康師傅控股

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

康 師 傅 控 股 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0322)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

	RMB'000	**2018**	**2017**		**Change**
•	Revenue	**60,685,645**	58,953,788	↑	2.94%
•	Gross margin (%)	**30.86%**	29.41%	↑	1.45 ppt
•	Gross profit	**18,727,216**	17,337,961	↑	8.01%
•	EBITDA	**7,376,135**	7,202,194	↑	2.42%
•	*EBITDA	**7,586,906**	7,202,194	↑	5.34%
•	Profit for the year	**2,728,769**	2,255,368	↑	20.99%
•	Profit attributable to owners of the Company	**2,463,321**	1,819,077	↑	35.42%
•	Earnings per share (RMB cents)				
	Basic	**43.85**	32.45	↑	11.40 cents
	Diluted	**43.77**	32.42	↑	11.35 cents

At 31 December 2018, cash and cash equivalents was RMB13,840.421 million, with an increase of RMB3,555.532 million when compared to 31 December 2017. Gearing ratio was -15.29%.

* EBITDA: Excluding the effects of the income of activation on assets and the provision of impairment losses on machinery and equipment.

CHAIRMAN'S STATEMENT

In 2018, the Group's revenue and business profits both recorded year-on-year growth. In 2018, the Group's revenue was RMB60.686 billion, profit attributable to owners of the Company was RMB2.463 billion and earnings per share was RMB43.85 cents. The Board has recommended the payment of a final dividend of US3.20 cents (equivalent to RMB21.92 cents) per share to shareholders. Meanwhile, taking into account (1) the profits of the Group through activation on assets in 2018 and (2) after assessing the capital investment and normal working capital needs of the Group in 2019, the Group anticipated maintaining a sound financial structure and sufficient cash flow. On this regard, the Board recommended the payment of special dividend of US3.20 cents (equivalent to RMB21.92 cents) per share, in return for the long-term support of shareholders. The total dividend will be US$359 million (equivalent to approximately RMB2.463 billion).

During the past year, with "Consolidate, Reform and Develop" as its guiding strategy, the Group continued to move towards the goal of "Return to Glory". Thanks to the joint efforts of all staff, the Group promoted the corporate transformation and upgrading, and orderly completed the generation handover.

For the new journey ahead, the Group will actively improve the corporate governance, and continue to contribute to society, so as to perform social responsibilities and obligations. I wish that our consumers, partners, employees and shareholders will continue to give their support to Master Kong, create a sustainable business environment, so that together we could move towards a more sustainable and brighter future.

We would like to take this opportunity to express our heartfelt appreciation to all fellows of the Board, the management and all staff and customers for their support of years.

Wei Ing-Chou
Former Chairman

Wei Hong-Ming
Chairman

Shanghai, the PRC
25 March 2019

RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	**2018** *RMB'000*	2017 *RMB'000*
Revenue	4	**60,685,645**	58,953,788
Cost of sales		**(41,958,429)**	(41,615,827)
Gross profit		**18,727,216**	17,337,961
Other revenue	6	**348,388**	270,786
Other net income	7	**803,974**	719,726
Distribution costs		**(11,817,315)**	(11,268,583)
Administrative expenses		**(2,267,636)**	(2,189,111)
Other operating expenses		**(1,465,191)**	(1,124,355)
Finance costs	8	**(421,682)**	(454,868)
Share of results of associates and joint ventures		**71,580**	101,180
Profit before taxation	8	**3,979,334**	3,392,736
Taxation	9	**(1,250,565)**	(1,137,368)
Profit for the year		**2,728,769**	2,255,368
Profit attributable to:			
Owners of the Company		**2,463,321**	1,819,077
Non-controlling interests		**265,448**	436,291
Profit for the year		**2,728,769**	2,255,368
Earnings per share	11		
Basic		**RMB43.85 cents**	RMB32.45 cents
Diluted		**RMB43.77 cents**	RMB32.42 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**2,728,769**	2,255,368
Other comprehensive (loss) income:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**(40,003)**	52,037
Fair value changes in equity instruments designated as at fair value through other comprehensive income	**(16,265)**	—
	(56,268)	52,037
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on consolidation	**(379,686)**	316,324
Fair value changes in available-for-sale financial assets	**—**	95,396
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year	**—**	(21,080)
	(379,686)	390,640
Other comprehensive (loss) income for the year	**(435,954)**	442,677
Total comprehensive income for the year	**2,292,815**	2,698,045
Total comprehensive income attributable to:		
Owners of the Company	**2,061,011**	2,218,857
Non-controlling interests	**231,804**	479,188
	2,292,815	2,698,045

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	**2018**	2017
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Investment properties		**1,119,000**	1,106,000
Property, plant and equipment		**24,927,630**	28,014,779
Prepaid lease payments		**3,570,367**	3,730,767
Intangible assets		**186,458**	162,936
Goodwill		**97,910**	97,910
Interest in associates		**127,725**	120,568
Interest in joint ventures		**698,743**	660,691
Financial assets at fair value through profit or loss		**448,121**	—
Equity instruments designated as at fair value through other comprehensive income		**114,018**	—
Available-for-sale financial assets		**—**	638,526
Other non-current assets		**375,964**	317,964
Deferred tax assets		**429,262**	308,010
		32,095,198	35,158,151
Current assets			
Inventories		**2,651,740**	2,396,941
Trade receivables	12	**1,715,471**	1,636,385
Tax recoverable		**30,150**	23,393
Prepayments and other receivables		**2,669,689**	4,599,397
Pledged bank deposits		**32,458**	58,312
Bank balances and cash		**13,807,963**	10,226,577
		20,907,471	18,941,005
Total assets		**53,002,669**	54,099,156

	Note	2018 RMB'000	2017 RMB'000
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		**235,204**	235,053
Share premium		**664,400**	611,736
Reserves		**18,753,872**	17,565,290
Total capital and reserves attributable to owners of the Company		**19,653,476**	18,412,079
Non-controlling interests		**3,958,955**	3,881,965
Total equity		**23,612,431**	22,294,044
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**9,862**	5,258
Long-term interest-bearing borrowings		**4,372,723**	6,608,953
Other non-current liabilities		**40,000**	40,000
Employee benefit obligations		**115,436**	101,226
Deferred tax liabilities		**967,682**	1,070,026
		5,505,703	7,825,463
Current liabilities			
Trade payables	13	**6,953,961**	7,119,423
Other payables and deposits received		**8,522,996**	7,417,032
Financial liabilities at fair value through profit or loss		**—**	37,448
Current portion of interest-bearing borrowings		**6,461,785**	7,775,320
Advance payments from customers		**1,678,782**	1,284,590
Taxation		**267,011**	345,836
		23,884,535	23,979,649
Total liabilities		**29,390,238**	31,805,112
Total equity and liabilities		**53,002,669**	54,099,156
Net current assets (liabilities)		**(2,977,064)**	(5,038,644)
Total assets less current liabilities		**29,118,134**	30,119,507

Notes:

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 3.

2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from owners of the Company, in the consolidated income statement and the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position.

3. ADOPTION OF NEW/REVISED HKFRSs

The HKICPA has issued a number of new/revised HKFRSs that are first effective for the current the accounting period of the Group. Of these, the changes in accounting policy relevant to the consolidated financial statements are as follows:

Amendments to HKAS 40: Transfer of Investment Property

The amendments clarify that, to transfer to or from, investment properties, there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Annual Improvements to HKFRSs 2014–2016 Cycle:

HKAS 28 – Measuring an associate or joint venture or its subsidiaries at fair value

The amendments clarify that the election to measure associates or joint ventures at fair value or retain the fair value measurement applied by investment entity associates or joint ventures can be made separately for each associate or joint venture at the relevant date.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

HK(FRIC)- Int 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

HKFRS 9: Financial Instruments

The following terms are used in these consolidated financial statements:

- FVPL: fair value through profit or loss.
- FVOCI: fair value through other comprehensive income.
- Designated FVOCI: equity instruments designated as at FVOCI.
- Mandatory FVOCI: debt instruments measured at FVOCI.

