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WH Group Limited
萬洲國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 288)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020

HIGHLIGHTS

	2020		2019	
Key operating data				
Packaged meats sold (thousand metric tons)		3,276		3,345
Pork sold (thousand metric tons)		3,946		4,224
	2020		2019	
	Results before biological fair value adjustments US\$ million (unless otherwise stated)	Results after biological fair value adjustments US\$ million (unless otherwise stated)	Results before biological fair value adjustments US\$ million (unless otherwise stated)	Results after biological fair value adjustments US\$ million (unless otherwise stated)
Key financial data				
Revenue	25,589	25,589	24,103	24,103
EBITDA	2,279	2,094	2,671	2,777
Operating profit	1,729	1,729	2,031	2,031
Profit attributable to owners of the Company	973	828	1,378	1,465
Basic earnings per share (US cents)	6.60	5.62	9.37	9.96
Dividend per share (HK\$)				
Interim	0.05	0.05	0.05	0.05
Final	0.125	0.125	0.265	0.265
	<u>0.175</u>	<u>0.175</u>	<u>0.315</u>	<u>0.315</u>

- Sales volume of packaged meats and pork decreased by 2.1% and 6.6% respectively.
- Revenue increased by 6.2%.
- Operating profit decreased by 14.9%.
- Profit attributable to owners of the Company, before biological fair value adjustments, decreased by 29.4%.

The board (the “**Board**”) of directors (the “**Directors**”) of WH Group Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended December 31, 2020.

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

BUSINESS REVIEW

I. INDUSTRY OVERVIEW

The Group operates in the People’s Republic of China (“**China**”), the United States of America (the “**U.S.**”) and certain selected markets in Europe. Each geographic region is characterised distinctively.

China

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

According to the National Bureau of Statistics of China, the total production of hogs in 2020 was 527 million heads, 3.2% lower than that of 2019. The total production of pork was 41.1 million tons, a decrease of 3.3% as compared to that of the previous year. With reference to the statistics published by the Ministry of Agriculture and Rural Affairs of the People’s Republic of China (the “**MOA**”), the average hog price in 2020 was RMB33.91 (approximately US\$4.91) per kilogram (“**kg**”), an increase of 60.3% over that of 2019. The main driving factor of the industrial trends above was the enduring effect of African Swine Fever (“**ASF**”).

Since the first report of ASF in China in August 2018, the reduction of supplies and elevation of prices changed the landscape of the industry, harmed the operation of processors and affected the daily consumption and livelihood of the people. To restore production and curb soaring hog (therefore pork) prices, the government adopted various supportive measures. Breeders gained experience in ASF control over time and were incentivised by the high level of profitability to actively rebuild their herd. As a result, the progress of industrial consolidation accelerated and the decrease in hog supplies narrowed year on year. However, the shortage of hog supplies remained, and hog prices hovered at a high level throughout 2020.

In 2020, the industry was also challenged by the outbreak of coronavirus disease 2019 (“**COVID-19**”) pandemic in terms of, among others, ways to prevent infection, curtail business interruptions and adapt to demand shift. On a positive note, the impact was temporary as COVID-19 was swiftly contained in China. Given the importance of pork in Chinese diet and the reopening of food services subsequent to the containment of COVID-19, demand remained strong. Coupled with the high prices, the importation of pork was very conducive in 2020. According to the statistics of the General Administration of Customs of China, the total volume of imported pork during the year was 4.39 million tons, 108.3% higher than that of the previous year. Key importing regions to China were the European Union (the “**EU**”), the U.S. and Canada in descending order of volume. Out of which, the volume of U.S. imports grew significantly in 2020.

U.S.

The U.S. is the second largest pork producing country worldwide. In contrast to the pork industry in China, the pork industry in the U.S. is relatively mature and concentrated. As the U.S. is also the world’s largest pork exporting country, hog prices and pork values in the U.S. are driven by the supply and demand of its domestic and export markets.

With reference to the statistics of the United States Department of Agriculture (the “**USDA**”), overall animal protein production in the U.S. was up by 1.2% in 2020, in which pork rose 2.4%, chicken rose 1.5% and beef was relatively flat. Notwithstanding the interruptions of COVID-19, the production of pork grew due to the expansion of hog production volumes and increase in body weights of each marketable hog.

Due to the increase in production, hog prices during the year were under pressure and were further weighed down by the backlog of hogs caused by COVID-19. Such backlog of hogs was because of the reduction in utilization of processing capacity resulting from capacity utilization plants closures, labour supply shortages and adoption of stringent and detailed protective measures enforced by government bodies under the pandemic. The average hog price, as published by Chicago Mercantile Exchange, Inc. (“**CME**”), was US\$1.00 per kg in 2020, a decrease of 10.7% over that of 2019.

In respect of pork cut-out, the average value, according to the USDA, was stable year over year but characterized with fluctuations throughout 2020. Against the backdrop of increased hog supplies, the fluctuations were mainly associated with the impact of COVID-19 because of the disruption of processing capacity and lack of food service demand. Meanwhile, the retail and export demand was favorable during the year.

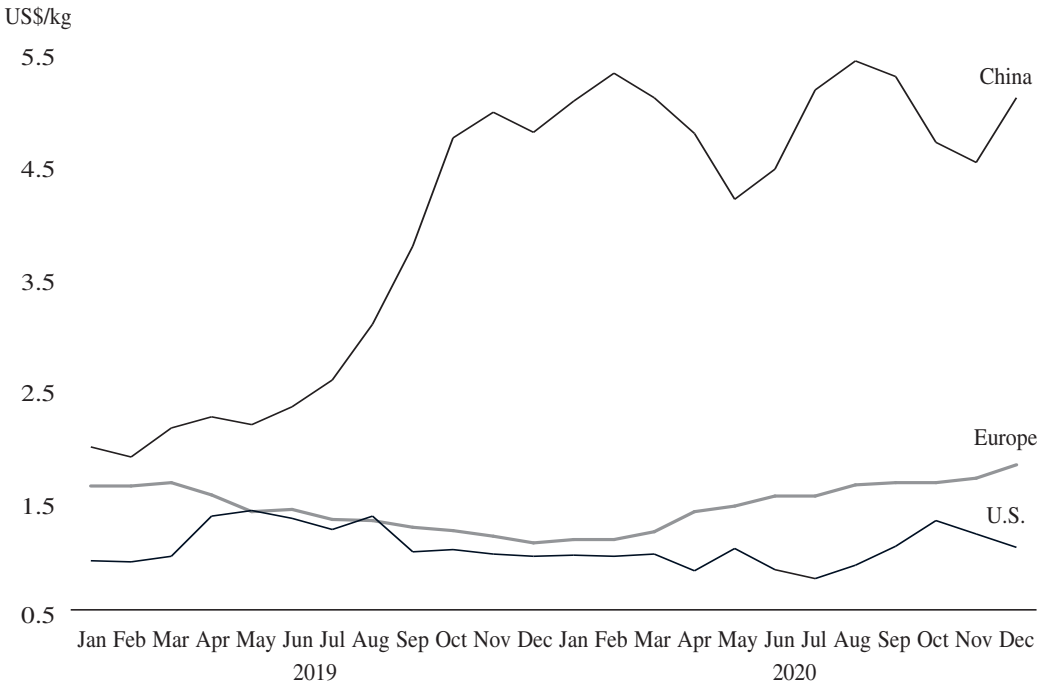
According to the USDA, the export volume of U.S. pork and offals in 2020 was up by 12.7%. As the supply-demand imbalance and boosted pork price caused by ASF continued in China and other countries, export opportunities in the U.S. increased. Driven by the difference in consumer preferences of products, price differentials, relaxation of some trade barriers and currency movements, U.S. exports to China expanded by 79.3% in 2020. Exports to Mexico and Japan were nearly flat while exports to other destinations, such as Korea, were down as compared to 2019.

