 | 965 |
| Fresh pork and packaged meats – Others | 94 | 79 |
| | 1,671 | 1,607 |

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 amount of these CGUs have been determined by the value in use method using cash flow projection by management for the years ended December 31, 2017 and December 31, 2016.

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

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

| | China | | U.S. | |
|---|---|---|---|---|
| | 2017<br>% | 2016<br>% | 2017<br>% | 2016<br>% |
| Revenue growth rate (Note i) | 1.45–23.07 | 5.40–27.33 | (3.3)–2.0 | 0–5.4 |
| Long-term growth rate (Note ii) | 2 | 2 | 2 | 2 |
| Discount rate (Note iii) | 15 | 14 | 8 | 10 |

## 19. Intangible Assets (Continued)

### Impairment testing on intangible assets (Continued)

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

| | China | | U.S. | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **%** | % | **%** | % |
| Revenue growth rate (Note i) | **9.58–9.74** | 8.60–20.30 | **2.1–7.9** | 2.1–2.9 |
| Long-term growth rate (Note ii) | **2** | 2 | **2** | 2 |
| Discount rate (Note iii) | **15** | 14 | **8** | 10 |

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:

| | **2017** | 2016 |
|---|---|---|
| | **%** | % |
| Revenue growth rate (Note i) | **4.3–19.6** | 4.0–11.3 |
| Long-term growth rate (Note ii) | **3** | 3 |
| Discount rate (Note iii) | **9** | 11 |

Notes:

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

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

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

The Group does not recognise an impairment loss during both years based on the impairment assessment performed. 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.

## 20. Interests in Associates

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| The Group's share of interests in associates<br>Unlisted | 135 | 47 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | 20 | 15 |
| | 155 | 62 |

All the Group's associates are not considered as individually material as at December 31, 2016 and 2017. The aggregate amounts of its share of these associates is set out in the consolidated financial statements.

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

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| The Group's share of profits and total comprehensive income for the year from these associates | 8 | 8 |
| Dividend received from these associates during the year | 7 | 6 |

## 21. Interests in Joint Ventures

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Cost of investment in unlisted joint ventures | 111 | 111 |
| Share of post-acquisition profits and other comprehensive income, net of dividend received | 29 | 8 |
| | 140 | 119 |

All the Group's joint ventures are not considered as individually material as at December 31, 2016 and 2017. The aggregate amounts of its share of these joint ventures is set out in the consolidated financial statements.

## 22. Inventories

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Raw materials | 700 | 626 |
| Work in progress | 116 | 85 |
| Finished goods | 1,089 | 967 |
| | 1,905 | 1,678 |

## 23. Trade and Bills Receivables

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Trade receivables | 994 | 792 |
| Less: Allowances for bad and doubtful debts | (10) | (8) |
| | 984 | 784 |
| Bills receivables | 5 | 9 |
| | 989 | 793 |

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

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Age | | |
| Current to 30 days | 882 | 728 |
| 31 to 90 days | 105 | 55 |
| 91 to 180 days | 2 | 10 |
| | 989 | 793 |

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

At December 31, 2017, included in the Group's trade receivable balances are debtors with an aggregate carrying amount of US$106 million (2016: US$60 million) that are aged between 31 and 180 days and past due at the end of 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 is 62 days (2016: 65 days).

## 23. Trade and Bills Receivables (Continued)

In determining the recoverability of trade receivables, the Group monitors change in the credit quality of 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. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flows discounted at the original effective interest rate.

Movement in the allowances for bad and doubtful debts:

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| At January 1 | **(8)** | (7) |
| Currency realignment | **(1)** | –* |
| Recognised during the year | **(1)** | (2) |
| Reversed during the year | **–*** | 1 |
| At December 31 | **(10)** | (8) |

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

## 24. Prepayments, Deposits and Other Receivables

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Loans receivables | **41** | 40 |
| Deposits paid to suppliers | **17** | 21 |
| Deposits placed with financial institutions | **10** | 8 |
| Derivative financial instruments (Note 26) | **16** | 20 |
| Value-added tax receivables | **74** | 104 |
| Prepayments | **48** | 28 |
| Amounts due from joint ventures (Note 45(b)) | **–** | 4 |
| Others | **57** | 50 |
| | **263** | 275 |
| Analysed for reporting purposes as: | | |
| Current assets | **222** | 228 |
| Non-current assets | **41** | 47 |
| | **263** | 275 |

* Less than US$1 million.

## 25. Available-For-Sale Investments

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Unlisted investments: | | |
| Equity investments | 7 | 5 |
| Analysed for reporting purposes as: | | |
| Current assets | – | – |
| Non-current assets | 7 | 5 |
| | 7 | 5 |

At December 31, 2017, the Group's available-for-sale investments represented unlisted investments in equity securities issued by private entities which do not have a quoted market price in an active market. They are 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 management considered that such available-for-sale investments as at the end of the reporting period are held for strategic purposes and are not to be disposed of in the foreseeable future.

## 26. Derivative Financial Instruments

### Derivatives under hedge accounting

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Assets US$'million | Liabilities US$'million | Assets US$'million | Liabilities US$'million |
| Fair value hedges | | | | |
| Grain contracts | 1 | – | 1 | – |
| Cash flow hedges | | | | |
| Foreign currency forward | –* | – | –* | 2 |
| Grain contracts | 8 | 18 | 2 | 6 |
| Livestock contracts | –* | 2 | 2 | 1 |
| Interest rate contracts | –* | –* | –* | 2 |
| | 9 | 20 | 5 | 11 |

* Less than US$1 million.

## 26. 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. The directors of the Company consider that those derivative instruments are highly effective hedging instruments. Major terms of the derivative instruments are set out below:

| Derivative instruments | Notional volume Minimum | Notional volume Maximum | Metric | Maturity |
|---|---|---|---|---|
| *At December 31, 2017* | | | | |
| Commodities contracts | | | | |
| Corn | 1,660,000 | 6,855,000 | Bushels | up to March 2019 |
| *At December 31, 2016* | | | | |
| Commodities contracts | | | | |
| Corn | 1,025,000 | 11,705,000 | Bushels | up to March 2018 |

During the year ended December 31, 2017, the hedge was highly effective in hedging the fair value exposure to the grain price movements and as a result the carrying amount of the commitments to buy grains was adjusted by less than US$1 million (2016: less than US$1 million) which was included in profit or loss at the same time when the derivative instruments were included in profit or loss in both years.

### Cash flow hedges

At December 31, 2017 and December 31, 2016, the Group had the following foreign exchange forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency forecast sales and purchases.