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. It introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting.

In accordance with the transitional provisions in HKFRS 9, comparative information has not been restated and the Group has applied HKFRS 9 retrospectively to financial instruments that existed at 1 January 2018 (i.e. the date of initial application), except as described below:

(a) The following assessments are made on the basis of facts and circumstances that existed at the date of initial application:

   (i) the determination of the business model within which a financial asset is held;

   (ii) the designation of financial assets or financial liabilities at FVPL or, in case of financial assets, at Designated FVOCI; and

   (iii) the de-designation of financial assets or financial liabilities at FVPL.

   The above resulting classification shall be applied retrospectively.

(b) If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, a loss allowance is recognised at an amount equal to lifetime expected credit losses at each reporting date until the financial instrument is derecognised unless that financial instrument is low credit risk at a reporting date.

(c) For investments in equity instruments that were measured at cost under HKAS 39, the instruments are measured at fair value at the date of initial application.

The following table summarises the impact of transition of HKFRS 9 on reserves and retained profits at 1 January 2018.

	Investment Revaluation reserve (Recycling) *RMB'000*	Investment Revaluation reserve (Non-recycling) *RMB'000*	Retained profits *RMB'000*
At 1 January 2018			
Reclassification	(158,608)	10,458	148,150
(Decrease) Increase	(158,608)	10,458	148,150

Classification and measurement of financial assets and financial liabilities

The adoption of HKFRS 9 has no significant effect on the classification and measurement of the Group's financial liabilities.

The following table reconciles the original measurement categories and carrying amounts under HKAS 39 to the new measurement categories and carrying amounts under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

		Measurement category		**Carrying amount**	
	Note	Under HKAS 39	Under HKFRS 9	Under HKAS 39 *RMB'000*	Under HKFRS 9 *RMB'000*
Financial assets					
Investment funds	(i)	Available for sale, at fair value	FVPL	504,359	504,359
Equity Secruities, unlisted	(ii)	Available for sale, at fair value	Designated FVOCI	110,722	110,722
Equity Secruities, unlisted	(ii)	Available for sale, at cost	Designated FVOCI	21,971	21,971
Equity Secruities, unlisted	(ii)	Available for sale, at cost	FVPL	1,474	1,474
Trade receivables	(iii)	Amortised cost	Amortised cost	1,636,385	1,636,385
Prepayment and other receivables	(iii)	Amortised cost	Amortised cost	4,599,397	4,599,397
Cash and cash equivalents	(iii)	Amortised cost	Amortised cost	10,284,889	10,284,889

Note:

(i) At the date of initial application, the investment in investment funds that were previously classified as available-for-sale financial assets, at fair value are now reclassified to FVPL.They do not meet the criteria to be classified as amortised cost or Mandatory FVOCI or be designated as Designated FVOCI in accordance with HKFRS 9, because their cash flows do not represent solely payments of principal and interest and they are not equity investments. Related fair value gains of RMB148,150,000 as at 1 January 2018 were transferred from the investment revaluation reserve (recycling) to retained profits on 1 January 2018.

(ii) At the date of initial application, certain equity securities, which amounted to RMB132,693,000, that were previously classified as available-for-sale financial assets are now classified as Designated FVOCI, because these equity securities are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to when HKFRS 3 applies. Related fair value gains of RMB10,458,000 as at 1 January 2018 were transferred from the investment revaluation reserve (recycling) to investment revaluation reserve (non-recycling) on 1 January 2018. The remaining equity securities with carrying amount of RMB1,474,000 at 1 January 2018 are classified as FVPL.

(iii) The item continued to be measured at amortised cost because, at the date of initial application, the Group's business model is to hold these assets to collect the contractual cash flows and the cash flows represent solely payments of principal and interest on the principal amount outstanding. Impairment based on expected credit loss model on these financial assets has no significant financial impacts.

HKFRS 15: Revenue from Contract with Customers

HKFRS 15 replaces, among others, HKAS 18 and HKAS 11 which specified the revenue recognition arising from sale of goods and rendering of services and the accounting for construction contracts respectively. HKFRS 15 establishes a comprehensive framework for revenue recognition and certain costs from contracts with customers. It also introduces a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The adoption of HKFRS 15 does have significant impact on the Group's revenue recognition. However, the application of HKFRS 15 results in the additional disclosures in note 4 to the consolidated financial statements.

4. REVENUE

	Note	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within HKFRS 15	4(a)	**60,607,190**	58,885,364
Revenue from other sources			
- Rental income from investment properties		**78,455**	68,424
		60,685,645	58,953,788

(a). Disaggregation of revenue from contracts with customers

	2018				
Major products and services	**Instant noodles** *RMB'000*	**Beverages** *RMB'000*	**Instant food** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Sales on instant noodles	23,916,674	—	—	—	23,916,674
Sales on beverages	—	35,312,931	—	—	35,312,931
Sales on bakery	—	—	779,376	—	779,376
Transportation	—	—	—	1,217,883	1,217,883
Others	—	—	—	778,925	778,925
	23,916,674	35,312,931	779,376	1,996,808	62,005,789
Less: Elimination	(728)	(1,823)	(343)	(1,395,705)	(1,398,599)
	23,915,946	35,311,108	779,033	601,103	60,607,190
Timing of revenue recognition:					
Recognised at a point in time	23,915,946	35,311,108	779,033	424	60,006,511
Recognised over time	—	—	—	600,679	600,679

	2017				
Major products and services	**Instant noodles** *RMB'000*	**Beverages** *RMB'000*	**Instant food** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Sales on instant noodles	22,620,155	—	—	—	22,620,155
Sales on beverages	—	34,754,288	—	—	34,754,288
Sales on bakery	—	—	859,011	—	859,011
Transportation	—	—	—	933,447	933,447
Others	—	—	—	742,524	742,524
	22,620,155	34,754,288	859,011	1,675,971	59,909,425
Less: Elimination	(722)	(1,345)	(363)	(1,021,631)	(1,024,061)
	22,619,433	34,752,943	858,648	654,340	58,885,364
Timing of revenue recognition:					
Recognised at a point in time	22,619,433	34,752,943	858,648	18,583	58,249,607
Recognised over time	—	—	—	635,757	635,757

5. SEGMENT INFORMATION

The Company's executive directors have been identified as the chief operating decision-maker of the Group. The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Company's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The Company's executive directors consider the business principally from a product perspective which forms a basis for business segment information as over 99% of the Group's sales and business are conducted in the The People's Republic of China ("PRC") from a geographical perspective. Business reportable operating segments identified are instant noodles, beverages, instant food and others. The segment of others includes investment holding, properties investment for rental propose, logistics and supportive functions.

For the purposes of assessing the performance of the operating segments and allocating resources between segments, the executive directors assess the performance of reportable segments based on profit (loss) for the year and profit (loss) before taxation, share of results of associates and joint ventures and unallocated income (expenses), net.

Segment assets include all assets with the exception of interest in associates and joint ventures and unallocated assets which include financial assets at FVPL and Designated FVOCI (2017: available-for-sale financial assets). Segment liabilities include all liabilities with the exception of employee benefit obligations.

Inter-segment sales are priced at cost plus profit margin. The accounting policies of the reporting segments are the same as the Group's accounting policies.

The geographical location of the Group's customers is based on the location at which the goods are delivered. Over 99% of the revenues from external customers of the Group are attributable to customers located in the PRC, the place of domicile of the Group's operating entities. Meanwhile, all of the Group's non-current assets, other than financial assets at FVPL and Designated FVOCI (2017: available-for-sale financial assets), are located in the PRC.

No revenue from a single external customer amounted to 10% or more of the Group's revenue.