Europe

The EU is the world's second biggest producer of pork after China considering all its member states collectively. The main producers are Germany, Spain, Poland, France, Denmark and Netherlands. Collectively speaking, the EU is also the biggest exporter of pork and pork products globally. Therefore, its pork prices are highly sensitive to export conditions.

According to the statistics disclosed by the European Commission, average pork production of the member states of the EU increased by 1.0% in 2020 despite the negative impacts of COVID-19 as strong demand from China supported production expansion. During the year, total export volume of the EU increased by 12.9%. Exports to China accounted for 53.0% and its volume was up 45.2%. Nevertheless, the average carcass price was Euro 1.63 per kg, a decrease of 4.5% as compared to that of 2019. In contrast to the upward trend in 2019, prices trended downward in 2020 due to market disruptions induced by COVID-19 and outbreak of ASF in some member states including its largest producer, Germany. These two events limited exports and increased supplies in the latter part of 2020.

Hog prices in China, the U.S. and Europe during 2019 and 2020



Sources: MOA, CME and European Commission

II. RESULTS OF OPERATIONS

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

	2020	2019	Change
	<i>US\$ million</i>		%
Revenue ⁽¹⁾			
— Packaged meats ⁽²⁾	12,167	12,331	(1.3%)
— Pork ⁽³⁾	12,296	11,015	11.6%
— Others	1,126	757	48.7%
	<u>25,589</u>	<u>24,103</u>	6.2%
Operating profit/(loss)			
— Packaged meats ⁽²⁾	1,499	1,574	(4.8%)
— Pork ⁽³⁾	341	570	(40.2%)
— Others ⁽⁴⁾	(111)	(113)	(1.8%)
	<u>1,729</u>	<u>2,031</u>	(14.9%)

Notes:

- (1) Revenue refers to net external sales.
- (2) Packaged meats represents production, wholesale and retail sales of packaged meat products.
- (3) Pork represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork.
- (4) Others operating loss includes certain corporate expenses.

The packaged meats segment has always been our core business as it accounted for 86.7% of the Group's operating profit in 2020 (2019: 77.5%). Its contribution to the Group's revenue was 47.5% in 2020 (2019: 51.2%). Our pork segment accounted for 19.7% of the Group's operating profit in 2020 (2019: 28.1%). Its contribution to the Group's revenue was 48.1% (2019: 45.7%).

Geographically, our operations in China contributed 42.3% and 65.9% of the revenue and operating profit of the Group in 2020 (2019: 36.3% and 47.1%) respectively. Contribution of our operations in the U.S. to the revenue and operating profit of the Group in 2020 were 48.3% and 24.0% (2019: 54.6% and 45.9%) respectively. The rest of the revenue and operating profit of the Group came from our operations in Europe.

Packaged Meats

	2020	2019	Change
	<i>US\$ million</i>		%
Revenue			
China	4,037	3,615	11.7%
U.S.	7,157	7,814	(8.4%)
Europe	973	902	7.9%
	<u>12,167</u>	<u>12,331</u>	(1.3%)
Operating profit			
China	836	673	24.2%
U.S.	571	847	(32.6%)
Europe	92	54	70.4%
	<u>1,499</u>	<u>1,574</u>	(4.8%)

In 2020, packaged meats sales volume of the Group decreased by 2.1% to 3,276 thousand metric tons. In China, sales volume during the year was 0.9% lower than the level of 2019 as consumer market slowed down and production was suspended at the beginning of the outbreak of COVID-19. Meanwhile, we continued to transform our product portfolio by introducing new products, developing new sales channels and expanding marketing input. Driven by several well received products such as “辣嗎辣香腸”, “火炫風刻花香腸” and “無澱粉王中王”, our new products achieved considerable volume growth in the year. Sales volume in the U.S. was down by 4.4% in 2020 as restrictions on social and dining activities under COVID-19 affected the demand from food services. Historically, the food service channel accounted for about a quarter of our packaged meats sales volume in the U.S. Whereas in 2020, sales volume through such channel reduced by almost 30%. Notwithstanding our efforts to redirect the sales to other channels, the decrease in total volume was not fully mitigated. In Europe, our sales volume increased by 3.2% as we added new production lines to expand our capacity.

Revenue in 2020 decreased by 1.3% to US\$12,167 million. Revenue in China increased by 11.7% as the impact of price adjustments outweighed the decrease in sales volume. In the U.S., revenue was down 8.4% as sales volume and prices were lower as compared to those of the previous year due to demand contraction during the pandemic. In Europe, revenue increased by 7.9% as a result of growth in both sales volume and prices.

Operating profit was US\$1,499 million in 2020, a decrease of 4.8% as compared to 2019. Out of which, operating profit in China increased by 24.2%. Although the cost of our dominant raw material, pork, continued to increase due to supply limitation imposed by ASF, operating profit grew as the gain from price and product mix adjustments outpaced the impact of unfavorable costs of sales. In the U.S., operating profit in the year declined notably by 32.6% primarily due to the impact of COVID-19 which included production inefficiency, unfavorable sales, incremental charges on employee protection and workforce stabilization as well as provisions made on the expected losses of receivables and inventories. In Europe, our operating profit increased substantially by 70.4% as compared to 2019 because the growth in sales countervailed higher raw material and production costs.

Pork

	2020	2019	Change
	<i>US\$ million</i>		%
Revenue			
China	6,073	4,727	28.5%
U.S.	5,169	5,344	(3.3%)
Europe	1,054	944	11.7%
	<u>12,296</u>	<u>11,015</u>	11.6%
Operating profit/(loss)			
China	271	249	8.8%
U.S.	(33)	233	N.A.
Europe	103	88	17.0%
	<u>341</u>	<u>570</u>	(40.2%)

Total number of hogs processed in 2020 was 46,630 thousand heads, a decrease of 13.3% over that of 2019. External sales volume of pork was 3,946 thousand metric tons, 6.6% lower than the level of the previous year. The decrease was caused by our business in China and the U.S. but the growth of our business in Europe has partially offset such decrease.

