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 2017

RMB'000	**2017**	2016 (Restated)		**Change**
• Revenue	**58,953,788**	55,578,849	↑	6.07%
• Gross margin (%)	**29.41%**	31.27%	↓	1.86ppt
• Gross profit	**17,337,961**	17,378,324	↓	0.23%
• EBITDA	**7,202,194**	6,510,385	↑	10.63%
• Profit for the year	**2,255,368**	1,382,063	↑	63.19%
• Profit attributable to owners of the Company	**1,819,077**	1,161,699	↑	56.59%
• Earnings per share (RMB cents)				
Basic	**32.45**	20.73	↑	11.72
Diluted	**32.42**	20.73	↑	11.69

At 31 December 2017, cash and cash equivalents was RMB10,284.889 million, with an increase of RMB53.077 million when compared to 31 December 2016. Gearing ratio was 22.26%.

CHAIRMAN'S STATEMENT

At the milestone of its 25th anniversary, the Group still adheres to the ideals of serving consumers when it was founded. It persisted in leading the upgrade of the industry and promoting corporate transformation. With "Consolidation, Innovation and Development" as its guiding strategy, it also had "Return to glory" as its goal for the next 25 years, anticipating more brilliant achievements.

In 2017, the Group's revenue was RMB58,953.8 million, profit attributable to owners of the Company was RMB1,819.1 million and earnings per share was RMB32.45 cents. The Board will recommend the payment of a final dividend of US2.49 cents per share. Total amount of final dividend for the year 2017 will be US$139.6 million.

Although the performance of the Group improved this year, members of the Board and I hope that the operation team will act with caution and grasp the opportunities brought by urbanization. Various reforms were implemented "with the demands of the middle class as the core for development and the win-win of customer service and partners as the foundation for success". Generation change was implemented in the organization. Master Kong employees will adhere to its corporate culture of integrity, practicality and innovation in their dedicated effort to meet consumers' needs, maintaining food safety and fulfilling corporate social responsibility. I wish that our consumers, employees and shareholders will continue to give their support to Master Kong, so that together we could move towards a more sustainable and brighter future.

I would like to take this opportunity to express my heartfelt appreciation to all fellows of the Board, the management and all staff and customers.

Wei Ing-Chou
Chairman

Shanghai, the PRC
20 March 2018

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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	**2017** *RMB'000*	2016 *RMB'000* (Restated)
Revenue	4	**58,953,788**	55,578,849
Cost of sales		**(41,615,827)**	(38,200,525)
Gross profit		**17,337,961**	17,378,324
Other revenue	6	**270,786**	218,178
Other net income (expenses)	7	**719,726**	489,131
Distribution costs		**(11,268,583)**	(12,070,325)
Administrative expenses		**(2,189,111)**	(2,043,995)
Other operating expenses		**(1,124,355)**	(1,115,639)
Finance costs	8	**(454,868)**	(496,303)
Share of results of associates and joint ventures		**101,180**	74,145
Profit before taxation	8	**3,392,736**	2,433,516
Taxation	9	**(1,137,368)**	(1,051,453)
Profit for the year		**2,255,368**	1,382,063
Profit attributable to:			
Owners of the Company		**1,819,077**	1,161,699
Non-controlling interests		**436,291**	220,364
Profit for the year		**2,255,368**	1,382,063
Earnings per share	11		
Basic		**RMB32.45 cents**	RMB20.73 cents
Diluted		**RMB32.42 cents**	RMB20.73 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Profit for the year	**2,255,368**	1,382,063
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**52,037**	114,892
	52,037	114,892
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on consolidation	**316,324**	(610,001)
Fair value changes in available-for-sale financial assets	**95,396**	57,458
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year	**(21,080)**	(45,548)
	390,640	(598,091)
Other comprehensive income (loss) for the year	**442,677**	(483,199)
Total comprehensive income for the year	**2,698,045**	898,864
Total comprehensive income attributable to:		
Owners of the Company	**2,218,857**	692,718
Non-controlling interests	**479,188**	206,146
	2,698,045	898,864

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000 (Restated)	At 1 January 2016 RMB'000 (Restated)
ASSETS				
Non-current assets				
Investment properties		**1,106,000**	1,060,000	1,003,200
Property, plant and equipment		**28,014,779**	32,556,784	35,041,574
Prepaid lease payments		**3,730,767**	3,932,435	3,946,771
Intangible asset		**162,936**	179,179	172,404
Goodwill		**97,910**	–	–
Interest in associates		**120,568**	160,538	190,948
Interest in joint ventures		**660,691**	676,408	555,405
Available-for-sale financial assets		**638,526**	641,619	598,163
Other non-current assets		**317,964**	–	100,000
Deferred tax assets		**308,010**	276,291	318,185
		35,158,151	39,483,254	41,926,650
Current assets				
Inventories		**2,396,941**	2,482,202	2,115,472
Trade receivables	12	**1,636,385**	1,589,893	1,515,556
Tax recoverable		**23,393**	120,861	95,971
Prepayments and other receivables		**4,599,397**	2,613,009	2,785,990
Pledged bank deposits		**58,312**	42,352	78,231
Bank balances and cash		**10,226,577**	10,189,460	6,568,960
		18,941,005	17,037,777	13,160,180
Total assets		**54,099,156**	56,521,031	55,086,830