Business segment analysis

The segment information for the years ended 31 December 2018 and 2017 are as follows:

	2018					
	Instant noodles *RMB'000*	**Beverages** *RMB'000*	**Instant food** *RMB'000*	**Others** *RMB'000*	**Inter-segment elimination** *RMB'000*	**Total** *RMB'000*
Revenue						
Revenue from contracts with customers	23,915,946	35,311,108	779,033	601,103	—	60,607,190
Revenue from other sources	—	—	—	78,455	—	78,455
Inter-segment revenue	728	1,823	343	1,495,337	(1,498,231)	—
Segment revenue	23,916,674	35,312,931	779,376	2,174,895	(1,498,231)	60,685,645
Segment result after finance costs	2,505,302	1,124,905	(8,271)	335,190	1,497	3,958,623
Share of results of associates and joint ventures	212	71,021	347	—	—	71,580
Unallocated expenses, net	—	—	—	(50,869)	—	(50,869)
Profit (loss) before taxation	2,505,514	1,195,926	(7,924)	284,321	1,497	3,979,334
Taxation	(800,387)	(398,051)	(4,135)	(47,992)	—	(1,250,565)
Profit (loss) for the year	1,705,127	797,875	(12,059)	236,329	1,497	2,728,769

	2017					
	Instant noodles *RMB'000*	**Beverages** *RMB'000*	**Instant food** *RMB'000*	**Others** *RMB'000*	**Inter-segment elimination** *RMB'000*	**Total** *RMB'000*
Revenue						
Revenue from contracts with customers	22,619,433	34,752,943	858,648	654,340	—	58,885,364
Revenue from other sources	—	—	—	68,424	—	68,424
Inter-segment revenue	722	1,345	363	1,121,347	(1,123,777)	—
Segment revenue	22,620,155	34,754,288	859,011	1,844,111	(1,123,777)	58,953,788
Segment result after finance costs	2,130,989	1,166,533	5,682	(35,738)	11,719	3,279,185
Share of results of associates and joint ventures	188	104,974	(3,982)	—	—	101,180
Unallocated income, net	—	—	—	12,371	—	12,371
Profit (loss) before taxation	2,131,177	1,271,507	1,700	(23,367)	11,719	3,392,736
Taxation	(640,633)	(427,135)	(4,006)	(65,594)	—	(1,137,368)
Profit (loss) for the year	1,490,544	844,372	(2,306)	(88,961)	11,719	2,255,368

	2018					
	Instant noodles	**Beverages**	**Instant food**	**Others**	**Inter-segment elimination**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets						
Segment assets	19,508,958	27,360,079	746,733	4,769,793	(771,501)	51,614,062
Interest in associates	—	127,725	—	—	—	127,725
Interest in joint ventures	399	650,509	47,835	—	—	698,743
Unallocated assets						562,139
Total assets						53,002,669
Liabilities						
Segment liabilities	8,181,378	14,704,521	231,904	7,517,635	(1,360,636)	29,274,802
Unallocated liabilities						115,436
Total liabilities						29,390,238
Other information						
Depreciation and amortisation	716,954	2,465,003	43,364	98,186	—	3,323,507
Capital expenditures	370,086	978,848	12,305	84,553	—	1,445,792
Interest income	201,172	158,004	4,113	15,477	(30,378)	348,388
Interest expenses	—	180,131	—	271,929	(30,378)	421,682
Impairment loss of property, plant and equipment	280,274	340,672	—	4,900	—	625,846
Net gain on disposal of subsidiaries	—	(3,225)	—	391,069	—	387,844

	2017					
	Instant noodles	Beverages	Instant food	Others	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets						
Segment assets	19,867,771	28,311,010	886,653	8,267,381	(4,653,444)	52,679,371
Interest in associates	—	119,320	1,248	—	—	120,568
Interest in joint ventures	188	613,027	47,476	—	—	660,691
Unallocated assets						638,526
Total assets						54,099,156
Liabilities						
Segment liabilities	8,637,330	15,878,922	357,836	11,896,646	(5,066,848)	31,703,886
Unallocated liabilities						101,226
Total liabilities						31,805,112
Other information						
Depreciation and amortisation	733,276	2,720,806	47,517	123,777	—	3,625,376
Capital expenditures	334,073	627,596	7,310	364,881	—	1,333,860
Interest income	217,465	92,990	2,439	25,889	(67,997)	270,786
Interest expenses	21,020	236,369	25	265,451	(67,997)	454,868
Impairment loss of property, plant and equipment	69,518	154,503	—	—	—	224,021
Net gain on disposal of subsidiaries	—	43,725	—	—	—	43,725

6. OTHER REVENUE

	2018	2017
	RMB'000	*RMB'000*
Interest income	**348,388**	270,786

7. OTHER NET INCOME

	2018	2017
	RMB'000	*RMB'000*
Income (Expenses):		
Gain on sales of scrapped materials	**154,535**	145,319
Gain on disposal of available-for-sale financial assets	**—**	21,080
Change in fair value of financial assets at FVPL, net	**(49,675)**	—
Change in fair value of investment properties	**13,000**	46,223
Change in fair value of financial liabilities at FVPL, net	**40,115**	126,349
Dividend income from financial assets at FVPL	**6,500**	—
Net gain on disposal of subsidiaries	**387,844**	43,725
Government grants	**166,140**	89,241
Gain on re-measurement of an associate to fair value at acquisition date	**—**	7,381
Loss on disposal of property, plant and equipment and prepaid lease payments	**(86,607)**	(15,337)
Exchange loss, net	**(46,922)**	(6,619)
Others	**219,044**	262,364
	803,974	719,726

8. PROFIT BEFORE TAXATION

	2018	2017
	RMB'000	*RMB'000*
This is stated after charging (crediting):		
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	**392,570**	421,627
Interest on bank and other borrowings wholly repayable over five years	**33,049**	37,750
	425,619	459,377
Less: Borrowing costs capitalised into property, plant and equipment at weighted average capitalisation rate of 3.89% (2017: 3.45%)	**(3,937)**	(4,509)
	421,682	454,868
Other items		
Depreciation	**3,210,324**	3,513,679
Amortisation of prepaid lease payments	**103,693**	106,618
Amortisation of intangible assets	**9,490**	5,079

9. TAXATION

	2018	2017
	RMB'000	*RMB'000*
Current tax – PRC Enterprise income tax		
Current year	**1,196,356**	961,470
Over provision in prior year	**(74)**	(4,179)
	1,196,282	957,291
Deferred taxation		
Origination and reversal of temporary differences, net	**(92,656)**	49,243
Effect of withholding tax on the net distributable earnings of the Group's PRC subsidiaries	**146,939**	130,834
	54,283	180,077
Total tax charge for the year	**1,250,565**	1,137,368

The Cayman Islands levies no tax on the income of the Company and the Group.

Hong Kong Profits Tax has not been provided as the Group's entities had no assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2018 and 2017.

The applicable PRC Enterprise income tax for the PRC subsidiaries is the statutory rate of 25% (2017: 25%). According to the Tax Relief Notice (Cai Shui [2011] no. 58) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of the PRC (the "Western Region") with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in the Western Region are entitled to an income tax rate of 15% (2017: 15%).