In China, the number of hogs processed reduced sharply by 46.3% to 7,092 thousand heads. In 2019, we took advantage of our widely established production and logistics facilities to seize the opportunity of relatively low hog prices to enlarge our production scale. However, as the impact of ASF manifested, our processing volume in 2020 was constrained by the reduction in market supplies of live hogs and softening in demand. Despite the drastic decline in processing volume, the decrease in external sales volume of pork was only 6.9% as we benefited from the growth of import business. In the U.S., our processing volume and external sales volume of pork were also down as capacity utilization was held back by labour shortage, temporary closure of facilities and implementation of more stringent protective measures in relation to COVID-19. In Europe, our processing volume and external sales volume of pork increased by 11.2% and 10.7% respectively as a result of utilizing the newly acquired capacity in Poland.

Pork revenue increased by 11.6% to US\$12,296 million in 2020 as revenue in China and Europe grew. In China, revenue rose by 28.5% from that of the previous year because the impact of increased pork prices surpassed the decrease in sales volume. In Europe, revenue increased by 11.7% mainly due to sales volume growth. On the other hand, revenue in the U.S. was down by 3.3% primarily due to the reduction in production and sales volume.

Our operating profit of pork decreased from US\$570 million in the previous year to US\$341 million in the year. In China, despite the lower level of hog slaughtering activity and profit in 2020, operating profit grew 8.8% with the increase in earnings associated with processing and sale of imported pork. In the U.S., we recorded an operating loss of US\$33 million in 2020 as compared to an operating profit of US\$233 million in 2019. Although hog costs were low while pork prices were stable, the negative impact of COVID-19 outweighed the benefit of such market dynamics. Operating profit of pork reduced significantly due to lower sales, production inefficiencies and incremental charges on employees protection. In Europe, operating profit increased by 17.0% in 2020. The main reasons of the increase were the growth in sales and decrease in hog costs with stable pork prices.

Others

In addition to packaged meats and pork, the Group also engages in certain other businesses which are ancillary to our two primary operating segments. Such other businesses include slaughtering and sales of poultry, manufacturing and sales of packaging materials, provision of logistics services, operation of finance companies, property development companies and a chain of food retail stores, production of flavoring ingredients and natural casings, as well as sales of biological pharmaceutical materials.

During the year, revenue generated by our other businesses amounted to US\$1,126 million, an increase of 48.7% as compared to that of the previous years. Our poultry business in Europe and China and logistics business in China made a respectable contribution to our other businesses. Our poultry business processed approximately 164 million heads of broiler, goose and turkey in 2020 (2019: 129 million heads). The growth of poultry business is an integral part of our strategy in protein diversification. Our logistics business currently owns 19 logistics centers across 15 provinces covering the majority of China. These facilities enable us to deliver our packaged meats and pork to customers timely and safely.

III. PRODUCTION CAPACITY

The Group has production facilities with state-of-the-art equipment located in China, the U.S. and part of Europe. As at the year end of 2020, we owned an annual production capacity of packaged meats of approximately 2.12 million metric tons, 1.71 million metric tons and 0.42 million metric tons with utilization rates of 74.1%, 75.2% and 76.4% in China, the U.S. and Europe, respectively. Annual hog processing capacity in China, the U.S. and Europe were approximately 23.73 million heads, 34.06 million heads and 7.63 million heads and their utilization rates were 29.9%, 94.4% and 87.0%, respectively in 2020.

FINANCIAL REVIEW

I. KEY FINANCIAL PERFORMANCE INDICATORS

		2020	2019	Change
Revenue growth rate	%/pp	6.2	6.6	(0.4)
EBITDA				
(before biological fair value adjustments) ratio margin	%/pp	8.9	11.1	(2.2)
Operating profit margin	%/pp	6.8	8.4	(1.6)
— Packaged meat products	%/pp	12.3	12.8	(0.5)
— Pork	%/pp	2.1	3.9	(1.8)
Per unit operating profit				
— Packaged meat products	US\$ per metric ton	457.6	470.6	(13.0)
— Pork	US\$ per metric ton	86.4	134.9	(48.5)
Net profit				
(before biological fair value adjustments) margin	%/pp	4.8	6.7	(1.9)
Current ratio	times	1.9	1.7	0.2
Cash conversion cycle	days	44.8	43.8	1.0
Debt to equity ratio	%/pp	24.4	32.7	(8.3)
Debt to EBITDA				
(before biological fair value adjustments) ratio	times	1.2	1.2	—
Return on total assets	%/pp	6.1	10.4	(4.3)
Return on equity	%/pp	8.9	17.8	(8.9)

II. ANALYSIS OF CAPITAL RESOURCES

Treasury Management

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

Liquidity

The Group continues to maintain an adequate level of liquidity. As COVID-19 may present unforeseen challenges to our business, we further increased our cash and bank balance as well as unutilised banking facilities during the year to ensure our financial strength and flexibility.

As at December 31, 2020, we had cash and bank balances of US\$1,599 million (2019: US\$552 million), which were held primarily in Renminbi (“**RMB**”), U.S. Dollar (“**US\$**”), Hong Kong Dollar (“**HK\$**”), Polish Zloty (“**PLN**”) and Romanian Leu (“**RON**”). From time to time, we also hold certain financial products for yield enhancement purpose. Such financial products are classified as current financial assets at fair value through profit or loss. As at December 31, 2020, the balance was US\$882 million (2019: US\$447 million).

Our current ratio (ratio of consolidated current assets to consolidated current liabilities) was 1.9 times as at December 31, 2020 (2019: 1.7 times). The aggregate amount of unutilised banking facilities as at December 31, 2020 was US\$5,032 million (2019: US\$2,874 million).

Cash Flows

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

In 2020, our net cash from operating activities amounted to US\$2,357 million (2019: US\$1,463 million). The increase in cash inflow was mainly due to the release of inventory. Our net cash used in investing activities in 2020 amounted to US\$963 million (2019: US\$796 million). The primary reasons for the increase in cash outflow was the increase in investment of financial products despite a reduction in capital expenditure. Our net cash used in financing activities in 2020 amounted to US\$479 million (2019: US\$593 million). The decrease in cash outflow was mainly a result of the capital raised from Shuanghui’s Issuance of New Shares (as defined hereinafter), but was partially offset by the increase in payment of dividends and repayment of debts. As such, our net increase in cash and cash equivalents was US\$915 million in 2020 (2019: US\$74 million).

Credit Profile

The Group aims at maintaining a good credit profile that is beneficial to its long-term growth and development. Our Long-Term Foreign-Currency Issuer Default Rating (“**IDR**”) and senior unsecured rating are BBB+ according to Fitch. Our long-term corporate credit rating is BBB according to Standard & Poor’s. Our issuer rating is Baa2 according to Moody’s. The outlook of these ratings is stable.