	Note	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000 (Restated)	At 1 January 2016 RMB'000 (Restated)
EQUITY AND LIABILITIES				
Capital and reserves				
Issued capital		**235,053**	234,767	234,710
Share premium		**611,736**	523,278	505,449
Reserves		**17,565,290**	17,365,495	17,971,880
Total capital and reserves attributable to owners of the Company		**18,412,079**	18,123,540	18,712,039
Non-controlling interests		**3,881,965**	5,977,039	6,463,657
Total equity		**22,294,044**	24,100,579	25,175,696
Non-current liabilities				
Financial liabilities at fair value through profit or loss		**5,258**	152,650	58,959
Long-term interest-bearing borrowings		**6,608,953**	6,880,190	8,612,499
Other non-current liabilities		**40,000**	—	—
Employee benefit obligations		**101,226**	205,573	278,569
Deferred tax liabilities		**1,070,026**	1,473,995	1,440,259
		7,825,463	8,712,408	10,390,286
Current liabilities				
Trade payables	13	**7,119,423**	6,595,355	4,690,033
Other payables and deposits received		**7,417,032**	6,697,875	6,671,542
Financial liabilities at fair value through profit or loss		**37,448**	—	—
Current portion of interest-bearing borrowings		**7,775,320**	9,163,746	7,293,262
Advance payments from customers		**1,284,590**	1,015,548	799,838
Taxation		**345,836**	235,520	66,173
		23,979,649	23,708,044	19,520,848
Total liabilities		**31,805,112**	32,420,452	29,911,134
Total equity and liabilities		**54,099,156**	56,521,031	55,086,830
Net current assets (liabilities)		**(5,038,644)**	(6,670,267)	(6,360,668)
Total assets less current liabilities		**30,119,507**	32,812,987	35,565,982

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 2016 consolidated financial statements except for the change of presentation currency and 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. CHANGES IN ACCOUNTING POLICIES

(a) Change in presentation currency

The consolidated financial statements for the year ended 31 December 2017 are presented in Renminbi ("RMB"), which is different from the presentation currency of United States dollars ("US$") used in the Company's consolidated financial statements for the year ended 31 December 2016. Since most of the Group's transactions are denominated and settled in RMB, the directors of the Company considered that the change in presentation currency could reduce the impact of any fluctuations in the exchange rate of the US$ against the RMB, which is not due to the operations and beyond the control of the Group, on the consolidated financial statements of the Group. It enables the shareholders of the Company to have a more accurate picture of the Group's financial performance. Accordingly, the directors of the Company have determined the change of presentation currency from US$ to RMB effective from 1 January 2017. The comparative figures in the consolidated statements of financial position as at 1 January 2016 and 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2016 have been restated accordingly to achieve comparability with the current year.

As aforementioned, the consolidated financial statements are presented in RMB, which is different from the Company's functional currency of US$. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(b) Adoption of New/Revised HKFRSs

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

Amendments to HKAS 7: Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The adoption of the amendments results in the additional disclosures in notes to the consolidated financial statements. In accordance with the transitional provisions therein, the comparative information is not presented in the first year of adoption.

Amendments to HKAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify, among others, how to account for deferred tax assets related to debt instruments measured at fair value.

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

Annual Improvements 2014-2016 Cycle: HKFRS 12 - Clarification of the scope

The amendments clarify that except for the summarised financial information for subsidiaries, joint ventures and associates in which the interests are classified or included in a disposal group that is classified as held for sale in accordance with HKFRS 5, the requirements of HKFRS 12 apply to interests in entities within the scope of HKFRS 5.

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

4. REVENUE

The Group's revenue represents the sale of goods at invoiced value to customers, net of returns, discounts and value added tax and rental income from investment properties.

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 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 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 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 2017 and 2016 are as follows:

	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 external customers	22,619,433	34,752,943	858,648	722,764	–	58,953,788
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

	2016					
	Instant noodles *RMB'000* (Restated)	**Beverages** *RMB'000* (Restated)	**Instant food** *RMB'000* (Restated)	**Others** *RMB'000* (Restated)	**Inter-segment elimination** *RMB'000* (Restated)	**Total** *RMB'000* (Restated)
Revenue						
Revenue from external customers	21,561,757	32,486,524	862,003	668,565	–	55,578,849
Inter-segment revenue	647	6,940	52,857	1,107,039	(1,167,483)	–
Segment revenue	21,562,404	32,493,464	914,860	1,775,604	(1,167,483)	55,578,849
Segment result after finance costs	1,691,810	751,988	(34,377)	(88,594)	4,661	2,325,488
Share of results of associates and joint ventures	(100)	107,597	(33,352)	–	–	74,145
Unallocated income, net	–	–	–	33,883	–	33,883
Profit (loss) before taxation	1,691,710	859,585	(67,729)	(54,711)	4,661	2,433,516
Taxation	(521,185)	(478,907)	(3,812)	(47,549)	–	(1,051,453)
Profit (loss) for the year	1,170,525	380,678	(71,541)	(102,260)	4,661	1,382,063

	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	69,518	154,503	–	–	–	224,021

	2016					
	Instant noodles	Beverages	Instant food	Others	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Assets						
Segment assets	22,440,591	30,809,377	1,023,107	6,975,755	(6,206,364)	55,042,466
Interest in associates	–	172,713	(12,175)	–	–	160,538
Interest in joint ventures	–	626,059	50,349	–	–	676,408
Unallocated assets						641,619
Total assets						56,521,031
Liabilities						
Segment liabilities	7,125,673	19,271,095	485,088	11,403,247	(6,070,224)	32,214,879
Unallocated liabilities						205,573
Total liabilities						32,420,452
Other information						
Depreciation and amortisation	763,876	2,863,866	53,681	117,321	–	3,798,744
Capital expenditures	220,535	1,116,487	8,571	186,257	–	1,531,850
Interest income	284,550	51,189	1,355	10,735	(129,651)	218,178
Interest expenses	29,230	317,641	–	279,083	(129,651)	496,303
Impairment loss	56,873	53,523	7,754	–	–	118,150