10. DIVIDENDS

Dividends payable to owners of the Company attributable to the year:

	2018	2017
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of US3.20 cents *(2017: US2.49 cents)* per ordinary share	**1,231,661**	909,539
Special dividend proposed after the end of the reporting period of US3.20 cents *(2017: nil)* per ordinary share	**1,231,660**	—
	2,463,321	909,539

At meeting held on 25 March 2019, the directors recommended the payment of a special dividend and a final dividend of US3.20 cents and US3.20 cents per ordinary share respectively. The proposed special dividend and final dividend have not been recognised as dividend payables in the consolidated statement of financial position.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is as follows:

(a) Basic earnings per share

	2018	2017
Profit attributable to ordinary equity shareholders (RMB'000)	**2,463,321**	1,819,077
Weighted average number of ordinary shares ('000)	**5,617,202**	5,605,427
Basic earnings per share (RMB cents)	**43.85**	32.45

(b) Diluted earnings per share

	2018	2017
Profit attributable to ordinary equity shareholders (RMB'000)	**2,463,321**	1,819,077
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	**5,617,202**	5,605,427
Effect of the Company's share option scheme	**10,129**	5,337
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**5,627,331**	5,610,764
Diluted earnings per share (RMB cents)	**43.77**	32.42

12. TRADE RECEIVABLES

The majority of the Group's sales are cash-on-delivery. The remaining balances of sales are mainly at credit term ranging from 30 to 90 days. The ageing analysis of trade receivables (net of loss allowance), based on invoice date, at the end of the reporting period is as follows:

	2018	2017
	RMB'000	*RMB'000*
0 – 90 days	**1,584,771**	1,517,678
Over 90 days	**130,700**	118,707
	1,715,471	1,636,385

13. TRADE PAYABLES

The trade payables to third parties, related parties and joint ventures are unsecured, interest-free and with credit period of 30 to 90 days. The ageing analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	2018	2017
	RMB'000	*RMB'000*
0 – 90 days	**6,075,099**	6,335,339
Over 90 days	**878,862**	784,084
	6,953,961	7,119,423

14. COMMITMENTS

	2018	2017
	RMB'000	*RMB'000*
(a) **Capital expenditure commitments**		
Contracted but not provided for:		
Expenditures on properties, plant and equipment	**1,052,032**	927,244
Investment funds	**30,212**	106,258
	1,082,244	1,033,502

(b) **Commitments under operating leases**

The Group as lessee

At the end of the reporting period, the Group has total minimum lease payments under non-cancellable with various terms and renewal rights operating leases, which are payable as follows:

	2018	2017
	RMB'000	*RMB'000*
Within one year	**307,558**	294,644
In the second to fifth years inclusive	**447,470**	477,436
After five years	**86,782**	105,185
	841,810	877,265

The Group as lessor

The Group leases out certain of its investment properties under operating leases with average lease terms of 2-3 years and with options to renew the leases upon expiry at new terms. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2018	2017
	RMB'000	*RMB'000*
Within one year	**47,365**	34,375
In the second to fifth years inclusive	**54,812**	15,329
	102,177	49,704

MANAGEMENT DISCUSSION AND ANALYSIS

Macro and Industry Environment

In 2018, China's economy saw changes amid overall stability with challenges mixed with opportunities. GDP increased 6.6 percent year-on-year, residents' income and consumption grew relatively fast, and the consumption structure was in continuous upgrade. Changes in the external environment, such as the China-US trade wars, fluctuations in international financial markets, and commodity price volatility posed some challenges to the Group, but regulatory policies such as fee reductions and tax cuts also had a positive impact on the Group.

In 2018, the instant noodle industry in which the Group operates recovered, with year-on-year growth accelerated. The beverage industry also recorded growth, but at a slower year-on-year rate. With ongoing consumption upgrading in first-and second-tier cities and an increase in demand for cost-effective products in lower-tier cities, consumer demand became diversified, creating considerable potential for the development of the market. Accordingly, channel fragmentation continued with online retail, catering channel, convenience stores growing rapidly. The above environmental changes have brought opportunities and challenges to the development of the Group.

Business Review

In 2018, guided by the strategy of "Consolidate, Reform and Develop", with "consolidating the mass market and moving into the premium market" in mind, the Group improved the product portfolio and organizational structure. The Group implemented upgrades and price adjustments for a number of categories including instant noodles, ready-to-drink (RTD) tea, water, juice and instant food, and launched high-end products in the instant noodle and bottled water categories. By doing so, in addition to expanding the spectrum of price ranges, the Group met the diversed needs of consumers in multiple channels. The instant noodle business continued to grow steadily, and the beverage business was still in the process of structural adjustment.

In 2018, the Group's revenue increased by 2.94% to RMB60.686 billion yoy (year-on-year compared with the corresponding period in 2017). Revenue from instant noodles and beverages increased by 5.73% and 1.61%, respectively, yoy. During the year, although purchase price of key raw material such as PET resin and paper material maintained at high level, benefited by (1) price down from sugar and palm oil; (2) the Group continued to modify product mix; and (3) price adjustment and product upgrade, the Group's gross margin increased by 1.45ppt. yoy to 30.86%. Distribution costs represented 19.47% of the revenue for the period and increased by 0.36ppt. yoy. EBITDA of the Group increased by 2.42% yoy to RMB7.376 billion. Thanked for the growth from revenue and gross margin, and shareholding increased of beverage business, profit attributable to owners of the Company increased by 35.42% yoy to RMB 2.463 billion, earnings per share increased by RMB11.40 cents to RMB43.85 cents.

In response to changes in the industry environment, the Group actively explored a diverse range of sales channels, strengthened cooperation with New Retail, and adjusted profits of certain channels to seek win-win cooperation. In order to strengthen communication with consumers, the Group ratcheted up investment in brand building starting in the fourth quarter. The Group paid attention to communicating with all types of consumers, especially young families. The Group enhanced its brand image through aerospace cooperation, IP cooperation, and sports marketing. In carrying out omnimedia marketing, the Group endeavored to communicate accurately.

On the basis of making good use of capital expenditures and keeping an eye on free cash flow, the Group developed a long-term plan to optimize the supply chain layout and gradually went asset-light and activated assets so as to continuously promote supply-side reform. The Group also made further progress in process optimization, system simplification, IT system enhancement and share service center construction in an effort to improve organizational and operational efficiency.

Instant Noodle Business

According to the data from Nielsen, the sales volume and sales amount of the overall instant noodle market grew by 3.2% and 8.0% respectively, yoy. The market shares of Master Kong in terms of sales volume and sales amount were 43.3% and 48.2%, respectively, maintained No.1 position.

In 2018, the Group's revenue from instant noodle business was RMB23.917 billion, which grew by 5.73% yoy, accounting for 39.41% of the total revenue of the Group. During the year, the Group has modified product mix, promoted product upgrade, and thanked for price adjustments in the previous period, and purchase price decrease of major raw materials, gross margin of instant noodles increased by 1.44 ppt. to 30.23%. Benefited from the sales growth, improvement of gross margin, profit attributable to owners of the Company of the instant noodle business in 2018 increased by 14.63% yoy to RMB1.709 billion.

Closely following the rise of the middle class and the continuous upgrading of consumption, the Group gradually moved into the premium and super-premium markets in a bid to lead upgrading in the industry. The Group defined high-end noodles and premium noodles collectively as "new high-end", and bowl instant noodles priced at more than 10 yuan per package as "super-premium". With a focus on consolidation "new high-end", the Group set out to work on the super-premium market to grow its sales. The Group created consumption scenarios and met consumer demands with products available in multiple specifications and multiple flavors, and attracted young families through IP cooperation and multi media marketing. Through sports marketing and aerospace cooperation, the Group also boosted the image of its brand and product categories and successfully led the development of product categories. For its instant noodle business, the Group strengthened channel management, stepped up cooperation with New Retail, and increased profits in all segments of channels in order to seek a win-win situation. The Group also improved supply chain efficiency by optimizing asset allocation and production arrangements and increasing production line automation.