As at December 31, 2017, there were deferred net losses of US$16 million (2016: net losses of US$5 million) in equity, net of tax credit of US$7 million (2016: net of tax expense of US$11 million) included in other reserve.

## 26. Derivative Financial Instruments (Continued)

### Cash flow hedges (Continued)

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

| | Notional volume | | | |
|---|---|---|---|---|
| **Derivative instruments** | **Minimum** | **Maximum** | **Metric** | **Maturity** |
| *At December 31, 2017* | | | | |
| Commodities contracts | | | | |
| Lean hogs | 198,720,000 | 1,867,480,000 | Pounds | up to December 2018 |
| Corn | 70,610,000 | 210,010,000 | Bushels | up to December 2020 |
| Soybean meal | 763,900 | 1,770,800 | Tons | up to December 2020 |
| Interest rate contracts | 16,717,216 | 619,596,316 | US$ | up to November 2019 |
| Foreign currency forward contracts | 7,620,397 | 45,316,424 | Various currencies | up to September 2018 |
| *At December 31, 2016* | | | | |
| Commodities contracts | | | | |
| Lean hogs | 127,840,000 | 1,515,800,000 | Pounds | up to September 2017 |
| Corn | 34,660,000 | 102,610,000 | Bushels | up to December 2018 |
| Soybean meal | 315,600 | 1,270,200 | Tons | up to December 2018 |
| Interest rate contracts | 17,238,832 | 618,385,250 | US$ | up to November 2019 |
| Foreign currency forward contracts | 14,811,932 | 51,923,855 | Various currencies | up to October 2017 |

Fair value losses of US$11 million (2016: fair value gains of US$18 million) have been recognised in other comprehensive income (expense) during the year ended December 31, 2017.

### Derivatives not under hedge accounting

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Assets US$'million** | **Liabilities US$'million** | Assets US$'million | Liabilities US$'million |
| Foreign currency forward | –* | –* | – | –* |
| Grain contracts | 4 | 1 | 2 | –* |
| Livestock contracts | 13 | 5 | 5 | – |
| Energy contracts | 6 | 1 | 8 | – |
| | 23 | 7 | 15 | –* |

* Less than US$1 million.

## 26. Derivative Financial Instruments (Continued)

### Derivatives not under hedge accounting (Continued)

Major terms of such derivatives are as follows:

| Derivative instruments | Notional volume Minimum | Maximum | Metric | Maturity |
|---|---|---|---|---|
| *At December 31, 2017* | | | | |
| Commodities contracts | | | | |
| Wheat | – | 355,000 | Bushels | up to July 2018 |
| Soybean meal | 100 | 33,000 | Tons | up to July 2018 |
| Lean hogs | 5,000,000 | 232,160,000 | Pounds | up to February 2019 |
| Corn | 26,195,000 | 41,810,000 | Bushels | up to March 2019 |
| Soybeans | 10,000 | 6,230,000 | Bushels | up to January 2019 |
| Natural gas | 8,535,000 | 17,570,000 | MMBTU | 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 |
| *At December 31, 2016* | | | | |
| Commodities contracts | | | | |
| Wheat | – | 5,190,000 | Bushels | up to March 2017 |
| Soybean meal | 900 | 4,810,000 | Tons | up to August 2017 |
| Lean hogs | 200,000 | 223,240,000 | Pounds | up to April 2018 |
| Corn | 45,000 | 29,310,000 | Bushels | up to March 2018 |
| Soybeans | 55,000 | 4,810,000 | Bushels | up to January 2018 |
| Natural gas | 7,790,000 | 10,950,000 | MMBTU | up to December 2018 |
| Live cattle | – | 13,440,000 | Pounds | up to April 2017 |
| Foreign currency forward contracts | 8,865,511 | 77,633,021 | Various currencies | up to February 2017 |

Derivative financial assets and liabilities of 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.

## 27. Pledged/Restricted Bank Deposits and Bank Balances and Cash

At December 31, 2017, bank balances carry interest at market rates ranging from 0.01% to 6.25% (2016: 0.01% to 4.80%) per annum. The pledged and restricted bank deposits carry fixed interest rates from 0.01% to 3.90% (2016: 0.01% to 3.90%) per annum.

At December 31, 2017, pledged bank deposits represent deposits of US$7 million (2016: US$9 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 (2016: 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.

At December 31, 2017, a subsidiary of the Group which engaged in financial services, is governed by the law to place US$63 million (2016: US$42 million) of a statutory deposit in the People's Bank of China.

## 28. Trade and Bills Payables

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

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Trade payables | **1,076** | 854 |

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

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Age | | |
| 0 to 30 days | **1,058** | 832 |
| 31 to 90 days | **13** | 15 |
| 91 to 180 days | **2** | 2 |
| 181 to 365 days | **3** | 5 |
| | **1,076** | 854 |

## 29. Accrued Expenses and Other Payables

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Accrued staff costs | 486 | 447 |
| Deposits received | 190 | 216 |
| Sales rebates payables | 247 | 211 |
| Payables in respect of acquisition of property, plant and equipment | 146 | 119 |
| Insurance payables | 141 | 117 |
| Interest payable | 28 | 56 |
| Balance of contingent consideration in respect of acquisition of subsidiaries | 17 | 63 |
| Growers payables | 41 | 38 |
| Pension liability (Note 34) | 12 | 33 |
| Amounts due to associates (Note 45(b)) | 9 | 7 |
| Derivative financial instruments (Note 26) | 11 | 11 |
| Accrued professional expenses | 40 | 35 |
| Accrued rent and utilities | 34 | 29 |
| Dividend payable | 13 | 17 |
| Other accrued expenses | 56 | 59 |
| Other payables | 200 | 126 |
| | 1,671 | 1,584 |
| Analysed for reporting purposes as: | | |
| Current liabilities | 1,472 | 1,422 |
| Non-current liabilities | 199 | 162 |
| | 1,671 | 1,584 |

## 30. Obligations Under Finance Leases

The Group has leased certain of its buildings, machinery, vehicles and other equipment under finance leases. As at December 31, 2017, the lease term ranged from 2 to 23 years (2016: 2 to 24 years). Interest rates underlying all obligations under finance leases are variable at respective contract dates with an average rate of 0.3% per annum for the year ended December 31, 2017 (2016: 0.3% per annum).

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2017 US$'million** | 2016 US$'million | **2017 US$'million** | 2016 US$'million |
| Amounts payable under finance leases: | | | | |
| Within one year | **5** | 2 | **5** | 1 |
| One to two years | **2** | 2 | **2** | 1 |
| Two to five years | **5** | 4 | **4** | 3 |
| After five years | **21** | 21 | **17** | 19 |
| | **33** | 29 | **28** | 24 |
| Less: Future finance charges | **(5)** | (5) | | |
| Present value of lease obligations | **28** | 24 | | |
| Less: Amounts due for settlement within one year and shown under current liabilities (included in accrued expenses and other payable) (Note 29) | | | **(5)** | (1) |
| 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.

