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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2018

SUMMARY

RMB'000	For the three months ended 30 June			For the six months ended 30 June		
	2018	2017	Change	2018	2017	Change
• Revenue	15,959,080	14,370,083	↑ 11.06%	30,996,144	28,567,722	↑ 8.50%
• Gross margin	32.71%	30.15%	↑ 2.56 ppt.	31.23%	29.10%	↑ 2.13 ppt.
• Gross profit of the Group	5,220,618	4,332,709	↑ 20.49%	9,680,408	8,313,493	↑ 16.44%
• EBITDA	1,925,114	1,610,783	↑ 19.51%	3,740,573	3,343,401	↑ 11.88%
• *EBITDA	1,960,112	1,610,783	↑ 21.69%	3,900,746	3,343,401	↑ 16.67%
• Profit for the period	773,235	405,283	↑ 90.79%	1,488,294	880,150	↑ 69.10%
• Profit attributable to owners of the Company	594,416	266,700	↑ 122.88%	1,306,478	700,204	↑ 86.59%
• Earnings per share (RMB cents)						
Basic	10.58	4.76	↑ 5.82 cents	23.26	12.49	↑ 10.77 cents
Diluted	10.56	4.76	↑ 5.80 cents	23.21	12.49	↑ 10.72 cents

As at 30 June 2018, cash and cash equivalents was RMB12,318.883 million, representing an increase of RMB2,033.994 million when compared to 31 December 2017. Gearing ratio was -7.08%.

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

2018 INTERIM RESULTS

The Board (the “Board”) of Directors (the “Directors”) of Tingyi (Cayman Islands) Holding Corp. (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017. These unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company (the “Audit Committee”).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Three Months and Six Months Ended 30 June 2018

	<i>Note</i>	April to June 2018 <i>(Unaudited)</i> <i>RMB'000</i>	January to June 2018 <i>(Unaudited)</i> <i>RMB'000</i>	April to June 2017 <i>(Unaudited)</i> <i>RMB'000</i>	January to June 2017 <i>(Unaudited)</i> <i>RMB'000</i>
Revenue	2	15,959,080	30,996,144	14,370,083	28,567,722
Cost of sales		(10,738,462)	(21,315,736)	(10,037,374)	(20,254,229)
Gross profit		5,220,618	9,680,408	4,332,709	8,313,493
Other revenue		84,547	163,926	62,719	117,301
Other net income (expenses)		59,953	633,922	159,913	294,162
Distribution costs		(3,437,364)	(6,167,114)	(3,045,951)	(5,658,149)
Administrative expenses		(612,794)	(1,239,210)	(547,003)	(1,061,405)
Other operating expenses		(186,059)	(948,567)	(251,076)	(484,714)
Finance costs	5	(107,594)	(222,515)	(139,446)	(270,370)
Share of results of associates and joint ventures		52,400	95,701	45,867	94,702
Profit before taxation	5	1,073,707	1,996,551	617,732	1,345,020
Taxation	6	(300,472)	(508,257)	(212,449)	(464,870)
Profit for the period		<u>773,235</u>	<u>1,488,294</u>	<u>405,283</u>	<u>880,150</u>
Profit attributable to:					
Owners of the Company		594,416	1,306,478	266,700	700,204
Non-controlling interests		178,819	181,816	138,583	179,946
Profit for the period		<u>773,235</u>	<u>1,488,294</u>	<u>405,283</u>	<u>880,150</u>
Earnings per share	7				
Basic		<u>RMB 10.58 cents</u>	<u>RMB 23.26 cents</u>	<u>RMB 4.76 cents</u>	<u>RMB 12.49 cents</u>
Diluted		<u>RMB 10.56 cents</u>	<u>RMB 23.21 cents</u>	<u>RMB 4.76 cents</u>	<u>RMB 12.49 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months and Six Months Ended 30 June 2018