New high-end noodles

For its new high-end noodle business, with consolidating core products as the strategic focus, the Group created consumption scenarios and attracted young families and middle working-class consumers with products available in multiple specifications and multiple flavors, and enhanced its brand image through IP cooperation, sports marketing and multi media marketing to increase sales. In view of the growing demands for cost-effective products in low-tier cities, the Group strengthened investment in and efforts to sell large-package products to actively expand into low-tier cities. For its Braised Beef business, the Group attracted young families through IP cooperation with parent-child animations and comics and variety TV shows, as well as increased advertising in the fourth quarter; the Group also promoted the health image of its brand and boosted sales through marathon, Pyeongchang Noodle Restaurant and other forms of sports marketing. For its "Pickled Mustard" business, the Group continued its IP cooperation with "Kung Fu Panda" to rejuvenate its brand, leading to continued growth in sales. For its "Spicy Beef" business, the Group attracted young consumers through IP cooperation with popular game "Arena of Valor" and animation "Douro Mainland" and multi media marketing. The "Premium Soup Series" accommodates consumers' nutrition and health needs; for this line of business, the Group increased sales through advertising, IP cooperation with variety shows and communication via social media such as Weibo. The Group launched a slew of new products to meet diverse consumer needs, bringing to market "Fresh Vegetable Noodle" which appealed to metropolitan consumers with soup stock and natural vegetables in the third quarter, and "Damo Shengyan" with a northwest China flavor, "Xunwei Jiangnan" with a Jiangsu-Zhejiang flavor and "Shanhai Hui" with a Fujian flavor in the fourth quarter.

Super-premium noodles

Convinced that there was a trend towards premiumization in the market, the Group set out to work on the super-premium market for instant noodles priced at more than 10 yuan per package and launched super-premium instant noodle product "Express Chef's Noodle" priced at nearly 20 yuan per package in the fourth quarter. Produced through a unique process and featuring juicy chunks of meat, thick pure broth and the taste of fresh noodles, the product represents the high quality noodles of an upscale noodle restaurant. The Group carried out a vigorous online marketing campaign for the product after its launch, and launched a limited edition of the product with custom packaging available for purchase online. It also successfully held a series of POP-UP Store events, which won high praise from consumers.

Beverage business

According to the data from Nielsen, in 2018 the sales volume and sales amount of the beverage industry grew by 2.7% and 4.6%, respectively, yoy. In 2018, the RTD tea (including milk tea) of the Group's beverage business accounted for 47.1% market share in terms of sales volume and continued to secure top ranking position in the market. The Group's juice sales volume accounted for 15.9% of the market, ranking second in the market. Market share for bottled water was 8.7%, ranking No.4 in the market for the time being. According to the monitoring data of third-party research companies, in terms of sales volume, the overall market share of Pepsi carbonated drinks increased to 33.0% in 2018, as compared to the same period of last year, ranked No.2. The market share of Pepsi Cola increased to 49.0% in the cola carbonated drinks segment in 2018 and was the No.1 brand in the market.

In 2018, the overall revenue of the beverage business was RMB35.313 billion, increased by 1.61% yoy, accounting for 58.19% of the Group's total revenue. During the year, gross margin of the beverage business increased by 1.44 ppt. yoy to 31.26%, mainly due to product upgrade and price adjustments on certain products. Benefited from gross margin improvement, saving on finance expenses and shareholding increase of beverage business, the profit attributable to owners of the beverage business in 2018 was RMB549 million, grew by 28.82% yoy.

For its beverage business, after making a number of price adjustments, the Group continuously adjusted the product mix with a focus on core categories and products in order to meet needs of mass consumers. The Group continued to develop products available in multiple specifications and multiple packages to create different consumption scenarios in a bid to attract young families and young consumers. The Group actively promoted the diversification of channels and developed indoor and outdoor channels. The Group strengthened brand building through IP cooperation, sports marketing, etc., and increased brand investment to raise awareness of its brand. The Group also made a sustained effort to activate assets and go asset-light, optimized its capacity distribution, optimized capital expenditures, and improved the overall efficiency of the supply chain.

RTD tea

RTD tea consolidated the mass market with core products. The Group adjusted channel profits in the middle of 2018. The Group continuously accommodated different consumption scenarios with products available in multiple specifications, and attracted young consumers and families through IP cooperation, sports marketing and scene marketing to boost sales. "Master Kong Ice Tea" created sports scene with NBA China Game, music scene with Produce 101, and family scene with Disney, and maintained steady sales growth. The "Jasmine Series" appealed to young consumers through interactions between young people involving confessions with music playing in the background and posted a year-on-year increase in sales. "Green Tea" reinforced its "fresh and energetic" brand image, and cooperated with Tencent Animation & Comics on top IP to attract consumers in the two-dimensional world. "Master Kong Milk Tea" carried out IP cooperation with "Rocket Girls 101", unleashing the purchasing power and communication power of fans, which in combination with new flavors, brought about a growth in sales. Oolong tea was introduced in the second half of the year to attract more consumers.

Bottled water

For its bottled water business, the Group upgraded products and raised prices and made arrangements for markets spanning the low and medium and high price market in 2018; this line of business is still in the process of product mix adjustment. For its beverage business, the Group actively invested in brand building and carried out IP cooperation to attract young families, and met different consumer needs with products available in multiple specifications in an effort to promote sales. For its "Master Kong Bottled Drinking Water" business, the Group carried out IP cooperation with "Boonie Bears" and communicated the reassuring water quality image as represented by "the eight processes with national patent" to attract young families. For its "Aquafina" business, the Group raised prices in a move towards the mid-end water market and met different consumer needs products available in multiple specifications. In 2018, the Group launched natural mineral water product "Han Yang Quan", which with its brand image that conveyed high quality and rich cultural implications, was used at the China International Import Expo and the World Internet Conference. With this product, the Group collaborated with "Tmall China Cool" during New York Fashion Week to communicate its brand to the world in an effort to establish a premium brand image.

Carbonated drinks

For its Pepsi's carbonated drinks bottling business, the Group promoted multi-channel construction products available in multiple specifications, met diverse consumer needs with low-sugar products available in multiple packages and multiple flavors, and brought sales of Pepsi's carbonated drinks to a new high in the Chinese market through IP cooperation and other marketing activities. For its "Pepsi-cola" business, the Group built a dining platform while expanding the range of product specifications, and attracted young consumers with marketing event "Pepsi Concept Store" to increase sales. For its "Mirinda" business, the Group carried out IP cooperation with animations and comics, and made use of festive scenes to deepen the brand image of "Mess with Your Senses". "7 up" appealed to a variety of consumer groups with multiple packages such as the "retro can" and "7 up Low Sugar" health products; for this line of business, the Group made a sustained effort to promote and reinvent specially prepared drinks to increase the penetration rate of catering channels.

Juice drinks

The Group upgraded and raised the prices of juice drinks, launched 100% juice products, and made a sustained effort to consolidate the leading position of Chinese juice products and promote the sale of Western juice products. The Group created consumption scenarios and expanded catering and take-out channels products available in multiple specifications, and attracted young consumers and families through IP cooperation and media marketing. Chinese-style juice "Rock Candy Pear" was targeted at students and young families; for this line of business, the Group cooperated with popular children's TV programs and started a trend for Traditional Chinese Culture with its own IP "Prince Fresh" and "Princess Run" to deepen the brand image. The "Traditional Drink Sweet-Sour plum juice" met the needs of consumers in catering channels with the image of a Chinese classic drink. Western-style juice "Master Kong Juices" promoted the sale of products of various specifications by capturing festive scenes. "NutriLight Fruits" came out with new flavors, and "NutriLight Mix & Match BAR" was created to expand the range of consumption scenarios. "Tropicana" met the needs of different consumption scenarios such as dinner parties and take-out through new flavors, new packaging and multiple specifications to enhance consumers' preference for mixed-flavored juices. In response to a shift towards healthier choices, the Group launched 100% juices "Tropicana 100%" to increase the brand's sales.

Coffee drinks/functional drinks/probiotics

In the ready-to-drink (RTD) coffee market, the Group, having established a foothold in the midhigh-priced RTD coffee segment, cooperated with international strategic partner "Starbucks" to lead the development of premium market, and expanded its market share in the room temperature midhigh-priced RTD coffee segment with "Bernachon coffee" to sustain sales growth. Starbucks continued to launch new products such as the low-fat and lower-sugar "Starbucks Light Frappuccino - Vanilla Flavor" and the espresso-based canned product "Starbucks Doubleshot"; holiday gift boxes were provided to promote sales. The coffee drink business accelerated its regional expansion and city coverage. The focus was on e-commerce business and development of specialty channels. For its "Bernachon coffee" business, the Group actively sought to operate in core urban areas and modern channels and combined online and offline marketing to establish a professional coffee brand image and achieve rapid sales growth.