## 31. Borrowings

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Senior unsecured notes: | | |
| 7.750% senior unsecured notes due July 2017 | – | 434 |
| 5.250% senior unsecured notes due August 2018 | – | 200 |
| 5.875% senior unsecured notes due August 2021 | – | 350 |
| 6.625% senior unsecured notes due August 2022 | – | 898 |
| 2.700% senior unsecured notes due January 2020 | 398 | – |
| 2.650% senior unsecured notes due October 2021 | 396 | – |
| 3.350% senior unsecured notes due February 2022 | 397 | – |
| 4.250% senior unsecured notes due February 2027 | 594 | – |
| | 1,785 | 1,882 |
| Medium-term unsecured notes | 154 | 144 |
| Bank loans (Note (i)): | | |
| Secured | 107 | 89 |
| Unsecured | 1,015 | 744 |
| Loans from third parties (Note (ii)): | | |
| Secured | 1 | 1 |
| Unsecured | 2 | 2 |
| Other loan (Note (iii)) | 42 | – |
| | 3,106 | 2,862 |
| Bank overdrafts (Note (iv)) | 92 | 16 |
| The borrowings other than bank overdrafts are repayable as follows (Note (v)): | | |
| Within one year | 809 | 995 |
| One to two years | 131 | 575 |
| Two to five years | 1,569 | 389 |
| After five years | 597 | 903 |
| | 3,106 | 2,862 |
| Less: Amounts due within one year shown under current liabilities | (809) | (995) |
| Amounts due after one year | 2,297 | 1,867 |
| Total borrowings other than bank overdrafts: | | |
| At fixed rates | 2,492 | 2,359 |
| At floating rates | 614 | 503 |
| | 3,106 | 2,862 |

## 31. Borrowings (Continued)

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Analysis of borrowings by currency: | | |
| Denominated in US$ | **2,340** | 2,507 |
| Denominated in RMB | **625** | 283 |
| Denominated in RON | **78** | 43 |
| Denominated in HK$ | **34** | – |
| Denominated in PLN | **27** | 24 |
| Denominated in British Pound | **–** | 3 |
| Denominated in EUR | **2** | 2 |
| | **3,106** | 2,862 |

Notes:

(i) Fixed rate bank loans carry interest at fixed rates ranging from 2.25% to 5.70% (2016: 2.45% to 5.70%) and floating rates ranging from HIBOR + 0.45% to WIBOR + 3.20% per annum at December 31, 2017 (2016: LIBOR + 0.75% to LIBOR + 2.50%).

(ii) Loans from third parties carry interests at fixed rates of 0.9% per annum at December 31, 2017 (2016: 0.9% per annum).

(iii) 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.

(iv) Bank overdrafts at December 31, 2017 carry interest at floating rates ranging from 3.92% to 4.35% per annum (2016: 3.50% per annum).

(v) 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, 2017 and December 31, 2016. Details of assets pledged to secure borrowings are set out in note 43.

## 32. Deferred Taxation

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

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Deferred tax assets | **58** | 28 |
| Deferred tax liabilities | **(639)** | (887) |
| | **(581)** | (859) |

## 32. Deferred Taxation (Continued)

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

Tax effect of deductible temporary differences:

| | Allowances for bad debts US$'million | Impairment loss and accelerated accounting depreciation on property, plant and equipment US$'million | Unrealised profit in inventories US$'million | Write-down of inventories US$'million | Tax losses US$'million | Unpaid staff welfare US$'million | Fair value changes arising from biological assets US$'million | Other deductible temporary differences US$'million | Total US$'million |
|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2016 | –* | 3 | 13 | –* | 167 | 198 | 15 | 23 | 419 |
| Currency realignment | –* | –* | –* | –* | –* | –* | – | 2 | 2 |
| Credited (charged) to profit or loss | –* | 15 | (5) | –* | (117) | (72) | (3) | (3) | (185) |
| Credited (charged) to equity | – | – | – | – | –* | 18 | – | (11) | 7 |
| At December 31, 2016 and January 1, 2017 | –* | 18 | 8 | –* | 50 | 144 | 12 | 11 | 243 |
| Currency realignment | –* | –* | –* | –* | 2 | –* | – | – | 2 |
| Acquisition of subsidiaries (Note 35) | – | – | – | – | 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** | **–*** | **6** | **13** | **–*** | **74** | **112** | **–** | **60** | **265** |

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, 2016 | (537) | (31) | (473) | – | (42) | (1,083) |
| Currency realignment | –* | –* | –* | – | 9 | 9 |
| (Charged) credited to profit or loss | (35) | 22 | – | – | (15) | (28) |
| At December 31, 2016 and January 1, 2017 | (572) | (9) | (473) | – | (48) | (1,102) |
| Currency realignment | (5) | – | (6) | – | (2) | (13) |
| Acquisition of subsidiaries (Note 35) | –* | – | (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** | **(384)** | **(27)** | **(427)** | **(5)** | **(3)** | **(846)** |

* Less than US$1 million

## 32. Deferred Taxation (Continued)

At December 31, 2017, the Group had unused tax losses of US$326 million (2016: US$177 million) available for offset against future profits of which a deferred tax asset has been recognised in respect of US$279 million (2016: US$141 million) of such losses. No deferred tax asset has been recognised in respect of such losses of US$47 million (2016: US$36 million) due to unpredictability of future profit stream. There are no unrecognised tax losses at December 31, 2017 (2016: US$4 million) that may be carried forward indefinitely and other losses will expire on or before 2037.

The unrecognised tax losses will expire on or before 2037 as below:

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| By end of | | |
| 2017 | – | 1 |
| 2018 | 3 | 3 |
| 2019 | 3 | 3 |
| 2020 | 6 | 3 |
| after 2021 | 35 | 22 |
| | 47 | 32 |

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$1,989 million (2016: US$1,108 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.

## 33. Deferred Revenue

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Government grant | | |
| Current (included in accrued expenses and other payables) (Note 29) | –* | 1 |
| Non-current | 11 | 8 |
| | 11 | 9 |

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.

* Less than US$1 million.

## 34. 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, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

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

The plan in U.S. exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk 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, 2017 by Mercer (US), Inc.. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

## 34. Pension Liability and Other Retirement Benefits (Continued)

### Defined benefit plans (Continued)

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

| | Valuation at December 31, | |
|---|---|---|
| | **2017** | 2016 |
| Discount rate | **3.90%** | 4.55% |
| Expected rate of salary increase | **4%** | 4% |

The actuarial valuation showed that the market value of plan assets was US$1,777 million (2016: US$1,574 million).