6. OTHER REVENUE

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Interest income	**270,786**	218,178

7. OTHER NET INCOME (EXPENSES)

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Technical consultancy fee	–	76,849
Gain on sales of scrapped materials	**145,319**	143,725
Gain on disposal of available-for-sale financial assets	**21,080**	45,548
Change in fair value of investment properties	**46,223**	21,728
Change in fair value of financial liabilities at fair value through profit and loss, net	**126,349**	(64,614)
Net gain on disposal of subsidiaries	**43,725**	–
Government grants	**89,241**	276,860
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 payment	**(15,337)**	(32,033)
Exchange loss, net	**(6,619)**	(85,396)
Others	**262,364**	106,464
	719,726	489,131

8. PROFIT BEFORE TAXATION

	2017	2016
	RMB'000	*RMB'000*
This is stated after charging (crediting):		(Restated)
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	**421,627**	496,618
Interest on bank and other borrowings wholly repayable over five years	**37,750**	4,331
	459,377	500,949
Less: Borrowing costs capitalised into property, plant and equipment at weighted average capitalisation rate of 3.45% (2016: 2.86%)	**(4,509)**	(4,646)
	454,868	496,303
Other items		
Depreciation	**3,513,679**	3,676,512
Amortisation of prepaid lease payments	**106,618**	117,217
Amortisation of intangible asset	**5,079**	5,015

9. TAXATION

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Current tax – PRC Enterprise income tax		
Current year	**961,470**	759,071
(Over) Under provision in prior year	**(4,179)**	3,908
	957,291	762,979
Deferred taxation		
Origination and reversal of temporary differences, net	**49,243**	192,028
Effect of withholding tax on the net distributable earnings of the Group's PRC subsidiaries	**130,834**	96,446
	180,077	288,474
Total tax charge for the year	**1,137,368**	1,051,453

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 2017 and 2016.

The applicable PRC Enterprise income tax for the PRC subsidiaries is the statutory rate of 25% (2016: 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% (2016: 15%).

10. DIVIDENDS

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

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Final dividend proposed after the end of the reporting period of US2.49 cents (2016: US1.58 cents) per ordinary share	**909,539**	580,849

At meeting held on 20 March 2018, the directors recommended the payment of final dividend of US2.49 cents per ordinary share. The proposed final dividend has 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

	2017	2016 (Restated)
Profit attributable to ordinary equity shareholders (RMB'000)	**1,819,077**	1,161,699
Weighted average number of ordinary shares ('000)	**5,605,427**	5,602,925
Basic earnings per share (RMB cents)	**32.45**	20.73

(b) Diluted earnings per share

	2017	2016 (Restated)
Profit attributable to ordinary equity shareholders (RMB'000)	**1,819,077**	1,161,699
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	**5,605,427**	5,602,925
Effect of the Company's share option scheme	**5,337**	504
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**5,610,764**	5,603,429
Diluted earnings per share (RMB cents)	**32.42**	20.73

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 impairment losses for bad and doubtful debts), based on invoice date, at the end of the reporting period is as follows:

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
0 – 90 days	**1,517,678**	1,460,298
Over 90 days	**118,707**	129,595
	1,636,385	1,589,893

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:

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
0 – 90 days	**6,335,339**	5,938,123
Over 90 days	**784,084**	657,232
	7,119,423	6,595,355

14. COMMITMENTS

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
(a) **Capital expenditure commitments**		
Contracted but not provided for:		
Expenditures on properties, plant and equipment	**927,244**	797,850
Investment funds	**106,258**	128,554
	1,033,502	926,404

(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 operating leases, which are payable as follows:

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Within one year	**294,644**	293,722
In the second to fifth years inclusive	**477,436**	530,851
After five years	**105,185**	142,357
	877,265	966,930

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:

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Within one year	**34,375**	33,214
In the second to fifth years inclusive	**15,329**	29,975
	49,704	63,189

15. Comparative figures

Conforming to current year's presentation, the gross rental income from investment properties of RMB27,924,000 that was included in other revenue as shown in the consolidated income statement for the year ended 31 December 2016 has been reclassified under revenue. In addition, expenses of RMB323,240,000 that were included in other operating expenses and other net income of RMB812,371,000 as shown in the consolidated income statement for the year ended 31 December 2016 have been reclassified under other net income (expenses). The revised presentation reflects more appropriately the nature of these items. These reclassifications have no effect on the reported financial position, results or cash flows of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The national economy of China had a stable performance with good momentum in 2017. Structural supply-side reform was thoroughly implemented. GDP has a year-on-year growth of 6.9%. The total population grew steadily. The urbanization rate increased to 58.52%, showing a clearly diversified trend of consumption. The rise in consumer prices was mild throughout the year. However, prices of raw materials such as PET and paper material increased significantly. The overall prices for raw materials remained high.

Under the macro environment the Group continued to proceed the established strategy of transformation and upgrading. Supply-side reform initiated successfully in the period. The Group reduced capital expenditure, increased capacity utilization and optimized free cash flow, through approaches such as asset-light, activation on asset, and organization delayering. For products, the multi-pricing strategy continued to target the middle class on the rise while consolidating the mass market. There were efforts in strengthening the brand, planning for emerging channels, precise costs control and strict adherence to high quality food safety standard. In the process of organizational reform, good talent management was practiced continuously. With multiple approaches taken and the strategy of "Consolidate, Reform and Develop", the Group continued to lead the upgrade of the industry at the 25th anniversary of the launch of Master Kong instant noodles.