For our wholly-owned subsidiary, Smithfield Foods, Inc. (“**Smithfield**”), Fitch assigned to it an IDR of BBB with a stable outlook. According to Standard & Poor’s, the corporate credit rating of Smithfield is BBB-. The outlook is stable. The corporate family rating of Smithfield assigned by Moody’s was Ba1. The outlook is also stable.

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 facilities of 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% (“**Shuanghui’s Issuance of New Shares**”).

On September 15, 2020, the Group completed the issuance of 3.0% senior unsecured notes with an aggregate principal amount of US\$500 million due 2030 for the partial replacement of certain existing debts and replenishment of working capital.

Debt Profile

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

	As at December 31, 2020 <i>US\$ million</i>	As at December 31, 2019 <i>US\$ million</i>
Borrowings by nature		
Senior unsecured notes	2,098	1,787
Bank borrowings	535	1,177
Bank overdrafts	46	—
Loans from third parties	3	3
Commercial paper	—	125
	<u>2,682</u>	<u>3,092</u>
Borrowings by geographical region		
U.S.	2,098	2,227
China	538	680
Europe	46	185
	<u>2,682</u>	<u>3,092</u>

The Group's total principal amount of outstanding borrowings as at December 31, 2020 was US\$2,706 million (2019: US\$3,110 million). The maturity profile is analysed as follows:

	Total
In 2021	31%
In 2022	12%
In 2023	1%
In 2027	22%
In 2029	15%
In 2030	19%
	<u>100%</u>

Our borrowings are principally denominated in currencies of the countries of the Group's business, or balanced by assets in the same currency. 78.3% of our borrowings was denominated in US\$ as at December 31, 2020 (2019: 73.5%). The rest of our borrowings was denominated in RMB, RON, PLN, GBP and Euro.

As at December 31, 2020, 99.5% of our borrowings were unsecured (2019: 98.7%). 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 financial covenants during the year.

Leverage Ratios

As at December 31, 2020, our debt to equity ratio (ratio of consolidated borrowings to consolidated total equity) and net debt to equity ratio (ratio of consolidated borrowings less cash and bank balances to consolidated total equity) were 24.4% and 9.9%, respectively (2019: 32.7% and 26.9%, respectively). Our debt to EBITDA ratio (ratio of consolidated borrowings to EBITDA before biological fair value adjustments) and net debt to EBITDA ratio (ratio of consolidated borrowings less cash and bank balances to EBITDA before biological fair value adjustments) as at December 31, 2020 were 1.2 times and 0.5 times, respectively (2019: 1.2 times and 1.0 times, respectively).

Finance Costs

Our finance costs reduced to US\$135 million in 2020 from US\$144 million in 2019. The decrease was mainly due to a lower effective interest rate and level of debt.

As at December 31, 2020, the average interest rate of our borrowings was 3.5% (2019: 3.7%).

III. CAPITAL EXPENDITURES

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

In 2020, capital expenditures amounted to US\$572 million (2019: US\$703 million). The following table sets out our capital expenditures by geographical region for the years indicated:

	2020	2019
	<i>US\$ million</i>	<i>US\$ million</i>
China	172	99
U.S.	318	478
Europe	82	126
	<u>572</u>	<u>703</u>

In China, our capital expenditures for the year were mainly for the alteration of our packaged meats and poultry production facilities as well as the investment in certain environmental protection projects. Our capital expenditures in the U.S. were primarily related to the relocation and modernisation of our processing plants, expansion of our value-added packaged meats production capacity and a bioscience project. Our capital expenditures in Europe were mainly for the capacity expansion of packaged meats.

IV. HUMAN RESOURCES

As at December 31, 2020, the Group had approximately 107 thousand employees in total, in which approximately 48 thousand employees were with our China operation, approximately 43 thousand and 16 thousand employees were with our U.S. and European operations, respectively. We value talent management and employee engagement. Therefore, with a view to constantly improving the skills and knowledge of our employees, we provide adequate training programs. 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 2020 amounted to US\$3,988 million (2019: US\$3,650 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 remuneration expenses during the year was mainly caused by the incremental charges associated with COVID-19.

V. BIOLOGICAL ASSETS

As at December 31, 2020, we had a total of 13,463 thousand hogs, consisting of 12,383 thousand market hogs and 1,080 thousand breeding stock, an increase of 0.9% from 13,342 thousand hogs as at December 31, 2019. We also had a total of 9,439 thousand poultry, consisting of 8,804 thousand broilers and 635 thousand breeding stock, an increase of 72.1% from 5,485 thousand poultry as at December 31, 2019. The fair value of our biological assets was US\$1,182 million as at December 31, 2020, as compared to US\$1,244 million as at December 31, 2019.

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 2020, the net impact of biological fair value adjustments on our profit was a loss in the amount of US\$145 million, as compared to a gain in the amount of US\$85 million of last year.

VI. KEY INVESTMENT INTERESTS

Acquisition of Subsidiaries

On October 30, 2020, the Group acquired from an independent third party the entire equity interest in Edelmann Provision Company Inc. (“**Edelmann Provision**”). Edelmann Provision is a specialised supplier of pre-rigor sow meat for fresh sausage products. The acquisition expands our capacity and market share in the fresh sausage product category and is expected to enhance the margin of our packaged meats in the U.S.

On February 22, 2021, the Group entered into an agreement with Carnibona Holdings Limited (a third party independent of the Company and its connected person) for the acquisition of 100% of the equity interests in MECOM GROUP s.r.o., Schneider Food, s.r.o., and Kaiser Food Kft. (collectively, “**Mecom Group**”). Mecom Group has two meat processing plants in Slovakia and two specialized sites in Hungary that produce salami and other meat products. It operates several brands including Mecom, Csabahus, Kaiser and Schneider in Slovakia, Hungary and Czech. The acquisition of Mecom Group is conditional on the approval by the Slovak Competition Authority and the Hungarian Competition Authority under the relevant competition law. It is expected that the completion of acquisition of Mecom Group would facilitate the Group to build its strategic footprint in Central Europe.

Investment in Joint Ventures

The Group has joint venture interests in various parts of the world. In the U.S., we have two joint ventures engaged in renewable gas operation. Align RNG, LLC (“**Align**”) was formed with Dominion Energy RNG Holdings, Inc. and Monarch Bio Energy, LCC (“**Monarch**”) was formed with Roeslein Alternative Energy, LLC. Align and Monarch convert waste from hog farming operations in Utah and Missouri into clean energy for homes, businesses and transportation. During the year, Align completed its first project and Monarch completed two additional projects for a total of six projects in operation. The Group will continue to invest in such projects and expect them to generate economic benefits as well as contribute to our environmental, social and governance goals.