The functional drink "Gatorade" which was intended to project the brand as the first sports brand saw its sales rise steadily. For its "Gatorade" business, the Group carried out sports marketing through sports events and sports venues and online promotion through KOLs (key opinion leaders), and offered the product for sale offline in exclusive brand refrigerators and at exclusive sales points to increase brand exposure, enhance the image and promote sales.

"Wei Chuan Ambient Probiotics Drink" was in line with consumers' pursuit of nutrition and quality. For this line of business, on the basis of consolidating the Yangtze River Delta market, the Group expanded into new sales territories and promoted the development of new channels. Through new flavors, new packaging and the young and vibrant public image of a high-traffic spokesperson, the product appealed to young consumers, increased its visibility across the country and saw an increase in sales.

Instant Food Business

According to the data from Nielsen, overall sales amount of the biscuit market for the full year of 2018 increased by 5.1% yoy, of which sales amount of egg rolls increased by 3.6% sales amount of sandwich crackers increased by 9.3%. In terms of sales amount, the market share of Master Kong egg rolls was 22.5% and ranked No.1 in the market. The market share of sandwich crackers was 10.2% and ranked No.2 in the market.

In 2018, revenue of the instant food business was RMB779 million, dropped by 9.27% yoy, and amounted to 1.28% of the Group's total revenue. Gross margin increased by 1.43ppt. to 37.09%. Despite the decrease in distribution costs and administrative expenses, in 2018, instant food business recorded loss attributable to owners of RMB12.06 million.

For the instant food business, the Group continued to focus on the core cake and cracker category and accommodated differing consumer needs and the diversity of channels with products available in multiple specifications. The Group rolled out a plan for channel expansion and made arrangements for the development of new categories in order to stay on top of consumption upgrade and snack trends. The Group vigorously promoted its "3+2 sandwich crackers" available in small packages in an effort to drive the growth of its biscuit products. In the fourth quarter, the Group launched snack "3+2 Mini Crispy Rolls", which catered to young consumers and revitalized the brand image.

In the future, the instant food business will continue to focus on the core cake and cracker category. But given that instant food accounts for a very low proportion of the Group's overall business and the active adjustment of product structure, this line of business will not be elaborated upon in future result announcements in the short run.

FINANCING

The Group continued to maintain a stable and healthy financial structure through effective control of the balances of trade receivables, trade payables, bank balances and cash as well as inventories. As at 31 December 2018, the Group's bank balances and cash totalled RMB13.840 billion, an increase of RMB3.556 billion from 31 December 2017. A sufficient amount of cash in hand was still maintained. As at 31 December 2018, the Group's total assets and total liabilities amounted to RMB53.003 billion and RMB29.390 billion respectively. This showed a decrease in RMB1.096 billion and a decrease in RMB2.415 billion respectively compared to 31 December 2017. The debt ratio decreased by 3.34ppt. to 55.45% compared to 31 December 2017. Gearing ratio dropped to -15.29% from 22.26% as at 31 December 2017.

As at 31 December 2018, the Group's total interest-bearing borrowings was RMB10.835 billion which decreased by RMB3.550 billion from 31 December 2017. The Group repaid RMB1 billion notes payable in August 2018. At the end of the reporting period, the Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 72% and 28% respectively, as compared to 69% and 31% respectively as at 31 December 2017. The proportion between the Group's long-term borrowings and short-term borrowings was 40% and 60% respectively, as compared to 46% and 54% respectively as at 31 December 2017. In line with the Group's overall strategy of Cash Is King, the Group has implemented sound control over capital expenditure and has effectively implemented asset-light and activation on asset, which is expected to generate stable cash inflows. During the year, the Group sold the entire equity interests of two subsidiaries to two independent third parties, realized a net cash inflow of RMB437 million. In the future, the Group will continue to gradually reduce the level of interest-bearing borrowings through the usage of internal resource so as to achieve more flexible and healthier financial structure objectives and further improve the operational basis.

During the year, US dollars appreciated against Renminbi by 5.29%. Due to the fluctuation of exchange rate, realized and unrealized exchange losses in aggregate of RMB46.92 million has been recognized in the Group's income statement.

Financial Ratio

	As at 31 December 2018	As at 31 December 2017
Finished goods turnover	**12.42 Days**	11.31 Days
Trade receivables turnover	**10.08 Days**	9.99 Days
Current ratio	**0.88 Times**	0.79 Times
Debt ratio (Total liabilities to total assets)	**55.45%**	58.79%
Gearing ratio (Net debt to equity attributable to owners of the Company)	**-15.29%**	22.26%

Human Resources

As at December 31, 2018, the number of employees of the Group was 54,210. By optimizing the organizational structure and building efficient organizations, the Group continuously optimized its staff structure. Against the background of a generational transition, the Group deepened human resources reform. By optimizing the strategic deployment of talents, planning for talent development, streamlining workflows, etc., the Group gradually injected young blood into its talent pool and diversified its talent pool to provide talent support for the Group to achieve its strategic objectives.

The Group continuously optimized its talent team, brought in a diverse group of young talents through rational planning and scientific selection, and differentiated programs between them when it came to training. The Group continued to build up its reserve of campus talents through the "Young Master Program" and paid attention to improving the rotational training mechanism for them. The Group also deepened campus-enterprise relationships, and cooperated with universities and vocational schools through practice bases, scholarships, visits, etc. to supply grassroots talent for the long-term sustainable development of the Group.

Corporate Social Responsibility

The Group consistently implemented the concept of "sustainable operation, contribution to society" and promoted corporate social responsibility management around food safety, energy conservation and environmental protection, corporate contribution and other dimensions. In 2018, the Group's practice and achievements in the field of social responsibility were well recognized by society. The Group won the "People's Corporate Social Responsibility Awards", "Outstanding Chinese Enterprise in CSR 2018 at China CSR Summit", the "Golden Chopsticks Award", the "Top Ten Enterprises in Safety Management", the "2018 Award for Contribution to Poverty Alleviation" and other significant corporate social responsibility awards.

The Group regards food safety as the cornerstone of corporate success and exercises rigorous control over the quality of its products. On this basis, in 2018, the Group continued to deepen cooperation with China's aerospace industry, promoted its food safety standards to meet the quality requirements of the aerospace and rigorously controlled every aspect of production. Meanwhile, combining space science popularization and food safety education, the Group carried out science popularization activities such as the "Aerospace Spirit China Tour & Food Safety Science Popularization Program" in primary and secondary schools, colleges and universities in multiple cities across the country to popularize food safety knowledge to the whole society and raise awareness about the need for public supervision.

The Group responded positively to the country's environmental protection policies for green development, energy conservation and consumption reduction, and actively promoted energy conservation and emission reduction projects and environmental education. Environmental protection projects implemented in 2018 covered photovoltaic power generation, steam box energy saving, modification of compressed air piping, replacement of conventional lights with energy-efficient LED lights, etc. In terms of environmental education, for the fourth year in a row, the Group worked with China Beverage Industry Association on the long-term public welfare activity "Water Education" to communicate the idea of "knowing water, saving water and loving water" to primary school students in multiple cities to raise environmental awareness among young children.

In response to the government's call, the Group actively responded to disaster relief, made solicitous visits to communities and engaged in poverty alleviation. In multiple places, the Group transported relief supplies to disaster victims within a short period of time. The Group made solicitous visits to communities across the country, donating goods and materials to kindergartens, nursing homes, schools, police stations, the military, China's northernmost post office in Mohe County, etc. In terms of poverty alleviation, the Group continued to contribute to the solution of the issues of "agriculture, rural areas, and rural people" by purchasing raw materials from farmers and guiding farmers on cultivation. By strengthening supervision over producing area-end quality, the Group promoted regional agricultural economic development, benefiting more than 40 million farmers.