In 2017, the Group's revenue increased by 6.07% to RMB58,953.8 million yoy (year-on-year compared with the corresponding period in 2016). Revenue from instant noodles and beverages increased by 4.91% and 6.96%, respectively, yoy. Due to the rising price from main raw materials such as sugar, PET resin and paper material, the Group's gross profit margin dropped by 1.86ppt. to 29.41% yoy. Distribution costs represented 19.11% of the revenue for the year and decreased by 2.61ppt. yoy. EBITDA of the Group in 2017 increased by 10.63% to RMB7,202.2 million yoy, EBITDA margin increased by 0.51ppt. to 12.22% yoy. Benefited by revenue growth and decline on distribution costs, profit attributable to owners of the Company during the year increased by 56.59% to RMB1,819.1 million. Profit margin attributable to owners was 3.09%, increased by 1.00 ppt. yoy, earnings per share increased by RMB11.72 cents to RMB32.45 cents.

Instant Noodle Business

According to the data from Nielsen, the instant noodle industry is showing a warming trend, overall sales volume increased by 0.3% while sales amount grew by 3.6% in 2017. The market shares of Master Kong in terms of sales volume and sales amount were 44.2% and 50.6%, respectively, maintained No.1 position. The Group continued to lead the industry towards a positive competition. Master Kong gained a yoy growth in its rapid development in the premium noodles market. The sales of premium soup products mainly catering to the high-end market was promising.

During the year of 2017, the Group's revenue from the instant noodle business was RMB22,620.2 million, which grew by 4.91% yoy, accounting for 38.37% of the total revenue of the Group. During the year, prices of main materials such as flour, palm oil and paper material maintained at high level, the Group has modified product mix and thanked for the sales volume growth, gross profit margin of instant noodles kept same level as last year at 28.79%. Benefited by revenue growth and saving from distribution costs, profit attributable to owners of the Company in the overall instant noodle business increased by 27.34% to RMB1,490.5 million, profit margin attributable to owners increased by 1.16ppt. to 6.59% yoy.

The instant noodle business adhered to the multi-price strategy of the Group. It consolidated the high-end noodle markets and developed its premium noodles market. In the 25th anniversary of launching Master Kong braised beef noodles, sports marketing was implemented in collaboration with marathon, women's volleyball and CUBA. In the 4th quarter, we also kicked off our cooperation with the Chinese aerospace industry. We further improved the food safety and research and development capability. In combination of the "Tianjin Dream Exploration Paradise (天津夢想探索樂園)", which was established for teenagers' popular science education in food safety and aerospace, we conveyed a safe and healthy image of instant noodles to consumers and enhanced brand image and favorability, leading further development of the industry.

High-end noodles

High-end noodles consolidated hero products to ascertain a stable growth of an expanded sales and create demand with products of multiple specifications. In its 25th year, Master Kong continued to strengthen its brand dissemination and interaction. Sports marketing was launched to convey a safe and healthy brand image.

"Braised Beef" expanded its consumption group to young families with multiple specifications such as jumbo noodles, dry noodles and mini cups. Through creating the association of "a happy family in modern China", the consumption occasion can become broader. "Spicy Beef/Fried Pepper Beef/Pickled Pepper Beef/Pungent Beef" collaborated with popular game "King of Glory" to start in-depth cooperation and it strengthened the young image of the Master Kong brand. There were 440 million times of brand exposure during the campaign, which promoted sales effectively. "Pickled Mustard" continued to put emphasis on its brand vitality. It cooperated with Kung Fu Panda in promotional campaign to circulate the micro movie "Kung Fu of one bowl noodle", which convey the message that Master Kong Picked Mustard as a bowl of supreme noodles with Kung Fu in an entertaining manner to families with teenagers and the younger consumer groups, bringing steady and stable growth in results. A new flavour "Ratten pepper beef" was launched in September. Its rich spicy and fresh taste is created by numerous types of chili in order to meet the consumption demand for trendy tastes.

Premium noodles/innovative products

A strong premium product operation continued and there was innovative product input and layout to follow the demand for high-end and healthy products of the middle class. Among premium products, the premium soup series which promoted "less additives, rich, delicious, healthy and nutritious" was still the focus in 2017 with numerous new flavors and specifications. With an emphasis on its delicious rib soup and the stylish idea of being both healthy and tasty was recognized by consumers and gained a double in sales. "Pork Rib" continued its nationwide expansion and introduced the new flavor of "Ratten pepper pork rib". The sales increased with the marketing activity "giveaway of a million mini cups". "Golden Stock" responded to diverse demands of consumers with new flavor "Golden Stock Pork Belly". It raised awareness by using online advertisement, the "Xiao Ka Xiu" app and "Mom Group" in combination. "Pepper" had a young and fashionable positioning. The new Cantonese flavor of "Pepper pork belly and chicken" was launched in December. With traditional stock and trendy flavors, it attracted young consumers who are up for trying new flavors. With respect to innovation in product technology, "Cook noodles series" which emphasized a strong texture was launched in the first quarter. In addition, the non-fried "DIY noodle" was launched in the second quarter. Through its continuous collaboration with Lang Ping/Zhu Ting in the "Caring Companion Plan", it gained praise from the consumers and strengthened its healthy brand image.