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

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Service cost: | | |
| Current service cost | **57** | 51 |
| Net interest expense | **14** | 15 |
| Total | **71** | 66 |

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

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Return on plan assets (excluding amounts included in net interest expense) | **108** | 31 |
| Actuarial losses arising from change in financial assumptions | **(208)** | (80) |
| | **(100)** | (49) |
| Deferred taxation (Note 32) | **(5)** | 18 |
| Total | **(105)** | (31) |

## 34. 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:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Present value of funded defined benefit obligations | 2,139 | 1,895 |
| Fair value of plan assets | (1,777) | (1,574) |
| Funded status and net liability arising from defined benefit obligation | 362 | 321 |
| Other retirement benefits, net | 10 | 10 |
| | 372 | 331 |
| Included in: | | |
| Current liabilities (Note 29) | 12 | 33 |
| Non-current liabilities | 368 | 303 |
| Other non-current assets | (8) | (5) |
| | 372 | 331 |

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

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Defined benefit obligation at January 1 | 1,895 | 1,783 |
| Current service cost | 57 | 51 |
| Interest cost | 84 | 81 |
| Benefits paid | (105) | (100) |
| Remeasurement losses: | | |
| Actuarial losses arising from change in financial assumptions | 208 | 80 |
| Defined benefit obligation at December 31 | 2,139 | 1,895 |

## 34. 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:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Fair value of plan assets at January 1 | **1,574** | 1,322 |
| Interest income | **70** | 66 |
| Contributions from the employers | **134** | 255 |
| Benefits paid | **(105)** | (100) |
| Expenses paid | **(4)** | – |
| Remeasurement gains: | | |
| Return on plan assets (excluding amounts included in net interest expense) | **108** | 31 |
| Fair value of plan assets at December 31 | **1,777** | 1,574 |

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, | |
|---|---|---|
| | 2017 US$'million | 2016 US$'million |
| Cash and cash equivalents | **178** | 117 |
| Equity securities | **1,161** | 1,106 |
| Debt securities | **335** | 200 |
| Alternative investments | **78** | 52 |
| Limited partnerships | **92** | 64 |
| Insurance contracts | **1** | 1 |
| Total fair value | **1,845** | 1,540 |
| Unsettled transactions, net | **(68)** | 34 |
| Total plan assets | **1,777** | 1,574 |

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, 2017, US$684 million, US$1,069 million and US$92 million plan assets (2016: US$580 million, US$895 million and US$65 million) are classified as Level 1, Level 2 and Level 3 respectively.

The actual return on plan assets was 7.90% (2016: 7.91%) over 5 years.

## 34. 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$156 million (2016: decrease (increase) by US$133 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, 2017** | | At December 31, 2016 | |
|---|---|---|---|---|
| | **US$'million** | **Target range** | US$'million | Target range |
| **Asset categories** | | | | |
| Cash and cash equivalents, net of unsettled transactions | **110** | **0–4%** | 151 | 0–4% |
| Equity securities | **515** | **30–50%** | 1,106 | 30–50% |
| Debt securities | **982** | **35–55%** | 200 | 33–55% |
| Alternative assets | **170** | **5–20%** | 117 | 5–20% |
| Total | **1,777** | | 1,574 | |

## 34. Pension Liability and Other Retirement Benefits (Continued)

### Defined benefit plans (Continued)

The Group expects to make a contribution of US$135 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 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 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 2 debt securities include mutual funds, asset-backed securities, emerging market securities, corporate debt securities and government debt securities.

**Alternative investments**

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

## 34. 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 vest immediately.

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

The Group has defined contribution plans (401(K) plans) covering substantially all U.S. employees. The Group's contributions to the 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$90 million during the year ended December 31, 2017 (2016: US$88 million) represents contribution paid or payable to the plans by the Group at rates specified in the rules of the plans.

## 35. Business Combinations

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

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

## 35. Business Combinations (Continued)

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 development of pharmaceuticals, nutraceuticals and medical device solutions.

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 bill receivables | 32 |
| Deferred tax assets | 24 |
| Bank balances and cash | 18 |
| Trade and bills 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) |

## 35. Business Combinations (Continued)

Since the acquisition, Clougherty, Pini Packaged Meats 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 of the Group 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.

## 36. 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 | 13 | 3,134 |

## 37. Share Capital

| | **Number of shares** 'million | **Amount** US$'million |
|---|---|---|
| Ordinary shares of US$0.0001 each: | | |
| Authorised: | | |
| At January 1, 2016, December 31, 2016, January 1, 2017, and December 31, 2017 | 50,000.00 | 5 |
| Issued and fully paid: | | |
| At January 1, 2016, December 31, 2016 and January 1, 2017 | 14,651.07 | 1 |
| Issue of shares on exercise of share options (Note) | 13.16 | –* |
| At December 31, 2017 | 14,664.23 | 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.

## 38. 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 31, 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**

| | 2017<br>US$'million | 2016<br>US$'million |
|---|---|---|
| Available-for-sale investments | 7 | 5 |
| Derivatives financial assets | 32 | 20 |
| Other non-current assets | 130 | 97 |
| | 169 | 122 |

| | 2017<br>US$'million | 2016<br>US$'million |
|---|---|---|
| Loans and receivables: | | |
| Trade, bills and other receivables | 1,051 | 878 |
| Pledged/restricted bank deposits | 74 | 59 |
| Bank balances and cash | 1,371 | 1,139 |
| | 2,496 | 2,076 |

**Financial liabilities**

| | 2017<br>US$'million | 2016<br>US$'million |
|---|---|---|
| At amortised costs: | | |
| Trade, bills and other payables | 1,628 | 1,300 |
| Borrowings (fixed and floating rates) | 3,106 | 2,862 |
| Bank overdrafts | 92 | 16 |
| | 4,826 | 4,178 |
| Derivatives financial liabilities | 27 | 11 |

## 38. Capital Risk Management and Financial Instruments (Continued)

### Financial risk management objectives and policies

The Group's major financial instruments include pledged bank deposits, bank balances and cash, available-for sale investments, derivative financial instruments, trade, bills and other receivables, other non-current assets, trade, bills and other payables, borrowings and bank overdrafts. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk 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 appropriate measures are implemented on a timely and effective manner.