In Mexico, we have joint venture interests in two pork companies, Granjas Carroll de Mexico (“**GCM**”) and Norson Holdings (“**Norson**”). GCM sells live hogs into Mexico City, one of the largest pork consumption markets in the world. Starting from early 2019, it commenced processing of hogs with a newly established facility. Norson primarily produces hogs for use in its pork operations. In 2020, the Group’s share of profit from the two Mexican joint ventures was US\$8 million (2019: US\$8 million). At the end of 2020, GCM and Norson had in aggregates, approximately 150 thousand sows and owned processing facilities with an annual capacity of 2.6 million hogs. It is expected that GCM and Norson will continue to be our important investments in Mexico and play an important role in the Group’s development of North America market.

VII. KEY RISKS AND THEIR MANAGEMENT

Risk Management

The risk management system of the Group is designed to assist the Group in implementing a sound and consistent risk management and reporting process across the Group. The risk management committee 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 2020, the Group conducted enterprise risk assessments to analyze and report key risks, followed by the establishment of respective mitigation controls. An opinion on the effectiveness of the enterprise risk management (“**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 Risks

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 and pork operations. The Group’s revenue is primarily driven by the sale of packaged meats and pork. Significant price fluctuations in these commodities affect our results.

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

Currency and Interest Rate Risks

The Group generally matches income and expenses, assets and liabilities with the same currency, in each geographical location which it operates, to reduce currency risks. Only certain entities of the Group have certain sales, purchases, cash and bank

balances and borrowings denominated in currencies other than their functional currencies. We monitor our foreign exchange exposure at any time and hedge significant exposure should the need arise.

Our borrowings carry fixed or floating interest rates. At December 31, 2020, approximately 98.6% of our borrowings (other than bank overdrafts) were at fixed interest rates (2019: 77.1%). To manage our interest rate exposure, we optimise our debt portfolio and enter into hedging activities from time to time.

VIII. CONTINGENT LIABILITIES

Our operations are subject to various laws and regulations administered by various specific local authorities. We receive notices and inquiries from them in relation to compliance from time to time. In some instances, litigation ensues or individuals may initiate litigation against the Group. In regard to the North Carolina nuisance litigation case, all outstanding issues were resolved in January 2021 in accordance to the respective settlement agreements. Details will be available in the annual report of the Company for the year ended December 31, 2020. Our management assesses and monitors these contingent liabilities. We believe that their financial and operational impact would not be material to the Group.

IX. SUSTAINABILITY

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. As a leading global operator, we are subject to different laws and legal standards in the markets where we operate, and the expectations of our stakeholders are significantly different between the various markets where we have a presence. Under the guidance of the environmental, social and governance committee, each of our business units also has its own sustainability body, which moves local sustainability initiatives forward in accordance with Group principles. We conducted our materiality analysis this year by developing a process to identify key sustainability issues of our key stakeholders and prioritise the key concerns in a systematic approach, so as to guide our sustainability strategy and manage concerns which are deemed as most material to our stakeholders. The analysis results layout the foundation for material selection and preparation of our Sustainability Report.

More details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group will be provided in our Sustainability Report to be published on the websites of The Stock Exchange of Hong Kong Limited (the "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.

In 2020, the Company was granted A-grade by the Hang Seng Corporate Sustainability Index ratings for a third consecutive year, and was selected as a constituent stock of DJSI (Dow Jones Sustainability Index) Emerging Markets in recognition of the Group's outstanding performance in sustainability.

OUTLOOK

As the world largest pork enterprise, WH Group possesses international production deployment and vertically integrated production chain, and is a consumer good company with branded packaged meats as our core business. Our business has always been affected by changes in environment, including economic growth, consumers' preference, industry cycle and pandemic.

In 2020, the overlay effects of COVID-19 pandemic, continuation of ASF and unstable geopolitical relations brought us unprecedented challenges. Stepping into 2021, as signs of alleviation of COVID-19 were shown across the globe, demand and production are expected to gradually return to normal. Nonetheless, ASF pandemic still remains in China and Europe, while there are uncertainties in world economic trend and geopolitical relations as well as surge in commodities price. We will closely keep abreast of these issues and make timely adjustments to prevent risks and overcome challenges.

Preventing the pandemic and maintaining safety are still our top priorities. For operation, we will continue to promote product structure adjustment, innovate marketing, optimize production chain, and develop diversified segments of meat industry. By increasing investment and optimizing management, we will unleash our potentials, enhance production efficiency, consolidate our resources, expand the added value for international trading and imported products processing, thereby creating an optimal synergy. We will also increase efforts on hedging management and curb commodities price fluctuation risk.

Looking forward, we will capture the favorable time of industry integration and foster corporate expansion in a stable manner. By further ramping up our corporate competitiveness and expanding our comprehensive strengths, we will maintain our industry leading position, continuously offer consumers with quality products, and create long-term value for our shareholders, employees and the community.

FINANCIAL INFORMATION

The financial information below is an extract of the consolidated financial statements of the Group for the year ended December 31, 2020, which have been reviewed by the audit committee of the Board (the “**Audit Committee**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2020

	Notes	2020			2019		
		Results before biological fair value adjustments US\$'million	Biological fair value adjustments US\$'million	Total US\$'million	Results before biological fair value adjustments US\$'million	Biological fair value adjustments US\$'million	Total US\$'million
Revenue	3	25,589	—	25,589	24,103	—	24,103
Cost of sales		(21,096)	533	(20,563)	(19,209)	338	(18,871)
Gross profit		4,493	533	5,026	4,894	338	5,232
Distribution and selling expenses		(1,914)	—	(1,914)	(2,059)	—	(2,059)
Administrative expenses		(874)	—	(874)	(811)	—	(811)
Loss arising from agricultural produce at fair value less costs to sell at the point of harvest		—	(511)	(511)	—	(208)	(208)
Loss arising from changes in fair value less costs to sell of biological assets		—	(209)	(209)	—	(22)	(22)
Other income	4	74	—	74	59	—	59
Other gains and (losses)	5	(47)	—	(47)	53	—	53
Other expenses		(111)	—	(111)	(63)	—	(63)
Finance costs	6	(135)	—	(135)	(144)	—	(144)
Share of profits of associates		4	—	4	4	—	4
Share of profits of joint ventures		10	2	12	13	(2)	11
PROFIT BEFORE TAX	7	1,500	(185)	1,315	1,946	106	2,052
Taxation	8	(263)	40	(223)	(336)	(21)	(357)
PROFIT FOR THE YEAR		1,237	(145)	1,092	1,610	85	1,695