Mid-end noodles/Snack noodles

Mid-end noodles emphasized market consolidation and satisfying the demand for large-sized noodles. "Jin Shuang" was promoted through various ways such as input of advertising resources, resource integration and enhancing penetration to maintain its position as a market leader. For snack noodles, "Xiang Bao Cui" and "Cui Xuan Feng", which are positioned as leisure snacks, collaborated with popular mobile games. Online and offline communication with consumers were integrated to establish an innovative image.

Beverage Business

According to the data from Nielsen, the growth of the beverage industry in China saw a stable growth in 2017. The sales volume and sales amount of the beverage industry grew by 9.5% and 10.2%, respectively, on a yoy basis in 2017. In 2017, the ready-to-drink (RTD) tea (including milk tea) of the Group's beverage business accounted for 50.7% market share in terms of sales volume and continued to secure top ranking position in the market. The fruit juice brands under Master Kong and Tropicana accounted for a market share of 18.1% in 2017, ranked No. 2 in the market. Market share for bottled water in 2017 was 14.1%, ranking No. 3 in the market for the time being. According to the database of GlobalData, in terms of sales volume, the overall market share of Pepsi carbonated drinks increased by 0.6ppt. to 31.2% in 2017, as compared to the same period of last year, ranked No.2. The market share of Pepsi Cola increased to 48.6% in the cola carbonated drinks market in 2017 and was the No.1 brand in the market.

In 2017, the overall revenue of the beverage business was RMB34,754.3 million, increased by 6.96% yoy, accounting for 58.95% of the Group's total revenue. During the year, gross profit margin of the beverage business decreased by 3.14ppt. to 29.82% yoy, mainly due to price increase from main raw materials such as sugar, PET resin and paper material. Because of revenue growth and saving on advertising and promotion expenses, finance costs and exchange losses, profit attributable to owners in the beverage business for the year amounted to RMB426.0 million, representing a significant increase by 141.75% yoy. Profit margin attributable to owners increased by 0.69ppt. yoy to 1.23%.

Our beverage business still adopted the strategy of focusing on evergreen product categories and consolidating core products. Through a multi-price range and specification satisfaction, it has a firm foothold in the mass market and serves the middle class. In line with the principles of cost control and simplifying input, channel diversification and penetration of indoor channels were promoted. There was dedicated effort in sports marketing and cooperation with brand equity, of which the collaboration with Disney raised brand awareness. In the process of activation on asset and asset-light, the integrated effectiveness/efficiency of supply chain was enhanced by variety of asset disposal methods.

RTD Tea

RTD tea successfully consolidated the mass market. It attracted young consumers and the household market through sports marketing, brand equity collaboration, new flavours and new packages and maintained the top place in the tea drinks market. “Master Kong Ice Tea” is dedicated to creating a young and energetic brand image. Through its strategic cooperation with NBA, Master Kong jointly introduced the exclusive package for China and launched a series of marketing activities. Master Kong also launched the “Minions” limited edition package and strengthened the household consumption market. The “Jasmine Series” appealed to young consumers through collaboration with the popular drama “Once upon a time” and consolidated its position as a market leader. “Green Tea” also catered to the trend of fruity flavours and launched “Pomelo green tea” and “Plum green tea”. It can also continue its effort in sports marketing by integrating events such as nationwide cycling. It deepened the healthy and energetic image of the brand and achieved sales growth. The sales of “Classic Milk Tea” continued to grow rapidly and seized the market share.

Bottled water

The multiple price range strategy was implemented continuously for bottled water of low and middle prices. There were various scenarios supported by multiple specifications for the products to gain a firm foothold in the mass market and to plan for the development of high-end products. The low-priced “Master Kong bottled drinking water” actively seized indoor channels and gained positive response through communicating the message of “the eight processes with national patent to care for your family’s health”. The mid-priced “Youyue” collaborated with popular TV drama “Old to Joy II” and “ER Doctors”. It also promoted and established its brand image of NSF certified internationally and high quality through sponsoring large-scale events such as the “Belt and Road Media Cooperation Forum” and sports marketing with NBA. Such image gathered and appealed to the white-collar consumption groups. Youyue also launched its 2 liter package in December to seize the drinking water market of middle class families. The high-priced mineral water “Han Yang Quan” cooperated with Shanghai Disney Resort and effectively established a high-end brand image.

Carbonated drinks

In 2017, the performance of the carbonated drinks business was remarkable and the overall market share achieved a positive improvement, which was attained by developing diverse channels, introducing multiple specifications, expanding consumption occasions, increasing online and offline interaction with consumers and other approaches. The Lunar New Year theme marketing campaign "Bring Happiness Home 2017 (BHH 2017)" of "Pepsi/Mirinda/7-up" highly integrated online and offline resources, gathered actors who are popular in Chinese version of "growing pains" to shoot the microfilm, attracted a lot of attention on social platforms, and increased the brand favorability again. Pepsi expanded consumption occasions with new specifications and new packages. "Pepsi Concept Store" and its offline pop-up stores were built for closer interaction with consumers. The joint-limited edition "Pepsi Black" was launched with renowned designers and became a style indicator. "Mirinda" cooperated with Tencent WeGame in its promotional activity and implanted advertising in the most popular online talk show "U can U BIBI" to convey the "Mess with Your Senses" brand image. "7-up" increased its brand favorability effectively by launching the "retro can" and carrying out "7-up mixed drink" activity.