**Market risk**

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

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

### Foreign currency risk management

Certain group entities have certain foreign currency sales, purchases, bank balances and cash and borrowings denominated in US$ and EUR, 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:

| | **2017 US$'million** | 2016 US$'million |
|---|---|---|
| Assets | | |
| US$ | | |
| Bank balances and cash | **5** | 107 |
| Trade, bills and other receivables | **1** | – |
| EUR | | |
| Bank balances and cash | **4** | 1 |
| Trade, bills and other receivables | **12** | 27 |

## 38. Capital Risk Management and Financial Instruments (Continued)

### Foreign currency risk management (Continued)

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Liabilities | | |
| US$ | | |
| Trade, bills and other payables | 7 | 49 |
| Borrowings | 52 | 142 |
| EUR | | |
| Trade, bills and other payables | 16 | 13 |
| Borrowings | 2 | 2 |

**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 risk exposed to the effect of EUR is not material.

The following table details the Group's sensitivity to a 5% (2016: 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% (2016: 5%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit where US$ strengthens 5% (2016: 5%) against the relevant currency. For a 5% (2016: 5%) weakening of US$ against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative (positive).

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| US$ impact | (2) | (3) |

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

### Interest rate risk management

The Group's fair value interest rate risk relates primarily to its available-for-sale investments and fixed-rate borrowings (see notes 25 and 31 respectively for details). The Group currently does not enter into any derivative contracts to hedge its exposure to changes in fair values of the available-for-sale investments and fixed-rate borrowings. However, the management of the Group will consider hedging significant interest rate exposure should the need arise.

## 38. Capital Risk Management and Financial Instruments (Continued)

### Interest rate risk management (Continued)

The Group's cash flow interest rate risk relates primarily to floating rates bank balances, borrowings and bank overdrafts (see notes 27 and 31 respectively for details). The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

**Sensitivity analysis**

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

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

| | **2017** | 2016 |
|---|---|---|
| | **US$'million** | US$'million |
| Increase in post-tax profit | **1** | 2 |

There would be an equal and opposite impact on the post-tax profit where the interest rates increased 27 basis points in China or 25 basis points outside China 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 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 consider that the Group's credit risk is significantly reduced.

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

**Liquidity risk management**

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

## 38. Capital Risk Management and Financial Instruments (Continued)

### Interest rate risk management (Continued)

**Liquidity risk management** (Continued)

As at December 31, 2017, the Group has available unutilised banking facilities of approximately US$2,471 million (2016: US$2,720 million).

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

In addition, the following table details the Group's 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, 2017** | | | | | | |
| Trade and bills 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 | 422 | 271 | 6 | 1,218 | 602 | 2,519 |
| Floating-rates borrowings | 27 | 102 | 125 | 363 | – | 617 |
| | 2,117 | 378 | 187 | 1,586 | 623 | 4,891 |
| **Derivative financial liabilities, net** | 4 | – | 7 | – | – | 11 |
| At December 31, 2016 | | | | | | |
| Trade and bills payables | 849 | 5 | – | – | – | 854 |
| Other payables | 350 | – | 96 | – | – | 446 |
| Obligations under finance leases | –* | 2 | 2 | 4 | 21 | 29 |
| Bank overdrafts | 16 | – | – | – | – | 16 |
| Fixed-rates borrowings | 660 | 207 | 451 | 610 | 963 | 2,891 |
| Floating-rates borrowings | 183 | 73 | 227 | 23 | – | 506 |
| | 2,058 | 287 | 776 | 637 | 984 | 4,742 |
| Derivative financial liabilities, net | – | – | – | – | – | – |

* Less than US$1 million.

## 38. 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 their fair values due to the short term maturities of these instruments.

The fair values of non-current financial assets and financial liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities and the Management has assessed that the fair values of non-current financial assets and financial liabilities approximately to their carrying amount. The Group's own non-performance risk for non-current financial liabilities as at December 31, 2017 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).

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1<br>US$'million | Level 2<br>US$'million | Level 3<br>US$'million | Total<br>US$'million |
| Derivatives financial assets | 17 | 15 | – | 32 |
| Other non-current assets | 16 | 91 | 23 | 130 |
| | 33 | 106 | 23 | 162 |
| Derivatives financial liabilities | 16 | 11 | – | 27 |

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1<br>US$'million | Level 2<br>US$'million | Level 3<br>US$'million | Total<br>US$'million |
| Derivatives financial assets | 6 | 14 | – | 20 |
| Other non-current assets | 19 | 78 | – | 97 |
| | 25 | 92 | – | 117 |
| Derivatives financial liabilities | – | 11 | – | 11 |

## 38. Capital Risk Management and Financial Instruments (Continued)

### Fair value measurement (Continued)

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

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

**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.

## 38. 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$'million | Related amounts not set off in the consolidated statement of financial position: Financial collateral US$'million | Related amounts not set off in the consolidated statement of financial position: Cash collateral received US$'million | Net amount US$'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$'million | Related amounts not set off in the consolidated statement of financial position: Financial collateral US$'million | Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged US$'million | Net amount US$'million |
|---|---|---|---|---|---|---|
| Derivatives | 16 | (16) | – | – | – | – |

## 38. 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, 2016**

| | 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$'million | Related amounts not set off in the consolidated statement of financial position Financial collateral US$'million | Cash collateral received US$'million | Net amount US$'million |
|---|---|---|---|---|---|---|
| Derivatives | 17 | (11) | 6 | – | 8 | 14 |

| | 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$'million | Related amounts not set off in the consolidated statement of financial position Financial collateral US$'million | Cash collateral pledged US$'million | Net amount US$'million |
|---|---|---|---|---|---|---|
| Derivatives | 11 | (11) | – | – | – | – |

## 39. 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 has not been set aside pursuant to the terms of the 2010 Share Award Plan in favour of any selected employee of the Company or retains any unutilised funds, the Trustee shall handle at the discretion of the board of directors of the Company according to the then applicable laws and regulations. Upon termination of the 2010 Share Award Plan, all the Incentive Shares and other distributions provisionally awarded to a selected employee to the extent not already vested pursuant to the terms of the 2010 Share Award Plan, shall become vested on such selected employee and any Incentive Shares which are not vested in accordance with the terms of the 2010 Share Award Plan or are forfeited in accordance with the terms thereunder, shall be handled at the discretion of the board of directors of the Company according to the then applicable laws and regulations. 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.

## 39. Share Incentive Schemes (Continued)

### (a) 2010 Share Award Plan (Continued)

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 Trustee ultimately. The estimated fair value of the Incentive Shares as at grant date amounted to US$128 million has been recognised in profit or loss during vesting period. It was determined by market approach.

### (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.

## 39. Share Incentive Schemes (Continued)

### (b) 2013 Share Award Plan (Continued)

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.

### (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, 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 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%** |

Expected volatility was determined by using the historical volatility of the selected comparable comprises in the same industry.