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (continued)**

For the year ended December 31, 2020

	Note	2020			2019		
		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
Other comprehensive income (expense) for the year:							
<i>Items that will not be reclassified subsequently to profit or loss:</i>							
— remeasurement on defined benefit pension plans				(90)		(143)	
				<u>(90)</u>		<u>(143)</u>	
<i>Items that may be reclassified subsequently to profit or loss:</i>							
— exchange differences arising on translation of foreign operations				312		(51)	
— fair value change in cash flow hedge, net of tax				31		15	
				<u>343</u>		<u>(36)</u>	
Other comprehensive income (expense) for the year, net of tax				<u>253</u>		<u>(179)</u>	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				<u>1,345</u>		<u>1,516</u>	
Profit for the year attributable to							
— owners of the Company				828		1,465	
— non-controlling interests				264		230	
				<u>1,092</u>		<u>1,695</u>	
Total comprehensive income for the year attributable to							
— owners of the Company				1,016		1,305	
— non-controlling interests				329		211	
				<u>1,345</u>		<u>1,516</u>	
EARNINGS PER SHARE	10						
— Basic (US cents)				5.62		9.96	
— Diluted (US cents)				5.60		9.90	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2020

	<i>Notes</i>	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	5,531	5,406
Right-of-use assets		684	646
Biological assets	<i>12</i>	135	137
Goodwill		2,008	1,955
Intangible assets		1,762	1,712
Interests in associates		47	42
Interests in joint ventures		307	305
Other receivables		57	54
Financial assets at fair value through profit or loss		10	10
Pledged bank deposits		11	4
Deferred tax assets		61	66
Other non-current assets		268	238
		<hr/>	<hr/>
Total non-current assets		10,881	10,575
CURRENT ASSETS			
Properties under development		130	102
Biological assets	<i>12</i>	1,047	1,107
Inventories	<i>13</i>	2,641	2,903
Trade and bills receivables	<i>14</i>	915	1,047
Prepayments, other receivables and other assets		512	508
Taxation recoverable		57	—
Financial assets at fair value through profit or loss		882	447
Pledged/restricted bank deposits		51	41
Cash and bank balances		1,599	552
		<hr/>	<hr/>
Total current assets		7,834	6,707

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)*December 31, 2020*

	<i>Notes</i>	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
CURRENT LIABILITIES			
Trade payables	<i>15</i>	913	1,074
Accrued expenses and other payables	<i>16</i>	2,136	1,686
Lease liabilities		103	108
Taxation payable		73	96
Borrowings	<i>17</i>	796	905
Bank overdrafts	<i>17</i>	46	—
Total current liabilities		4,067	3,869
NET CURRENT ASSETS		3,767	2,838
TOTAL ASSETS LESS CURRENT LIABILITIES		14,648	13,413
NON-CURRENT LIABILITIES			
Other payables	<i>16</i>	291	189
Lease liabilities		373	357
Borrowings	<i>17</i>	1,840	2,187
Deferred tax liabilities		553	660
Deferred revenue		44	10
Pension liability and other retirement benefits		562	558
Total non-current liabilities		3,663	3,961
NET ASSETS		10,985	9,452
CAPITAL AND RESERVES			
Share capital		1	1
Reserves		10,004	8,683
Equity attributable to owners of the Company		10,005	8,684
Non-controlling interests		980	768
TOTAL EQUITY		10,985	9,452

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Net cash flows from operating activities	<u>2,357</u>	<u>1,463</u>
Net cash flows used in investing activities	<u>(963)</u>	<u>(796)</u>
Net cash flows used in financing activities	<u>(479)</u>	<u>(593)</u>
Net increase in cash and cash equivalents	915	74
Effect of foreign exchange rate changes	86	(6)
Cash and cash equivalents at beginning of year	<u>552</u>	<u>484</u>
Cash and cash equivalents at end of year	<u><u>1,553</u></u>	<u><u>552</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	1,599	552
Bank overdrafts	<u>(46)</u>	<u>—</u>
	<u><u>1,553</u></u>	<u><u>552</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

For the year ended December 31, 2020

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. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on August 5, 2014.

The Company acts as an investment holding company. The consolidated financial information of the Company for the year ended December 31, 2020 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 pork.

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board (the “**IASB**”) and the disclosure requirements of the Hong Kong Companies Ordinance.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting issued on March 29, 2018* and the following revised IFRSs for the first time for the current year’s consolidated financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting issued on March 29, 2018* and the revised IFRSs are described below:

Conceptual Framework for Financial Reporting issued on March 29, 2018

Conceptual Framework for Financial Reporting issued on March 29, 2018 (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendments to IFRS 3 Definition of a Business

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

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any significant impact on the financial position and performance of the Group.

Amendment to IFRS 16 Covid-19-Related Rent Concessions

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before June 30, 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after June 1, 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any significant impact on the financial position and performance of the Group.

Amendments to IAS 1 and IAS 8 Definition of Material

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. REVENUE AND SEGMENT INFORMATION

An analysis of revenue is as follows:

	2020	2019
	<i>US\$'million</i>	<i>US\$'million</i>
Packaged meats	12,167	12,331
Pork	12,296	11,015
Others	1,126	757
	25,589	24,103

Segment information

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, who are also the chief operating decision-makers, that are used to make strategic decisions. During the year, the Group realigned its reportable operating segments to be consistent with the Group's strategic initiatives and its vertically integrated operations. Accordingly, the Group's financial results for the year ended December 31, 2020 are reported in new reportable segments, which are also the operating segments and are classified based on their locations including China, U.S. and Europe and the nature of operations as (i) packaged meats, (ii) pork, and (iii) others. The Group's financial results for the year ended December 31, 2019 are also regrouped to conform with the new segment presentation.

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) Pork — represents slaughtering, wholesale and retail sales of fresh and frozen pork and hog farming.
- (iii) Others — represents slaughtering and sales of poultry, sales of ancillary products and services such as provision of logistics services, manufacturing of flavouring ingredients and natural casings, manufacturing and sales of packaging materials, operating finance companies, property development companies, a chain of retail food stores, sales of biological pharmaceutical materials, trading of meat related products, and corporate expenses incurred by the Group.

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

Segment results represent the profit earned by each segment before biological fair value adjustments without allocation of other income not attributed to the respective segments, 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 resource allocation and assessment of segment performance.

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

3. 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, 2020			
	Packaged meats US\$'million	Pork US\$'million	Others US\$'million	Total US\$'million
China				
Gross segment revenue	4,037	7,075	1,024	12,136
Less: Inter-segment revenue	—	(1,002)	(306)	(1,308)
Revenue	<u>4,037</u>	<u>6,073</u>	<u>718</u>	<u>10,828</u>
Reportable segment profit	<u>836</u>	<u>271</u>	<u>33</u>	<u>1,140</u>
U.S.				
Gross segment revenue	7,160	8,581	37	15,778
Less: Inter-segment revenue	(3)	(3,412)	—	(3,415)
Revenue	<u>7,157</u>	<u>5,169</u>	<u>37</u>	<u>12,363</u>
Reportable segment profit (loss)	<u>571</u>	<u>(33)</u>	<u>(123)</u>	<u>415</u>
Europe				
Gross segment revenue	1,019	1,534	452	3,005
Less: Inter-segment revenue	(46)	(480)	(81)	(607)
Revenue	<u>973</u>	<u>1,054</u>	<u>371</u>	<u>2,398</u>
Reportable segment profit (loss)	<u>92</u>	<u>103</u>	<u>(21)</u>	<u>174</u>
Total				
Gross segment revenue	12,216	17,190	1,513	30,919
Less: Inter-segment revenue	(49)	(4,894)	(387)	(5,330)
Revenue	<u>12,167</u>	<u>12,296</u>	<u>1,126</u>	<u>25,589</u>
Reportable segment profit (loss)	<u>1,499</u>	<u>341</u>	<u>(111)</u>	<u>1,729</u>
Net unallocated expenses				(108)
Biological fair value adjustments				(185)
Finance costs				(135)
Share of profits of associates				4
Share of profits of joint ventures				10
Profit before tax				<u>1,315</u>