Juice drinks

By creating scenarios for consumption and expand channels such as catering and takeaway, the Group reinforced its leading position in Chinese style juice drinks and drove the development in the market of Western style juice drinks at the same time. Chinese style juice drinks developed channels through "Match with gourmet" activities, among which "Rock Candy Pear" educated young families about timing for food and drinks consumption with the slogan of "Nourishing Chinese diet" and strengthened its channel penetration. "Tradition Fruit Mix Sour Plum" made its entry to hotpot restaurants and food street with its Chinese classic image of "reducing grease" to attach the product to hotpot. Among Western style juice drinks, "Master Kong Juices" strengthened its sales during the festive season with the promotional activity "auspicious words in your mother tongue". Tropicana gained positive feedback and additional growth by introducing the new flavor of "green coconut and lychees" and new specification, and integrating online and offline marketing efforts.

Functional drinks/Probiotics

"Gatorade" continued to enhance consumers' awareness of sports education and establish the brand image of professional sports drink through sports marketing. Through "NBA Chinese matches", joint events with the nationwide chain "Rucker Sports Park"/running group/sports events/sports brands, joint marketing with sports apps, we successfully gained the preference and recognition of consumers.

"Wei Chuan Ambient Probiotics Drink" launched the strawberry flavor and was upgraded with a new packaging and European strain. Its sales region was further expanded. While consolidating its growth in the Yangtze River Delta and Shanghai market, it was gradually extended to the whole country, achieving a healthy double-digit growth in 2017.

Coffee drinks

Bottled Frappuccino produced in cooperation with our international strategic partner Starbucks continued to lead the growth in the high-end RTD coffee market in China. In 2017, Frappuccino accelerated its regional expansion and city coverage by following the footprint of Starbucks' retail stores. The focus was on e-commerce business and development of specialty channels, which further expanded points of distribution and drinking occasions of our products. With respect to product innovation, "Matcha Frappuccino" and "Black Tea Frappuccino" successfully promoted the Starbucks brand to the RTD tea market. The Christmas limited offer "Holiday Cookie Mocha Frappuccino" also brought the successful experience of limited time offer in Starbucks retail stores to the RTD market.

"Bernachon coffee" continued to expand the room temperature mid-high-priced RTD coffee market. Market expansion began from the modern channels in Beijing, Shanghai, the Yangtze River Delta and the Pearl River Delta and gradually developed nationwide with a remarkable trend. The brand positioning of "Masterpiece" tasting grade coffee using advanced extraction technology steadily improved sales. After successfully launching the four flavours of "Classic Italian", "Classic Manddheling", "Matcha Latte"and "Coffee Latte", "Mocha Latte" was newly launched in the 4th quarter to provide more options for consumers.

Instant Food Business

According to the data from Nielsen, overall sales volume of the biscuit market for the full year of 2017 decreased by 1.3% yoy, sales amount increased slightly by 1.9% yoy, of which sales volume of sandwich crackers increased by 1.0% and sales amount increased by 4.4% yoy. In terms of sales amount, the market share of Master Kong egg rolls increased to 26.6% and ranked No. 1 in the market. The market share of sandwich crackers was 11.7% and ranked No. 2 in the market.

In 2017, revenue of the instant food business dropped by 6.10% to RMB859.0 million yoy and amounting for 1.46% of the Group's revenue. Gross profit margin decreased by 1.00ppt. to 35.66% yoy. Due to the saving on distribution costs, as a result, a reduction of overall losses in the year of 2017 to a loss of RMB2.306 million, improved by 96.78% yoy.

The instant food business continued its established strategy of consolidating its core operation of cake and cracker brands and introducing products of multiple specification and price ranges to cater to different consumption tiers, demands for healthy diet and different food consumption occasions. Emerging channels were vigorously established. Meanwhile, efficient management was implemented through improving production model and the cost refinement project was started to reduce the stress from increasing raw material prices. "3+2 sandwich crackers" made rigorous development in small package products to meet consumers' needs for small amount, diverse and higher frequency. It also developed "3+2 germ soda crackers", a new product rich in dietary fiber, for health-conscious consumers. There was also differentiated operation of the localized sesame and mung beans. The market response has been favorable since its launch in April. Gift packs of different price ranges were introduced to satisfy the needs for gifts during the festive season and closely follow the upward trend in the gift pack market.

FINANCING

The Group continued to maintain a stable and healthy financial structure through effective control of trade receivables, trade payables, bank balances and cash and inventories. As at 31 December 2017, the Group's cash and bank deposits totalled RMB10,284.9 million, an increase of RMB53.1 million from 31 December 2016. A sufficient amount of cash holding was still maintained. As at 31 December 2017, the Group's total assets and total liabilities amounted to approximately RMB54,099.2 million and RMB31,805.1 million respectively. This showed a decline in RMB2,421.9 million and a decline in RMB615.3 million respectively compared to 31 December 2016. The debt ratio increased by 1.43ppt. to 58.79% compared to 31 December 2016. Gearing ratio was 32.07% on 31 December 2016 and dropped to 22.26% on 31 December 2017.

