

INDUSTRY OVERVIEW

As the largest pork company in the world, our business is closely tied with the hog industry in each market that we operate. Supply and demand drive the movement in prices of hog and meat and consequently impact our inputs (costs) and outputs (sales).

During the Period, the average hog price in the People’s Republic of China (“**China**”) was RMB34.75 (equivalent to approximately US\$4.97) per kilogram (“**kg**”), a significant increase of 105.3% from that of the nine months ended September 30, 2019 (“**9M 2019**” or the “**Comparable Period**”) as a result of the enduring effect of African Swine Fever (“**ASF**”). On the other hand, the average hog price for the Period decreased by 19.0% to US\$0.94 per kg in the United States of America (the “**U.S.**”) as the oversupply of hogs has been aggravated by lower slaughtering level because of coronavirus disease 2019 (“**COVID-19**”).

RESULTS OF OPERATIONS

	Packaged meats	Fresh pork	Hog production <i>US\$ million</i>	Others ⁽²⁾	Total
9M 2020					
Revenue⁽¹⁾					
China	3,081	4,431	2	541	8,055
U.S.	4,986	3,047	935	1	8,969
Europe	722	711	48	262	1,743
	<u>8,789</u>	<u>8,189</u>	<u>985</u>	<u>804</u>	<u>18,767</u>
Operating profit/(loss)					
China	650	194	(3)	36	877
U.S.	397	208	(36)	(105)	464
Europe	65	10	72	(12)	135
	<u>1,112</u>	<u>412</u>	<u>33</u>	<u>(81)</u>	<u>1,476</u>

	Packaged meats	Fresh pork	Hog production <i>US\$ million</i>	Others ⁽²⁾	Total
9M 2019					
Revenue⁽¹⁾					
China	2,701	3,118	2	296	6,117
U.S.	5,537	3,476	526	—	9,539
Europe	655	607	40	235	1,537
	<u>8,893</u>	<u>7,201</u>	<u>568</u>	<u>531</u>	<u>17,193</u>
Operating profit/(loss)					
China	497	194	(10)	28	709
U.S.	601	(20)	26	(106)	501
Europe	46	(18)	54	3	85
	<u>1,144</u>	<u>156</u>	<u>70</u>	<u>(75)</u>	<u>1,295</u>

Notes:

- (1) Revenue refers to net external sales.
- (2) Others operating loss includes certain corporate expenses.

Packaged Meats

During the Period, sales volume of our packaged meats reduced by 2.3% primarily due to the decrease in the U.S. of 6.1% as there was a lack of foodservice demand and labour shortage under the impact of COVID-19. Notwithstanding the growth in China and Europe as a result of volume increase and pricing adjustments, our revenue and operating profit decreased by 1.2% and 2.8%, respectively, as the U.S. market was unfavorable.

Fresh Pork

Total number of hogs processed in the Period was 19.1% lower than that of the Comparable Period as the supply of live hogs was constrained by ASF in China and production was hindered by COVID-19 in the U.S.. Having said that, our revenue increased by 13.7% as fresh pork selling price increased and sales of imported pork grew remarkably in China. Operating profit also increased significantly by 164.1% during the Period. In addition to the contribution of sales of imported pork in China, we benefited from the widened spread between live hog costs and pork values in the U.S. and capacity expansion in Europe.

Hog Production

In the Period, our hog production volume decreased by 4.1% mainly due to the impact of ASF and COVID-19. Hog production revenue rose by 73.4% as hedge gains increased in the U.S.. Our favorable hedging outcome significantly alleviated the negative effect of current market dynamics. However, our operating profit declined by 52.9% as we recorded a loss of US\$36 million (profit of US\$26 million in the Comparable period) in the U.S. due to the historically low hog prices.

Major Financing Activities

On October 12, 2020, Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司) (“**Shuanghui Development**”), an indirect non-wholly owned subsidiary of the Company whose shares are listed on the Shenzhen Stock Exchange, completed the non-public issuance of 145,379,023 new A shares of Shuanghui Development to certain specific investors and raised gross proceeds of approximately RMB7,000 million for the primary purpose of expanding our vertical supply chain of poultry and capacity of hog production as well as improving our production process of fresh pork and packaged meats in China. Immediately after the completion of the issuance, the equity interest of the Company in Shuanghui Development decreased from approximately 73.41% to approximately 70.33%.

In the Period, Smithfield Food Inc. (“**Smithfield**”), an indirect wholly owned subsidiary of the Company, completed the issuance of 3.0% senior unsecured notes with an aggregate principal amount of US\$500 million due 2030 for the replacement of existing debts and replenishment of working capital. In the Comparable Period, Smithfield also completed the issuance of 5.2% senior unsecured notes with an aggregate principal amount of US\$400 million due 2029.

OUTLOOK

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

To date, COVID-19 pandemic persists in many regions, we are making every endeavor to protect the safety and health of our employees around the globe. Meanwhile, we are taking various effective measures to minimise the disruption on our business. Given pork is a consumer staple, the current impact of COVID-19 on the Group is expected to be temporary. As a vertically integrated and geographically diversified industry leader, we have a distinctive market position to combat challenges and consistently deliver solid results by adjusting our operating strategy adequately.

REVIEW OF FINANCIAL INFORMATION

The Group's financial information for the nine months ended September 30, 2020 is unaudited, but has been reviewed by the audit committee of the Board.

By order of the Board
WH Group Limited
Wan Long
Chairman and Chief Executive Officer

Hong Kong, October 27, 2020

As at the date of this announcement, the executive Directors are Mr. WAN Long, Mr. WAN Hongjian, Mr. GUO Lijun, Mr. SULLIVAN Kenneth Marc and Mr. MA Xiangjie; the non-executive Director is Mr. JIAO Shuge; and the independent non-executive Directors are Mr. HUANG Ming, Mr. LEE Conway Kong Wai and Mr. LAU, Jin Tin Don.