	April to June 2018 <i>(Unaudited)</i> <i>RMB'000</i>	January to June 2018 <i>(Unaudited)</i> <i>RMB'000</i>	April to June 2017 <i>(Unaudited)</i> <i>RMB'000</i>	January to June 2017 <i>(Unaudited)</i> <i>RMB'000</i>
Profit for the period	773,235	1,488,294	405,283	880,150
Other comprehensive (loss) income				
Items that are not reclassified to profit or loss:				
Fair value change in financial assets at fair value through other comprehensive income	(12,397)	(12,397)	—	—
Items that are or may be reclassified subsequently to profit or loss:				
Exchange differences on consolidation	(412,296)	(129,520)	59,369	112,710
Fair value changes in available-for-sale financial assets	—	—	6,538	5,608
Reclassification adjustments relating to available-for-sale financial assets disposed of during the period	—	—	(28,733)	(36,078)
Other comprehensive (loss) income for the period	(424,693)	(141,917)	37,174	82,240
Total comprehensive income for the period	348,542	1,346,377	442,457	962,390
Total comprehensive income attributable to:				
Owners of the Company	202,018	1,176,923	300,460	784,382
Non-controlling interests	146,524	169,454	141,997	178,008
	348,542	1,346,377	442,457	962,390

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	<i>Note</i>	At 30 June 2018 (Unaudited) RMB'000	At 31 December 2017 (Audited) RMB'000
ASSETS			
Non-current assets			
Investment properties		1,115,000	1,106,000
Property, plant and equipment		26,332,726	28,014,779
Prepaid lease payments		3,673,938	3,730,767
Intangible asset		183,277	162,936
Goodwill		97,910	97,910
Interest in associates		128,980	120,568
Interest in joint ventures		746,661	660,691
Financial assets at fair value through profit or loss		461,143	—
Financial assets at fair value through other comprehensive income		118,819	—
Available-for-sale financial assets		—	638,526
Other non-current assets		317,964	317,964
Deferred tax assets		572,834	308,010
		<hr/>	<hr/>
		33,749,252	35,158,151
		<hr/>	<hr/>
Current assets			
Inventories		3,116,920	2,396,941
Trade receivables	9	1,913,985	1,636,385
Tax recoverable		—	23,393
Prepayments and other receivables		3,358,326	4,599,397
Pledged bank deposits		94,348	58,312
Bank balances and cash		12,224,535	10,226,577
		<hr/>	<hr/>
		20,708,114	18,941,005
		<hr/>	<hr/>
Total assets		54,457,366	54,099,156

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

		At 30 June 2018 (Unaudited) RMB'000	At 31 December 2017 (Audited) RMB'000
	<i>Note</i>		
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		235,198	235,053
Share premium		662,373	611,736
Reserves		17,835,807	17,565,290
		<hr/>	<hr/>
Total capital and reserves attributable to owners of the Company		18,733,378	18,412,079
Non-controlling interests		3,944,256	3,881,965
		<hr/>	<hr/>
Total equity		22,677,634	22,294,044
		<hr/>	<hr/>
Non-current liabilities			
Financial liabilities at fair value through profit or loss		—	5,258
Long-term interest-bearing borrowings		5,580,129	6,608,953
Other non-current liabilities		—	40,000
Employee benefit obligations		108,458	101,226
Deferred tax liabilities		1,015,222	1,070,026
		<hr/>	<hr/>
		6,703,809	7,825,463
		<hr/>	<hr/>
Current liabilities			
Trade payables	10	8,624,516	7,119,423
Other payables and deposits received		9,639,558	7,417,032
Current portion of interest-bearing borrowings		5,412,259	7,775,320
Financial liabilities at fair value through profit or loss		36,553	37,448
Advance payments from customers		1,036,577	1,284,590
Taxation		326,460	345,836
		<hr/>	<hr/>
		25,075,923	23,979,649
		<hr/>	<hr/>
Total liabilities		31,779,732	31,805,112
		<hr/>	<hr/>
Total equity and liabilities		54,457,366	54,099,156
		<hr/> <hr/>	<hr/> <hr/>
Net current assets (liabilities)		(4,367,809)	(5,038,644)
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed consolidated interim financial statements should be read in conjunction with the 2017 annual financial statements. The accounting policies adopted in preparing the condensed consolidated interim financial statements for the six months ended 30 June 2018 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of the new/revised standard of Hong Kong Financial Reporting Standards ("HKFRSs") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2018 as described below.

Annual improvements to HKFRSs	2014–2016 Cycle: HKFRS 1 and HKAS 28
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of these amendments to HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years except for HKFRS 9 and HKFRS 15.