The Group has always attached great importance to giving back to the cause of education. The "Master Kong Dream Scholarship Project" co-organized with Waseda University has now entered its fifth cohort, and has provided funds for more than 90 students from five top universities in the country to study in Japan on an exchange program. In addition, the Group continued to work with top universities such as Stanford University and Tsinghua University Schwarzman College to carry out internship projects.

Prospects

There are many uncertainties in the macro environment in 2019, and China's food and beverage industry also feels the pinch of a slowdown in growth, but consumption upgrading and other favorable factors are buoying the industry. Consumption stratification, channel fragmentation, and fluctuations in raw material prices pose some challenges to the Group, but market diversification also brings many opportunities to the Group.

In order to seize opportunities and increase market share, the Group will increase brand investment and optimize channel profits, taking into account both short-term and long-term development. In addition, the Group will push ahead with product mix upgrade and supply-side reform to ensure sustainable development. It is expected that in 2019, the instant noodle business will develop steadily, and the beverage business will gradually stabilize and settle for cautious optimism.

In order to promote sales, the Group will continue product mix upgrade, increase brand investment, and seek win-win cooperation with channel partners. The Group will continue to focus on consolidating the mass consumer market to ensure a stable source of growth, and gradually move into the premium market in response to consumption stratification and a shift towards healthier choices. In terms of brand building, the Group will continue to enhance the image of its brands and product categories through aerospace cooperation, omnimedia marketing, IP cooperation, sports marketing, etc. In response to the trend of channel fragmentation, the Group will stick to the channel rationalization strategy, actively explore various channels, deploy vending machines, promote big data applications and deepen cooperation with new retail. In this process, the Group will give attention to channel profits seeking win-win cooperation to develop the market together with business partners.

In order to adapt to a rapidly changing market environment and in tandem with product mix upgrade, the Group will carry on with supply-side reform. In order to make good use of capital expenditures, with the initial success of the supply chain rationalization strategy, the Group will continue to optimize the supply chain layout and make further efforts to go asset-light and activate assets. The Group will also increase the automation rate of production lines to improve operational efficiency.

In order to better serve the above-mentioned channel rationalization and supply chain rationalization strategies, the Group will continue to promote organizational transformation and upgrading. The Group will improve the team's responsiveness to market changes through organizational delayering. The Group will improve operational efficiency and cope with rising labor costs through share service center construction. Meanwhile, the Group will seek to inject young blood into its talent pool, diversify its talent pool and cultivate talents in order to better serve organizations undergoing transformation and upgrading.

In addition, the Group will carry on with process optimization and system simplification with a view to improving operational profit and efficiency, and make use of new technologies such as Internet-enabling (+Internet), big data applications, and artificial intelligence to meet the needs from the consumers and serve the business partners.

Aiming to establish an enduring foothold in China's food and beverage industry, the Group regards food safety as the cornerstone of development, and will capitalize on aerospace cooperation to further promote the development of food safety technology and the creation of a product traceability system. With fulfilling the needs of people's lives as its business fundamental, serving the demands of the middle class as the long-term development goal and winning together with customers and partners as the foundation for success, the Group will motivate itself as a national brand, build itself into a comprehensive food and beverage company, and continue to promote the healthy development of the industry.

CORPORATE GOVERNANCE

We have, throughout the year ended 31 December 2018, complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from code A.4.1 and A.4.2. The reason for the deviation is explained below.

Code provision A.4.1

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. Our Company deviates from this provision because the independent non-executive Directors of our Company do not currently have specific terms of appointment. However, the articles of association of our Company provide that all the Directors are subject to retirement by rotation at least once every three years and at each annual general meeting, one-third of the Directors for the time being or, if the number is not a multiple of three, then, the number nearest to but not less than one-third, shall retire from office by rotation and offer themselves for re-election. As such, the Board considers that sufficient measures have been put in place to ensure our Company's corporate governance practice in this aspect provides sufficient protection for the interests of shareholders to a standard commensurate with that of the code.

Code Provision A.4.2

According to code provision A.4.2, each director (including those with a specific appointment period) shall be subject to retirement by rotation at least once every three years. According to the Company's articles of association, the chairman of the Board is not subject to retirement by rotation. He is not included in the number of directors who are required to retire each year. The Board believes that the continuity of the leadership of the chairman of the Board is critical to the stability of the Group's development and the planning, formulation and implementation of long-term strategies and business plans. Accordingly, the Board considers that although the provisions of the above rules deviate from Code Provision A.4.2, it is in the best interests of the Company.

We will periodically review and improve our corporate governance practices with reference to the latest corporate governance developments.

Directors' responsibility for the financial statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group. With the assistance of the Finance and Accounting Department which is under the supervision of the Chief Financial Officer of the Company, the Directors ensure that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the financial statements of the Group is in a timely manner.

Scope of Work of Mazars CPA Limited

The figures contained in the preliminary announcement of our Group's results for the year have been agreed by our Group's auditor, Mazars CPA Limited, to the amounts set out in our Group's consolidated financial statements for the year ended 31 December 2018. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement 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 Mazars CPA Limited on the preliminary announcement.

Audit Committee

The Audit Committee currently has three Independent Non-executive Directors, Mr. Lee Tiong-Hock, Mr. Hsu Shin-Chun and Mr. Hiromu Fukada. Mr. Lee Tiong-Hock is the chairman of the Committee. The latest meeting of the Committee was held to review the results of the Group for this year.

Risk Management and Internal Control

The principal spirit of the internal control and risk management procedures established by the Group is in compliance with five elements in the COSO structure, i.e. control environment, risk assessment, control activities, information and communication, and monitoring. The goal of risk management is to keep the overall risk of the Group within acceptable levels and to lay a good foundation for the Group's long-term development. Meanwhile, it can achieve the goal of defining the management structure and authorization so as to enhance the operational performance and operational efficiency as well as asset safety protection, which ensures the reliability of financial reports while complies with the requirements of national regulations.

Under the supervision of the Board, the Group has established an organization structure, responsibility and authority in the construction of the three lines of defense for risk management. The Audit Committee will assist the Board to review the design and operation effectiveness of the risk management and internal control system of the Group. As of 31 December 2018, the Group has been pushing to carry out self-assessment of internal control including finance, information and operation. At the same time, according to operational needs, the Group sorted out core restriction of authority again and announced and published it within the Group on 28 November 2018. Besides, the Group has also been prompting the implementation of regulations monitoring and other work. According to the internal audit of the internal control inspection and audit department, we have not identified any material deficiency in risk management and internal control. Therefore, the Board and the Audit Committee believe that the Group's risk management and internal control system are effective.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

SHARE OPTION SCHEME

At the extraordinary general meeting (the "EGM") of the Company held on 20 March 2008, the shareholders approved the adoption of the share option scheme (the "2008 Share Option Scheme"), with a term of ten years from the date of adoption.

In view of the expiry of the 2008 Share Option Scheme, the shareholders of the Company adopted the new share option scheme (the "2018 Share Option Scheme") at the EGM held on 26 April 2018, with a term of ten years from the date of adoption.

(a) 2008 Share Option Scheme

During the twelve months ended 31 December 2018, no share options were granted by the Company in accordance with the terms of the 2008 Share Option Scheme.