## 39. Share Incentive Schemes (Continued)

### (c) Pre-IPO share option (Continued)

The following table discloses details of the Group 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, 2016 | Exercised | Cancelled | Lapsed | As at December 31, 2016 | Exercised | Cancelled | Lapsed | As at December 31,2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Pre-IPO Share Option Scheme | July 10, 2014 | 564,449,756 | 2,648,000 | 6,628,349 | 5,540,379 | 549,633,028 | 13,160,000 | 5,086,971 | 780,481 | 530,605,576 |
| Exercisable at the end of the year | | | | | | 135,831,297 | | | | 231,649,894 |

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$8.29 (2016: HK$6.78).

For the year ended December 31, 2017, the Group recognised a share-based payments expense of US$35 million (2016: US$47 million) in relation to the pre-IPO share option scheme.

## 40. Acquisition of Additional Interest in Subsidiaries

On September 9, 2016, the Group acquired the remaining 25% equity interest in Shanghai Shuanghui Dachang Co., Ltd. ("Shuanghui Dachang") for a consideration of US$30 million and became a wholly-owned subsidiary of the Group after the acquisition. Shuanghui Dachang is principally engaged in manufacturing and sales of meat products.

## 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:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Within one year | 58 | 57 |
| In the second to fifth year inclusive | 123 | 141 |
| After five years | 84 | 87 |
| | 265 | 285 |

Operating leases payments represent rentals payable by the Group for certain of its warehouse and premises. Lease are negotiated for a lease term of 4 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

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Capital expenditure contracted, but not provided for, in the consolidated financial statements in respect of acquisition of property, plant and equipment | 144 | 73 |

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

## 43. Pledge of Assets

The carrying amount of the assets of the Group pledged to banks for securing banking and trading facilities and loan from a third party granted to the Group is analysed as follows:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Pledged bank balances | 10 | 12 |

The remainder of pledged bank balances is pledged for worker's compensation insurance claims of US$1 million (2016: US$5 million) in U.S..

As at December 31, 2017 and December 31, 2016, the Group's material U.S. subsidiaries are jointly and severally liable for, as primary obligors, the obligations under certain banking facilities, and those obligations are secured by a first priority lien on certain property, including cash and cash equivalents, deposit accounts, inventories, and intellectual property.

## 43. Pledge of Assets (Continued)

Smithfield Receivables Funding, LLC, a wholly-owned subsidiary of the Group, has a securitisation facility that matures in December 2019. As part of the arrangement, all trade receivables of the major pork segment subsidiaries in Smithfield are sold to a wholly-owned “bankruptcy remote” special purpose vehicle (“SPV”). The SPV pledges the receivables as security for loans and letters of credit. The SPV is included in the consolidated financial statements of the Group and therefore, the trade receivables owned by the SPV are included in the consolidated statement of financial position of the Group. However, trade receivables owned by the SPV are separate and distinct from the other assets and are not available to other creditors of Smithfield if Smithfield were to become insolvent. As at December 31, 2017, the SPV held US$632 million (2016: US$567 million) of trade receivables and had no outstanding borrowings on the securitisation facility. No financial or other support to this SPV provided by the Group as at December 31, 2017 and 2016.

## 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 Eastern District of North Carolina by 515 individual plaintiffs against Smithfield’s wholly owned subsidiary, Murphy-Brown LLC (“Murphy-Brown”), alleging causes of action for nuisance and related claims. 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. The Group believes that the claims are unfounded and intends to defend the suits vigorously.

The Group’s policy for establishing accruals and disclosures for contingent liabilities is set out in note 3. The Group established a provision for estimating the expenses to defend against these and similar potential claims on the consolidated statement of financial position. Expenses and other liabilities associated with these nuisance and related claims for subsequent periods will not affect the Group’s profits or losses unless the provision proves to be insufficient or excessive. However, legal expenses incurred in the Group’s defence of these claims and any payments made to plaintiffs through unfavourable verdicts or otherwise will negatively impact its cash flows and its liquidity position. Given that these matters are in the preliminary stages and given the inherent uncertainty of the outcome for these and similar potential claims, the Group cannot estimate the reasonably possible loss or range of loss for these loss contingencies outside the expenses the Group will incur to defend against these claims. The directors of the Company will continue to review whether an additional accrual is necessary and estimate the reasonably possible loss or range of loss for these matters.

## 45. Related Party Transactions

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

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Sales of goods to associates | 6 | 17 |
| Sales of goods to joint ventures | 12 | 8 |
| Interest income from joint ventures | – | –* |
| Purchase of goods from associates | 50 | 31 |
| Purchase of goods from joint ventures | 16 | 16 |

**(b)** Balances with associates/joint ventures at the end of both years:

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Included in: | | |
| Trade and bills receivables | 6 | 1 |
| Prepayment, deposits and other receivables | – | 4 |
| Trade payables | 3 | 1 |
| Accrued expenses and other payables | 9 | 7 |

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 as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2017 US$'million | 2016 US$'million |
| Director fees | –* | –* |
| Basic salaries and allowances | 10 | 10 |
| Performance bonuses | 32 | 30 |
| Retirement benefits scheme contributions | 3 | 4 |
| Share-based payments | 298 | 28 |
| Total compensation paid to key management personnel | 343 | 72 |

* Less than US$1 million.

## 46. Statement of Financial Position of the Company

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| Non-current assets | | |
| Interests in unlisted subsidiaries | 5,103 | 5,082 |
| Current assets | | |
| Amounts due from subsidiaries | 119 | 119 |
| Prepayments, deposits and other receivables | –* | –* |
| Bank balances and cash | 1 | 1 |
| | 120 | 120 |
| Current liabilities | | |
| Amounts due to subsidiaries | 341 | 274 |
| Other payables | 1 | 1 |
| Borrowings | – | 160 |
| | 342 | 435 |
| Net current liabilities | (222) | (315) |
| Total assets less current liabilities | 4,881 | 4,767 |
| Non-current liabilities | | |
| Borrowings | – | 223 |
| Net assets | 4,881 | 4,544 |
| Capital and reserves | | |
| Share capital | 1 | 1 |
| Share premium | 2,921 | 2,905 |
| Translation reserve | 61 | 61 |
| Other reserve | 1,196 | 888 |
| Retained profits | 702 | 689 |
| Total equity | 4,881 | 4,544 |

* Less than US$1 million.