As at 31 December 2017, the Group's total interest-bearing borrowings decreased by RMB1,659.7 million to RMB14,384.3 million. In the interim, the Group has repaid 500 million listed US$ notes (equivalent to RMB3,383.6 million) and 1 billion unlisted RMB notes in June and July 2017 respectively. At the end of the year, the Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 69% and 31% respectively, as compared to 72% and 28% respectively as at 31 December 2016. The proportion between the Group's long-term borrowings and short-term borrowings was 46% and 54% respectively, as compared to 43% and 57% respectively as at 31 December 2016. In line with the Group's overall strategy of cash being the king, Master Kong has implemented sound control over capital expenditure and has effectively promoted asset-light and activation on asset, which is expected to generate stable cash inflows. During the year, the Group sold the entire equity interests in four subsidiaries under the Group's beverage business to an independent third party, realised a net cash inflow of RMB663.1 million. In anticipation of the long-term performance of the beverage business in the future, the Group acquired 20.4% TAB (Tingyi-Asahi Beverages Holding Co., Ltd.) shares which held by the joint venture partner AIB (AI Beverage Holding Co., Ltd., a wholly-owned subsidiary of Asahi Group) at the aggregate consideration of approximately US$611.9 million (equivalent to approximately RMB3,987 million) in December 2017. In the future, the Group will continue to gradually reduce the size of interest-bearing borrowings with its own funds so as to achieve more flexible and healthier financial structure objectives and further improve the operational basis.

During the year, Renminbi appreciated against US dollar by 6.18%, due to the fluctuation of exchange rate, brought realized/unrealized exchange losses of RMB6.6192 million in the Group's income statement for the year.

FINANCIAL RATIO

	For the year ended 31 December	
	2017	2016
Finished goods turnover	11.31 Days	11.58 Days
Trade receivables turnover	9.99 Days	10.23 Days
Current ratio	0.79 Times	0.72 Times
Debt ratio (Total liabilities to total assets)	58.79%	57.36%
Gearing ratio (Net debt to equity attributable to owners of the Company)	22.26%	32.07%

Human Resources

Adjustments in organizational structure were introduced organizational hierarchies were reduced to accommodate corporate transformation and upgrade. Organizational hierarchies were reduced to make the organization lighter, more effective and closer to market and enhance responsiveness. As at 31 December 2017, the Group had 56,995 employees. Among them, 7 employees were holders of doctoral degree, 329 employees were holders of master's degrees, 30,524 employees were graduates of bachelor's degrees and post-secondary level, accounting for 54% of the Group's total number of employees; 26,135 employees had education qualifications below post-secondary level, accounting for 46% of the Group's total number of employees.

In the process of organizational reform, the Group paid more attention to talent selection and nurturing. Evaluation and training system was set up for staff from different levels. Talents were selected and developed with precision. The focus was on the leadership of high-level management, who had a customized personal development plan for their knowledge and skills, experience and integrated abilities. A "mentor and coach mechanism" and the training course of China Europe International Business School and Shanghai Jiao Tong University were introduced. Systematic management and differentiated cultivation were established for medium and lower level management in order to build a backup force. A training system was established for staff at all levels in an integrated manner, covering corporate culture, management, professionalism and liberal studies.

Considering long-term and sustainable development, the Group also highly values the talent pool in schools. The Group actively participated in campus recruitment in 2017 and strengthened its cooperation with medium level vocational schools. The Group has implemented the Young Master talent reserve project for campus recruitment in 2018. It also adheres to the spirit of the 19th CPC National Congress report and actively promotes cooperation with medium level vocational training schools in the country. There has been cooperation with 39 vocational schools, achieving resources sharing and complementing between schools and enterprises. Through the training model of integrating production and education, skilled labour with craftsman spirit can be cultivated.

Corporate Social Responsibility

The Group persisted in pursuing high standard in food safety and improving the food safety system continuously. In 2017, the cooperation with China Space Foundation began. The Group will meet demand for R&D in aerospace food with rigorous quality and further promote the food safety strategy. Several supply chain strategic cooperations were planned to strengthen food safety management at the source. The Group also signed a memorandum of cooperation with Tianjin Economic-Technological Development Area. After the Shanghai Food Safety Centre, the Group will fund another food safety testing centre in the development area.

The Group also placed importance on the food safety science education for teenagers. In joint effort with the government and the academia, the “Launching Ceremony of the Chinese Youth Popular Science Exhibition on Aerospace Technology and Food Safety” was held in November. It created the environment for children to learn more about the world from the scientific perspective and facilitated youth with aspiration in the aerospace sector. The Food Safety Innovative Philanthropy Contest exclusively supported by Master Kong was concluded in December. The contest lasted for more than 6 months with over a million participants from numerous universities all over the country. It achieved innovation on science education in many forms and participants’ understanding of food safety improved by 12%.

In 2017, the Group received significant awards in the field of food safety, including: Winning the “China Food Safety Top Ten Enterprise Award” for the 7th time at the 15th China Food Safety Annual Conference; winning the benchmark award for food industry “Golden Chopsticks Award” for the 3rd time at the 2017 China Food Development Conference for its comprehensive food safety tracing system and its remarkable contribution to food safety in China; winning “Outstanding Enterprise Award for China Social Responsibility” for the 2nd time at the 10th China Corporate Social Responsibility Summit and the 2017 China Social Responsibility Ceremony.

The Group also gave back to the education sector. It facilitated collaboration with world-class educational institutes, such as Stanford University, Waseda University and Tsinghua University Schwarzman Scholars. The “Master Kong Dream Scholarship Project” organized jointly with Waseda University subsidized 37 outstanding undergraduate students from 5 top universities in the country, namely, Tsinghua Universities, Peking University, Fudan University, Shanghai Jiao Tong University and Zhejiang University, for a 6-month exchange program in Japan. Through the “Dream Plan”, the students are inspired to pay attention to and think about their relationship with the society and the environment. Hopefully, they will bear the responsibility and turn the world into a better place with their influence.