The terms of the 2008 Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Detailed arrangement for the 2008 Share Option Scheme is shown as below: (Table A)

Date of grant	Number of share options granted	Exercisable period	Exercise price (HK$)
20 March 2008	11,760,000	21 March 2013 to 20 March 2018 (1)	$9.28
22 April 2009	26,688,000	23 April 2014 to 22 April 2019 (2)	$9.38
1 April 2010	15,044,000	1 April 2015 to 31 March 2020 (3)	$18.57
12 April 2011	17,702,000	12 April 2016 to 11 April 2021 (4)	$19.96
26 April 2012	9,700,000	26 April 2017 to 25 April 2022 (5)	$20.54
27 May 2013	11,492,000	27 May 2018 to 26 May 2023 (6)	$20.16
17 April 2014	12,718,500	17 April 2019 to 16 April 2024 (7)	$22.38
5 June 2015	17,054,000	5 June 2020 to 4 June 2025 (8)	$16.22
4 July 2016	10,148,000	4 July 2021 to 3 July 2026 (9)	$7.54
21 April 2017	11,420,000	21 April 2022 to 20 April 2027 (10)	$10.20

The summary below sets out the details of movement of the share options during the twelve months ended 31 December 2018 pursuant to the 2008 Share Option Scheme: (Table B)

Name	Date of grant	Exercise price HK$	Closing price of the shares on the date of grant HK$	Number of share option: Balance as at 1 January 2018	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Balance as at 31 December 2018	Weighted average closing price immediately before exercise HK$	Note
Executive Director										
Wei Ing-Chou	20 March 2008	9.28	8.55	2,000,000	–	2,000,000	–	–	15.96	Table A (1)
	22 April 2009	9.38	9.37	2,816,000	–	–	–	2,816,000	–	Table A (2)
	1 April 2010	18.57	18.42	2,200,000	–	–	–	2,200,000	–	Table A (3)
	12 April 2011	19.96	19.96	2,264,000	–	–	–	2,264,000	–	Table A (4)
	26 April 2012	20.54	19.88	1,368,000	–	–	–	1,368,000	–	Table A (5)
	27 May 2013	20.16	20.05	1,390,000	–	–	–	1,390,000	–	Table A (6)
	17 April 2014	22.38	22.35	1,486,000	–	–	–	1,486,000	–	Table A (7)
	5 June 2015	16.22	15.92	1,726,000	–	–	–	1,726,000	–	Table A (8)
Lin Chin-Tang	27 May 2013	20.16	20.05	218,000	–	–	218,000	–	–	Table A (6)
	17 April 2014	22.38	22.35	224,000	–	–	–	224,000	–	Table A (7)
	5 June 2015	16.22	15.92	334,000	–	–	–	334,000	–	Table A (8)
Wei Hong-Ming	21 April 2017	10.20	10.20	1,000,000	–	–	–	1,000,000	–	Table A (10)
Director of a subsidiary										
Wei Hong-Chen	21 April 2017	10.20	10.20	1,000,000	–	–	–	1,000,000	–	Table A (10)
Chief Executive Officer										
James Chun-Hsien Wei	27 May 2013	20.16	20.05	904,000	–	–	–	904,000	–	Table A (6)
	17 April 2014	22.38	22.35	1,148,000	–	–	–	1,148,000	–	Table A (7)
	5 June 2015	16.22	15.92	2,006,000	–	–	–	2,006,000	–	Table A (8)
	4 July 2016	7.54	7.54	4,300,000	–	–	–	4,300,000	–	Table A (9)
	21 April 2017	10.20	10.20	4,000,000	–	–	–	4,000,000	–	Table A (10)
Other employees in aggregate	20 March 2008	9.28	8.55	300,000	–	150,000	150,000	–	15.96	Table A (1)
	22 April 2009	9.38	9.37	4,145,000	–	999,000	718,000	2,428,000	15.21	Table A (2)
	1 April 2010	18.57	18.42	7,803,000	–	–	675,000	7,128,000	–	Table A (3)
	12 April 2011	19.96	19.96	9,946,000	–	–	782,000	9,164,000	–	Table A (4)
	26 April 2012	20.54	19.88	6,088,000	–	–	220,000	5,868,000	–	Table A (5)
	27 May 2013	20.16	20.05	7,588,000	–	–	1,080,000	6,508,000	–	Table A (6)
	17 April 2014	22.38	22.35	8,484,000	–	–	130,000	8,354,000	–	Table A (7)
	5 June 2015	16.22	15.92	11,754,000	–	690,000	149,000	10,915,000	17.66	Table A (8)
	4 July 2016	7.54	7.54	5,123,000	–	400,000	–	4,723,000	15.15	Table A (9)
	21 April 2017	10.20	10.20	5,270,000	–	500,000	–	4,770,000	15.94	Table A (10)
Total				96,885,000	–	4,739,000	4,122,000	88,024,000		

For the period of twelve months ended 31 December 2018, 4,739,000 options had been exercised under the 2008 Share Option Scheme. Weighted average exercise price was HK$10.26 and the weighted average market closing price before the date of exercise was HK$15.98.

(b) 2018 SHARE OPTION SCHEME

The terms of the 2018 Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Detailed arrangement for the 2018 Share Option Scheme is shown as below: (Table C)

Date of grant	Number of share options granted	Exercisable period	Exercise price (HK$)
27 April 2018	2,478,000	30 April 2021 to 26 April 2028 (1a)	$16.18
27 April 2018	5,626,000	30 April 2021 to 26 April 2024 (1b)	$16.18

The summary below sets out the details of movement of the share options during the twelve months ended 31 December 2018 pursuant to the 2018 Share Option Scheme: (Table D)

				Number of share option						
Name	Date of grant	Exercise price HK$	Closing price of the shares on the date of grant HK$	Balance as at 1 January 2018	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Balance as at 31 December 2018	Weighted average closing price immediately before exercise HK$	Note
Executive Director										
Wei Ing-Chou	27 April 2018	16.18	15.02	–	470,000	–	–	470,000	–	Table C (1b)
Wei Hong-Ming	27 April 2018	16.18	15.02	–	385,000	–	–	385,000	–	Table C (1a)
	27 April 2018	16.18	15.02	–	98,000		–	98,000	–	Table C (1b)
Director of a subsidiary										
Wei Hong-Chen	27 April 2018	16.18	15.02	–	385,000	–	–	385,000	–	Table C (1a)
	27 April 2018	16.18	15.02	–	98,000	–	–	98,000	–	Table C (1b)
Chief Executive Officer										
James Chun-Hsien Wei	27 April 2018	16.18	15.02	–	1,708,000	–	–	1,708,000	–	Table C (1a)
	27 April 2018	16.18	15.02	–	797,000	–	–	797,000	–	Table C (1b)
Other employees in aggregate	27 April 2018	16.18	15.02	–	4,163,000	–	36,000	4,127,000	–	Table C (1b)
Total				–	8,104,000	–	36,000	8,068,000	–	

During the twelve months ended 31 December 2018, no share options were exercised under the terms of the 2018 Share Option Scheme.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 3 June 2019. The notice of the Annual General Meeting will be published on the Company's website and sent to the shareholders of the Company in due course.

PROPOSED FINAL DIVIDENDS, SPECIAL DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has recommended the payment of a final dividend of US3.20 cents per ordinary share of the Company and the payment of a special dividend of US3.20 cents per ordinary share of the Company in respect of the year ended 31 December 2018. Subject to the approval of shareholders at the Annual General Meeting, the final dividends and the special dividends will be paid on or about 10 July 2019.

(1) To attend and vote at the annual general meeting

The register of members of the Company will be closed from 29 May 2019 to 3 June 2019 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on Tuesday 28 May 2019.

(2) To qualify for the final dividends and the special dividends

The register of members of the Company will be closed from 10 June 2019 to 12 June 2019 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to qualify for the final dividends and the special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on Thursday, 6 June 2019.

BOARD OF DIRECTORS

As at the date of this announcement, Mr. Wei Hong-Ming, Mr. Junichiro Ida, Mr. Lin Chin-Tang, Mr. Teruo Nagano, Mr. Wei Hong-Chen and Mr. Koji Shinohara are Executive Directors of the Company. Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada are Independent Non-executive Directors of the Company.

By Order of the Board
Wei Hong-Ming
Chairman

Shanghai, the PRC, 25 March 2019

Website: http://www.masterkong.com.cn
http://www.irasia.com/listco/hk/tingyi

* *For identification purpose only*