## 46. Statement of Financial Position of the Company (Continued)

### Movement 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, 2016 | 1 | 2,902 | 61 | 842 | 271 | 4,077 |
| Profit and total comprehensive income for the year | – | – | – | – | 748 | 748 |
| Dividend paid (Note 13) | – | – | – | – | (330) | (330) |
| Share-based payments | – | – | – | 47 | – | 47 |
| Issue of shares upon exercise of share options | –* | 3 | – | (1) | – | 2 |
| | –* | 3 | – | 46 | 418 | 467 |
| At December 31, 2016 and January 1, 2017 | 1 | 2,905 | 61 | 888 | 689 | 4,544 |
| Profit and total comprehensive income for the year | – | – | – | – | 502 | 502 |
| Dividend paid (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** | **1** | **2,921** | **61** | **1,196** | **702** | **4,881** |

* Less than US$1 million

## 47. Non Wholly-Owned Subsidiaries That Have Material Non-Controlling Interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests at the end of reporting period:

| Name of subsidiary | Country of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | | | | **US$'million** | US$'million | **US$'million** | US$'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% | **183** | 202 | **731** | 673 |
| Individually immaterial subsidiaries with non-controlling interests | | | | **3** | –* | **46** | 49 |
| | | | | **186** | 202 | **777** | 722 |

Summarised financial information in respect of Shuanghui Development that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| | As at December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **US$'million** | US$'million |
| Non-current assets | **2,070** | 2,061 |
| Current assets | **1,477** | 1,014 |
| Current liabilities | **(1,138)** | (889) |
| Non-current liabilities | **(33)** | (15) |
| Equity attributable to owners of Shuanghui Development | **(2,245)** | (2,046) |
| Non-controlling interests of Shuanghui Development's subsidiaries | **131** | 125 |
| Non-controlling interests of Shuanghui Development | **600** | 548 |
| | **731** | 673 |

* Less than US$1 million.

## 47. Non Wholly-Owned Subsidiaries That Have Material Non-Controlling Interests (Continued)

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **US$'million** | US$'million |
| Revenue | **7,489** | 7,802 |
| Total expenses | **(6,821)** | (7,116) |
| Profit for the year and total comprehensive income for the year | **668** | 686 |
| Profit attributable to owners of the Company | **485** | 484 |
| Profit attributable to the non-controlling interests of Shuanghui Development's subsidiaries | **12** | 24 |
| Profit attributable to the non-controlling interests of Shuanghui Development | **171** | 178 |
| | **668** | 686 |
| Dividends paid to non-controlling interests of Shuanghui Development's subsidiaries | **21** | 56 |
| Net cash inflow from operating activities | **832** | 835 |
| Net cash (outflow) inflow from investing activities | **(59)** | 265 |
| Net cash outflow from financing activities | **(363)** | (1,015) |
| Net cash inflow | **410** | 85 |

## 48. Other Comprehensive Income (Expense)

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

| | 2017 US$'million | 2016 US$'million |
|---|---|---|
| **Other comprehensive income (expense) includes:** | | |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Remeasurement on defined benefit pension plans | (100) | (49) |
| Income tax relating to defined benefit pension plans | 25 | 18 |
| Remeasurement on deferred tax assets related to amounts recorded in accumulated other comprehensive income (expense) | (30) | – |
| | (105) | (31) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation of foreign operations | 333 | (251) |
| Fair value change in cash flow hedge | (18) | 29 |
| Income tax relating to cash flow hedge | 7 | (11) |
| | 322 | (233) |
| Other comprehensive income (expense), net of income tax | 217 | (264) |

## 49. Events After the End of the Reporting Period

On September 25, 2017, the Group entered into agreements with two companies in Romania which operate three packaged meats manufacturing facilities, five distribution centers and related assets to acquire their 100% of share capital ("Elit & Vericom"). The two companies manufacture and sell branded, packaged meats to a nationwide distribution network. The transaction was completed in January 2018 and the Group is in the process of making assessment on the fair value of net identifiable assets of Elit & Vericom to be recognised upon acquisition.

## 50. Principal Subsidiaries

Details of the Company's principal subsidiaries at December 31, 2017 and December 31, 2016 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 |
|---|---|---|---|---|---|
| | | | 2017 | 2016 | |
| Rotary Vortex Limited | Hong Kong | Ordinary shares HK$33,883,520,411 (2016: HK$33,883,520,411) | 100% | 100% | Investment holding and trading |
| Shuanghui Development (Note 1) | China | Shares RMB3,299,558,284 (2016: RMB3,299,558,284) | 73.25% | 73.25% | Investment holding, livestock breeding, livestock slaughtering, manufacture and sales of packaging materials and meat products |
| Smithfield (Note 2) | U.S. | Note 3 | 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 limited liability company under People's Republic of China Law.

Note 2: This company was listed on the New York Stock Exchange and was delisted from the stock exchange market on September 26, 2013, immediately after the acquisition by the Group and remained as a registrant under U.S. Securities and Exchange Commission up to December 7, 2016.

Note 3: The par value of the common shares of this subsidiary is zero.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors 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.