3. REVENUE AND SEGMENT INFORMATION (continued)

Segment information (continued)

	For the year ended December 31, 2019			
	Packaged meats	Pork	Others	Total
	US\$'million	US\$'million	US\$'million	US\$'million
China				
Gross segment revenue	3,615	5,673	756	10,044
Less: Inter-segment revenue	—	(946)	(342)	(1,288)
Revenue	<u>3,615</u>	<u>4,727</u>	<u>414</u>	<u>8,756</u>
Reportable segment profit	<u>673</u>	<u>249</u>	<u>35</u>	<u>957</u>
U.S.				
Gross segment revenue	7,817	8,375	1	16,193
Less: Inter-segment revenue	(3)	(3,031)	—	(3,034)
Revenue	<u>7,814</u>	<u>5,344</u>	<u>1</u>	<u>13,159</u>
Reportable segment profit (loss)	<u>847</u>	<u>233</u>	<u>(148)</u>	<u>932</u>
Europe				
Gross segment revenue	943	1,387	415	2,745
Less: Inter-segment revenue	(41)	(443)	(73)	(557)
Revenue	<u>902</u>	<u>944</u>	<u>342</u>	<u>2,188</u>
Reportable segment profit	<u>54</u>	<u>88</u>	<u>—*</u>	<u>142</u>
Total				
Gross segment revenue	12,375	15,435	1,172	28,982
Less: Inter-segment revenue	(44)	(4,420)	(415)	(4,879)
Revenue	<u>12,331</u>	<u>11,015</u>	<u>757</u>	<u>24,103</u>
Reportable segment profit (loss)	<u>1,574</u>	<u>570</u>	<u>(113)</u>	<u>2,031</u>
Net unallocated income				42
Biological fair value adjustments				106
Finance costs				(144)
Share of profits of associates				4
Share of profits of joint ventures				13
Profit before tax				<u>2,052</u>

* Less than US\$1 million.

4. OTHER INCOME

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Government subsidy	26	28
Bank interest income	17	14
Income on sales of raw materials	10	10
Others	21	7
	<u>74</u>	<u>59</u>

5. OTHER GAINS AND (LOSSES)

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Gain on non-qualified retirement plan assets	17	14
Fair value gain on financial assets at fair value through profit or loss	29	24
(Loss) gain on disposal of property, plant and equipment	(7)	1
Gain on contribution of assets to a joint venture	—	42
Gain on disposal of an associate	—	15
Impairment loss recognised in respect of property, plant and equipment	(25)	(18)
Impairment loss recognised in respect of intangible assets	(2)	(8)
Impairment loss recognised in respect of right-of-use assets	(2)	(5)
Net exchange gains (losses)	5	(9)
Gain on insurance recovery	7	10
Others	(69)	(13)
	<u>(47)</u>	<u>53</u>

6. FINANCE COSTS

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Amortisation of transaction costs	(5)	(5)
Interest on senior unsecured notes	(76)	(76)
Interest on bank and other loans	(37)	(48)
Interest on lease liabilities	(20)	(18)
Less: Amounts capitalised in the cost of qualifying assets	3	3
	<u>(135)</u>	<u>(144)</u>

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Auditor's remuneration		
Audit services	4	4
Non-audit services	1	1
Depreciation of property, plant and equipment	495	442
Depreciation of right-of-use assets	139	130
Amortisation of intangible assets included in administrative expenses	8	9
Amortisation of other non-current assets	2	—
Write-down of inventories included in cost of sales	240	53
Impairment losses (reversal of impairment losses) on trade receivables, net	13	(1)
Lease payments not included in the measurement of lease liabilities	114	87
Research and development expenses	148	134
Staff costs (excluding directors' remuneration)	<u>3,983</u>	<u>3,628</u>

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

8. TAXATION

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
China income tax	(229)	(176)
U.S. income tax	(34)	(56)
Other income taxes	(28)	(35)
Withholding tax	(35)	(13)
Deferred taxation	<u>103</u>	<u>(77)</u>
	<u>(223)</u>	<u>(357)</u>

9. DIVIDENDS

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Dividend recognised as distribution during the year:		
2019 final dividend of HK26.5 cents per share (2018: HK15 cents)	504	282
2020 interim dividend of HK5 cents per share (2019: HK5 cents)	<u>95</u>	<u>93</u>
	<u>599</u>	<u>375</u>

The final dividend of HK12.5 cents per share in respect of the year ended December 31, 2020 has been proposed by the directors and is subject to approval at the forthcoming annual general meeting.

10. 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:

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>828</u>	<u>1,465</u>
	<i>million</i>	<i>million</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	14,733.55	14,702.71
Effect of dilutive potential ordinary shares: share options	<u>55.22</u>	<u>88.51</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>14,788.77</u>	<u>14,791.22</u>

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred US\$520 million (2019: US\$669 million) on additions of property, plant and equipment.

12. BIOLOGICAL ASSETS

Nature of the Group's agricultural activities

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

	2020 <i>Head'000</i>	2019 <i>Head'000</i>
Live hogs		
— suckling	1,748	1,826
— nursery	2,155	2,136
— finishing	8,480	8,296
	12,383	12,258
Breeding stock (hogs)	1,080	1,084
	13,463	13,342
Broilers	8,804	4,860
Breeding stock (poultry)	635	625
	9,439	5,485

Analysed for reporting purposes as:

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Current	1,047	1,107
Non-current	135	137
	1,182	1,244

12. BIOLOGICAL ASSETS (continued)

Fair value measurement — Level 3

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Biological assets		
Live hogs	1,028	1,101
Breeding stock (hogs)	132	135
Broilers	19	6
Breeding stock (poultry)	3	2
	<u>1,182</u>	<u>1,244</u>

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

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

The Group's biological assets were valued by the independent qualified valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

13. INVENTORIES

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Raw materials	1,018	904
Work in progress	103	97
Finished goods	1,520	1,902
	<u>2,641</u>	<u>2,903</u>

14. TRADE AND BILLS RECEIVABLES

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Trade receivables	931	1,049
Impairment	<u>(24)</u>	<u>(11)</u>
	907	1,038
Bills receivable	<u>8</u>	<u>9</u>
	<u><u>915</u></u>	<u><u>1,047</u></u>

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 the U.S. and other countries' operations. The following is an aging analysis of the trade and bills receivables net of loss allowance presented based on the dates of delivery of goods which approximated the respective dates on which revenue was recognised:

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Current to 30 days	802	879
31 to 90 days	112	167
91 to 180 days	—*	1
Over 180 days	<u>1</u>	<u>—</u>
	<u><u>915</u></u>	<u><u>1,047</u></u>

15. TRADE PAYABLES

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

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

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Within 30 days	891	1,045
31 to 90 days	19	26
91 to 180 days	1	2
181 to 365 days	<u>2</u>	<u>1</u>
	<u><u>913</u></u>	<u><u>1,074</u></u>

* Less than US\$1 million.