Prospects

Looking ahead in 2018, the volatile global economy, the urbanization and the rapid rise of middle class in China lead to diverse consumption demands. The Group faces numerous challenges such as demographic changes, constant increase of raw material prices and macro policy adjustments.

Under the irreversible upward trend of raw material prices, based on consumers' needs, the Group will consistently strengthen the revenue management through product upgrade, formula improvement, specification optimization and other methods to stabilize the gross profit. Strict control over food safety is the unwavering policy of the Group as we firmly believe in food safety being the foundation of packaged food and beverage manufacturers.

After starting aerospace cooperation in November 2017, the Group will further pursue the food safety with aerospace quality and scientific spirit. We will promote high-end R&D on food safety and turn the results into application. We will also provide constructive inputs for the formulation and update of the national food safety standards, facilitating an all-rounded improvement in the industry's food safety standard. We will also integrate aerospace into the popular science of food safety to educate the new generation of consumers.

For corporate transformation and upgrade, the Group will continue to implement the reform of three rationalizations in 2018 to adopt the experience of reform in instant noodles in the beverage business:

1. With respect to supply chain configuration rationalization, there should be response to multiple consumption tiers. Explore potential of supply chain potential and promote asset-light and activation on asset through production and sales coordination and the optimization of capacity allocation;

2. With respect to dealer layout rationalization, in response to the development trend of channel fragmentation, there should be expansion of diverse channels and the building of a stronger partnership with wholesalers/dealers which we will leverage to achieve a win-win situation;

3. With respect to organizational design and cost rationalization, operational efficiency will be improved. To organizational transformation and upgrade, the Group will constantly optimize its process, simplify its management, accelerate the progress of information digitalization, facilitate the setting up of the service sharing mechanism and pursue the specialization of talents.

The Group will uphold food safety as its highest priority. It will extend the supply-side reform, continue to promote asset-light and activation on asset to reduce capital expenditure and continue the optimization of free cash flow. It will continue to focus on its core advantage and accelerate the upgrade of products to satisfy the diverse needs of consumers. With the idea and conviction of being rooted in the China market, the Group is looking forward to promoting the upgrade and improvement of the industry together with partners in the stable Chinese economic environment with improving momentum.

CORPORATE GOVERNANCE

We have, throughout the year ended 31 December 2017, 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. 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.

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 2017. 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 achieving the Group's long-term development goals. In terms of internal control, 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 a clear organization structure, role and responsibility, and authorization for it. 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 December 31, 2017, the Group has completed the construction of the three lines of defense for risk management, strengthened the internal control functions of the second line of defense and carried out self-assessment and diagnosis of internal control including finance, information and operation and sorted out core restriction of authority and 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 2017.

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 of the Company held on 20 March 2008, the shareholders approved the adoption of the share option scheme (the "Share Option Scheme"). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Detailed arrangement for the Share Option Scheme 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 2017 pursuant to the Share Option Scheme:

				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 2017	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Balance as at 31 December 2017	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	–	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	20.54	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	26 April 2012	20.54	20.54	300,000	–	–	300,000	–	–	Table A (5)
	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)

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 2017	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Balance as at 31 December 2017	Weighted average closing price immediately before exercise HK$	Note
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	2,564,000	–	2,264,000	–	300,000	13.08	Table A (1)
	22 April 2009	9.38	9.37	9,884,000	–	5,739,000	–	4,145,000	13.76	Table A (2)
	1 April 2010	18.57	18.42	9,651,000	–	–	1,848,000	7,803,000	–	Table A (3)
	12 April 2011	19.96	19.96	12,694,000	–	–	2,748,000	9,946,000	–	Table A (4)
	26 April 2012	20.54	20.54	7,230,000	–	–	1,142,000	6,088,000	–	Table A (5)
	27 May 2013	20.16	20.05	7,744,000	–	–	156,000	7,588,000	–	Table A (6)
	17 April 2014	22.38	22.35	8,886,000	–	–	402,000	8,484,000	–	Table A (7)
	5 June 2015	16.22	15.92	12,368,000	–	–	614,000	11,754,000	–	Table A (8)
	4 July 2016	7.54	7.54	5,848,000	–	725,000	–	5,123,000	14.53	Table A (9)
	21 April 2017	10.20	10.20	–	5,420,000	–	150,000	5,270,000	–	Table A (10)
Total				101,553,000	11,420,000	8,728,000	7,360,000	96,885,000		

For the period of twelve months ended 31 December 2017, 8,728,000 options had been exercised under the Share Option Scheme. Weighted average exercise price was HK$9.20 and the weighted average market closing price before the date of exercise was HK$13.65.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 4 June 2018. 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 AND CLOSURE OF REGISTER OF MEMBERS

The Board has recommended the payment of a final dividend of US2.49 cents per ordinary share of the Company in respect of the year ended 31 December 2017. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on or about 11 July 2018.

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

The register of members of the Company will be closed from 31 May 2018 to 4 June 2018 (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 Wednesday, 30 May 2018.

(2) To qualify for the final dividends

The register of members of the Company will be closed from 11 June 2018 to 13 June 2018 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to qualify for the final 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 Friday, 8 June 2018.

BOARD OF DIRECTORS

As at the date of this announcement, Mr. Wei Ing-Chou, Mr. Junichiro Ida, Mr. Lin Chin-Tang, Mr. Teruo Nagano, Mr. Wei Hong-Ming 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 Ing-Chou
Chairman

Shanghai, the PRC, 20 March 2018

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

* *For identification purpose only*