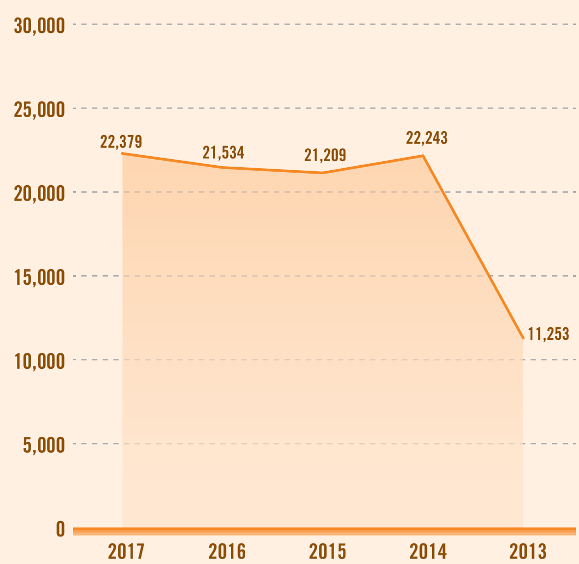
## 51. Comparative Amounts

Certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

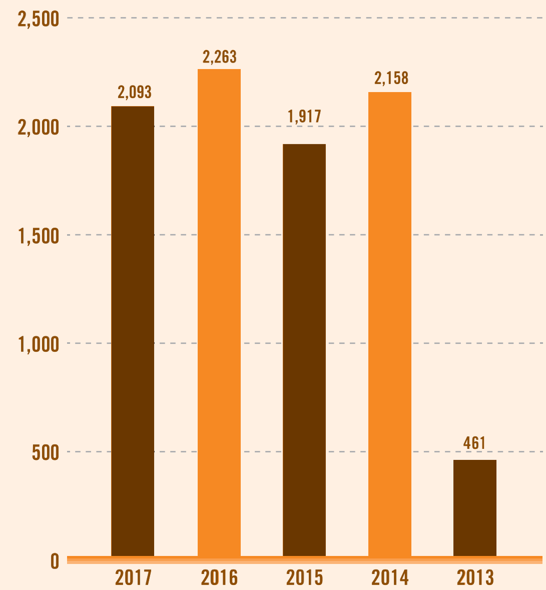
# FIVE YEAR SUMMARY

| As of and for the Year Ended December 31<br>US$ million (unless otherwise stated) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Key operating data** | | | | | |
| Hogs produced (million heads) | **20.2** | 19.2 | 19.1 | 17.7 | 5.5 |
| Hogs processed (million heads) | **53.8** | 49.3 | 48.3 | 47.2 | 22.8 |
| Packaged meats sold (million metric tons) | **3.3** | 3.2 | 3.2 | 3.2 | 2.2 |
| **Key financial data** | | | | | |
| Revenue | **22,379** | 21,534 | 21,209 | 22,243 | 11,253 |
| Revenue growth rate (%) | **3.9%** | 1.5% | -4.6% | 97.7% | 80.2% |
| Operating profit | **1,583** | 1,788 | 1,557 | 1,614 | 886 |
| Operating profit margin (%) | **7.1%** | 8.3% | 7.3% | 7.3% | 7.9% |
| Profit before taxation | **1,501** | 1,703 | 1,302 | 1,420 | 162 |
| Taxation | **(182)** | (465) | (307) | (448) | (229) |
| Profit (loss) for the year | **1,319** | 1,238 | 995 | 972 | (67) |
| Profit (loss) for the year attributable to: | | | | | |
| – owners of the Company | **1,133** | 1,036 | 786 | 766 | (263) |
| – non-controlling interests | **186** | 202 | 209 | 206 | 196 |
| | **1,319** | 1,238 | 995 | 972 | (67) |
| Profit (loss) attributable to owners of the Company, before biological fair value adjustments | **1,126** | 1,014 | 866 | 737 | (289) |
| Basic earnings (loss) per share (US$ cents) | **7.79** | 7.58 | 5.75 | 6.44 | (2.62) |
| Total assets | **15,258** | 13,611 | 14,301 | 14,720 | 14,156 |
| Total liabilities | **(7,036)** | (6,573) | (7,598) | (8,670) | (11,018) |
| Net assets | **8,222** | 7,038 | 6,703 | 6,050 | 3,138 |
| Equity attributable to owners of the Company | **7,445** | 6,316 | 5,763 | 5,130 | 2,275 |
| Non-controlling interest | **777** | 722 | 940 | 920 | 863 |
| Total equity | **8,222** | 7,038 | 6,703 | 6,050 | 3,138 |

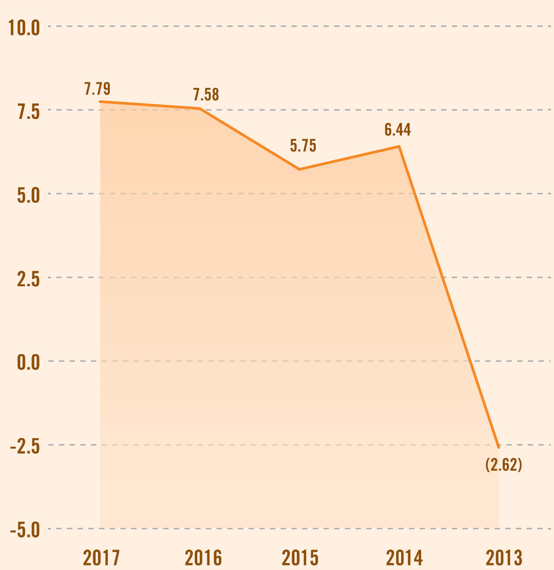
Revenue (US$ million)



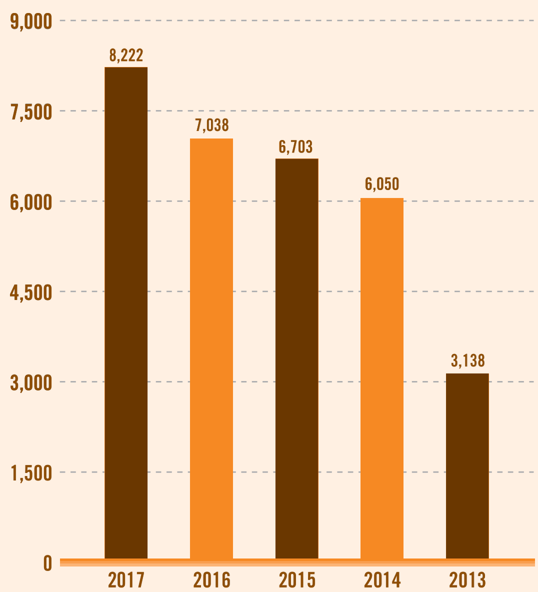

EBITDA (US$ million)




Basic earnings (loss) per 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 |
| "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 |
| "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 |
| "CME" | Chicago Mercantile Exchange |
| "Director(s)" | the director(s) of the Company |
| "EBITDA" | Earnings before interest, taxation, depreciation and amortisation |
| "EUR" | the Euro, the lawful currency of the member states of the European Union |
| "Fitch" | Fitch (Hong Kong) Limited or Fitch Ratings, Inc. |
| "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, 2017 |
| "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 |
| "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, 2017 |
| "PLN" | Polish Zloty, the lawful currency of the Republic of Poland |
| "pp" | percentage points |
| "Pre-IPO Share Options" | the options granted under the Pre-IPO Share Option Scheme |
| "Pre-IPO Share Option Scheme" | the pre-IPO share option scheme approved and adopted by our Company on January 21, 2014 as amended on April 4, 2014, for the benefit of any director, employee, adviser, consultant, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of the Company or any of our subsidiaries; a summary of the principal terms is set forth in the section headed "Directors' Report – Pre-IPO Share Option Scheme" |
| "Prospectus" | the prospectus of the Company in relation to the Listing dated July 24, 2014 |
| "Review Period" | the period from January 1, 2017 to December 31, 2017 |
| "Rich Matrix" | Rich Matrix Global Limited (裕基環球有限公司), a limited liability company incorporated under the laws of the BVI on September 9, 2013 and one of the Controlling Shareholders |

| | |
|---|---|
| "Rise Grand" | Rise Grand Group Limited (興泰集團有限公司), a BVI Business Company incorporated under the laws of the BVI on July 3, 2007 and one of the Controlling Shareholders |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "RON" | Romanian Lei, 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, 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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