16. ACCRUED EXPENSES AND OTHER PAYABLES

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Accrued staff costs	732	491
Deposits received	90	91
Sales rebates payables	261	191
Payables in respect of acquisition of property, plant and equipment	77	89
Accrued insurance	155	135
Interest payable	27	24
Balance of contingent consideration in respect of acquisition of subsidiaries	11	10
Growers payables	45	43
Pension liability	23	18
Amounts due to associates	—	15
Derivative financial instruments	16	35
Accrued professional expenses	24	23
Accrued rent and utilities	32	28
Dividend payables	14	18
Contract liabilities	520	305
Other accrued expenses	302	233
Other payables	98	126
	<u>2,427</u>	<u>1,875</u>
Analysed for reporting purposes as:		
Current liabilities	2,136	1,686
Non-current liabilities	291	189
	<u>2,427</u>	<u>1,875</u>

17. BORROWINGS

	2020 <i>US\$'million</i>	2019 <i>US\$'million</i>
Senior unsecured notes:		
2.650% senior unsecured notes due October 2021	310	399
3.350% senior unsecured notes due February 2022	307	398
4.250% senior unsecured notes due February 2027	596	595
5.200% senior unsecured notes due April 2029	395	395
3.000% senior unsecured notes due October 2030	490	—
	<u>2,098</u>	<u>1,787</u>
Commercial papers	—	125
Bank loans:		
Secured	11	38
Unsecured	524	1,139
Loans from third parties:		
Secured	1	1
Unsecured	2	2
	<u>2,636</u>	<u>3,092</u>
Total borrowings other than bank overdrafts		
	<u>2,636</u>	<u>3,092</u>
Bank overdrafts	46	—
	<u>46</u>	<u>—</u>
The borrowings other than bank overdrafts are repayable as follows:		
Within one year	796	905
One to two years	326	421
Two to five years	31	773
After five years	1,483	993
	<u>2,636</u>	<u>3,092</u>
Less: Amounts due within one year shown under current liabilities	(796)	(905)
	<u>(796)</u>	<u>(905)</u>
Amounts due after one year	1,840	2,187
	<u>1,840</u>	<u>2,187</u>
Total borrowings other than bank overdrafts:		
At fixed rates	2,599	2,385
At floating rates	37	707
	<u>2,636</u>	<u>3,092</u>
	<u>2,636</u>	<u>3,092</u>

17. BORROWINGS (continued)

	2020	2019
	<i>US\$'million</i>	<i>US\$'million</i>
Analysis of borrowings (other than bank overdrafts) by currency:		
Denominated in US\$	2,099	2,273
Denominated in RMB	489	582
Denominated in RON	42	41
Denominated in PLN	3	144
Denominated in EUR	2	2
Denominated in GBP	1	—
Denominated in HK\$	—	50
	<hr/> 2,636 <hr/>	<hr/> 3,092 <hr/>

AUDIT COMMITTEE

The Audit Committee, consisting of three independent non-executive Directors, namely Mr. Lee Conway Kong Wai (Chairman), Mr. Huang Ming and Mr. Lau, Jin Tin Don, has discussed with the external auditor of the Company, Ernst & Young (“EY”), and reviewed the Group’s consolidated financial information for the year ended December 31, 2020, including the accounting principles and practices adopted by the Group.

The Audit Committee is of the opinion that the Group’s consolidated financial information comply with the applicable accounting standards, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and all other applicable legal requirements. The Audit Committee therefore recommended for the Board’s approval of the Group’s consolidated financial information for the year ended December 31, 2020.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of cash flows and the related notes to the consolidated financial information thereto for the year ended December 31, 2020 as set out in this announcement have been agreed by EY, to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on this announcement.

CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Group are committed to the maintenance of good corporate governance practices and procedures. Throughout the year ended December 31, 2020, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code (the “CG Code”) in Appendix 14 to the Listing Rules, except for the following deviation:

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "**Code of Conduct**") regarding securities transactions by the Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"). 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 throughout the year ended December 31, 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2020.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.125 per share for the year ended December 31, 2020 (the "**2020 Final Dividend**") to the shareholders (the "**Shareholders**") of the Company subject to the approval of the Shareholders at the forthcoming annual general meeting (the "**Annual General Meeting**") of the Company. Taking into account of the interim dividend of HK\$0.05 per share paid on October 15, 2020, total dividend for the year ended December 31, 2020 will be HK\$0.175 per share (2019: HK\$0.315 per share). The 2020 Final Dividend is expected to be paid in cash to the Shareholders on or about Wednesday, July 7, 2021.

CLOSURE OF REGISTER OF MEMBERS

The registers of members of the Company will be closed during the following periods and during these periods, no transfer of shares will be registered:

(i) To attend and vote at the Annual General Meeting

For the purpose of ascertaining the Shareholders' entitlement to attend and vote at the Annual General Meeting, the registers of members of the Company will be closed from Thursday, May 27, 2021 to Tuesday, June 1, 2021, both days inclusive. In order to be eligible to attend and vote at the Annual General Meeting, 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 (the "**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 Wednesday, May 26, 2021.

(ii) To qualify for the proposed 2020 Final Dividend

For the purpose of ascertaining the Shareholders' entitlement to the proposed 2020 Final Dividend, the registers of members of the Company will be closed from Tuesday, June 8, 2021 to Thursday, June 10, 2021, both days inclusive. In order to qualify for the proposed 2020 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 Branch Share Registrar not later than 4:30 p.m. on Monday, June 7, 2021.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on Tuesday, June 1, 2021. The notice of the Annual General Meeting will be published and despatched to the Shareholders in due course, and in any event not later than 20 clear business days before the Annual General Meeting.

SUFFICIENCY OF 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 announcement, the Company has maintained the prescribed public float under the Listing Rules.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.wh-group.com). The 2020 annual report of the Company will be despatched to the Shareholders and published on the same websites in due course.

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

Hong Kong, March 30, 2021

As at the date of this announcement, the executive Directors are Mr. WAN Long, Mr. WAN Hongjian, Mr. GUO Lijun, Mr. Dennis Pat Rick ORGAN 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.