HKFRS 9: Financial instruments

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

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

1. Basis of preparation and accounting policies (continued)

On 1 January 2018, the Directors of the Company has assessed which business models apply to the financial assets and liabilities held by the Group at the date of initial application of HKFRS 9 and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Note	Measurement category		Carrying amount	
		Original (HKAS 39)	New (HKFRS 9)	Original RMB'000	New RMB'000
Financial assets					
Investment funds	(a)	Available for sale	Fair value through profit or loss ("FVPL")	504,359	504,359
Equity securities		Available for sale, at fair value	Fair value through other comprehensive income ("FVOCI")	110,722	110,722
Equity securities		Available for sale, at cost	FVOCI	21,971	21,971
Equity securities		Available for sale, at cost	FVPL	1,474	1,474
Trade receivables	(b)	Amortised cost	Amortised cost	1,636,385	1,636,385
Prepayment and other receivables	(b)	Amortised cost	Amortised cost	4,599,397	4,599,397
Cash and cash equivalents	(b)	Amortised cost	Amortised cost	10,284,889	10,284,889
Financial liabilities					
Contingent consideration payable		FVPL	FVPL	5,258	5,258
Derivatives not designated as hedging instruments		FVPL	FVPL	37,448	37,448

Note a: The accumulated investment revaluation reserve of RMB148,150,000 at 1 January 2018 relevant to these investments have been reclassified to retained profits.

Note b: Impairment based on expected credit loss model on these financial assets has no significant financial impacts.

HKFRS 15: Revenue from Contracts with Customers

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

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

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

The adoption of HKFRS 15 did not have any significant impact on recognition of revenue. However, the application of HKFRS 15 results in the additional disclosures in note 2 to the condensed consolidated financial statements.

2. Revenue

The Group has recognised the following amounts relating to revenue in profit or loss:

	<i>Note</i>	January to June 2018 (Unaudited) RMB'000	January to June 2017 (Unaudited) RMB'000
Revenue from contracts with customers	2(a)	30,959,901	28,535,157
Revenue from other sources - Rental income from investment properties		36,243	32,565
		<u>30,996,144</u>	<u>28,567,722</u>

2(a). Disaggregation of revenue

	For the Six Months ended 30 June 2018				Total (Unaudited) RMB'000
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Instant food (Unaudited) RMB'000	Others (Unaudited) RMB'000	
Major products and services					
Sales on instant noodles	11,134,250	—	—	—	11,134,250
Sales on beverages	—	19,147,938	—	—	19,147,938
Sales on bakery	—	—	385,269	—	385,269
Transportation	—	—	—	588,178	588,178
Others	—	—	—	390,743	390,743
	<u>11,134,250</u>	<u>19,147,938</u>	<u>385,269</u>	<u>978,921</u>	<u>31,646,378</u>
Less: Elimination	(352)	(979)	(175)	(684,971)	(686,477)
	<u>11,133,898</u>	<u>19,146,959</u>	<u>385,094</u>	<u>293,950</u>	<u>30,959,901</u>
Timing of revenue recognition:					
Products transferred at a point in time	<u>11,133,898</u>	<u>19,146,959</u>	<u>385,094</u>	<u>293,950</u>	<u>30,959,901</u>

	For the Six Months ended 30 June 2017				Total (Unaudited) RMB'000
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Instant food (Unaudited) RMB'000	Others (Unaudited) RMB'000	
Major products and services					
Sales on instant noodles	10,271,778	—	—	—	10,271,778
Sales on beverages	—	17,536,605	—	—	17,536,605
Sales on bakery	—	—	398,008	—	398,008
Transportation	—	—	—	440,959	440,959
Others	—	—	—	405,641	405,641
	<u>10,271,778</u>	<u>17,536,605</u>	<u>398,008</u>	<u>846,600</u>	<u>29,052,991</u>
Less: Elimination	(327)	(723)	(157)	(516,627)	(517,834)
	<u>10,271,451</u>	<u>17,535,882</u>	<u>397,851</u>	<u>329,973</u>	<u>28,535,157</u>
Timing of revenue recognition:					
Products transferred at a point in time	<u>10,271,451</u>	<u>17,535,882</u>	<u>397,851</u>	<u>329,973</u>	<u>28,535,157</u>

3. Segment information

Segment results

	For the Six Months ended 30 June 2018					
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Instant food (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	Total (Unaudited) RMB'000
Revenue						
Revenue from external customers	11,133,898	19,146,959	385,094	293,950	—	30,959,901
Revenue from other sources	—	—	—	36,243	—	36,243
Inter-segment revenue	352	979	175	735,111	(736,617)	—
Segment revenue	<u>11,134,250</u>	<u>19,147,938</u>	<u>385,269</u>	<u>1,065,304</u>	<u>(736,617)</u>	<u>30,996,144</u>
Segment results after finance cost						
Share of results of associates and joint ventures	62	96,114	(475)	—	—	95,701
Unallocated income, net	—	—	—	3,894	—	3,894
Profit (loss) before taxation	979,873	715,664	(5,206)	306,057	163	1,996,551
Taxation	(312,920)	(177,269)	(2,599)	(15,469)	—	(508,257)
Profit (loss) for the period	<u>666,953</u>	<u>538,395</u>	<u>(7,805)</u>	<u>290,588</u>	<u>163</u>	<u>1,488,294</u>

	For the Six Months ended 30 June 2017					
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Instant food (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	Total (Unaudited) RMB'000
Revenue						
Revenue from external customers	10,271,451	17,535,882	397,851	329,973	—	28,535,157
Revenue from other sources	—	—	—	32,565	—	32,565
Inter-segment revenue	327	723	157	566,177	(567,384)	—
Segment revenue	<u>10,271,778</u>	<u>17,536,605</u>	<u>398,008</u>	<u>928,715</u>	<u>(567,384)</u>	<u>28,567,722</u>
Segment results after finance cost						
Share of results of associates and joint ventures	—	98,383	(3,681)	—	—	94,702
Unallocated income, net	—	—	—	29,630	—	29,630
Profit (loss) before taxation	735,741	582,156	(14,675)	35,991	5,807	1,345,020
Taxation	(203,461)	(243,791)	—	(17,618)	—	(464,870)
Profit (loss) for the period	<u>532,280</u>	<u>338,365</u>	<u>(14,675)</u>	<u>18,373</u>	<u>5,807</u>	<u>880,150</u>

Segment information is prepared 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 assess the performance of reportable segments based on the net profit (loss) for the period and the profit (loss) before taxation, share of results of associates and joint ventures and unallocated income (expenses), net.

3. Segment information (continued)

Segment assets and liabilities

	At 30 June 2018					Total (Unaudited) RMB'000
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Instant food (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	
	Segment assets	17,765,287	29,436,047	770,249	5,930,490	
Interest in associates	—	128,980	—	—	—	128,980
Interest in joint ventures	250	699,481	46,930	—	—	746,661
Unallocated assets						579,962
Total assets						<u>54,457,366</u>
Segment liabilities	6,908,149	17,012,338	251,243	8,923,321	(1,423,777)	31,671,274
Unallocated liabilities						108,458
Total liabilities						<u>31,779,732</u>

Segment assets include all assets with the exception of interest in associates and joint ventures and unallocated assets which include investment funds and equity securities recognised in financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income. Segment liabilities include all liabilities with the exception of employee benefit obligations.

	At 31 December 2017					Total (Audited) RMB'000
	Instant noodles (Audited) RMB'000	Beverages (Audited) RMB'000	Instant food (Audited) RMB'000	Others (Audited) RMB'000	Inter-segment elimination (Audited) RMB'000	
	Segment assets	19,867,771	28,311,010	886,653	8,267,381	
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						<u>54,099,156</u>
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						<u>31,805,112</u>

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.

4. Seasonality of operations

Due to the seasonal nature of the beverages segment, higher revenue is usually expected in the second and third quarters. Higher sales during the period from June to August are mainly attributed to the increased demand for packed beverages during the hot season.

5. Profit before taxation

This is stated after charging:

	April to June 2018 (Unaudited) RMB '000	January to June 2018 (Unaudited) RMB '000	April to June 2017 (Unaudited) RMB '000	January to June 2017 (Unaudited) RMB '000
Finance costs				
Interest on bank and other borrowings wholly repayable within five years	99,151	205,564	129,903	251,753
Interest on bank and other borrowings wholly repayable over five years	8,443	16,951	9,543	18,617
	<u>107,594</u>	<u>222,515</u>	<u>139,446</u>	<u>270,370</u>
Other items				
Depreciation	801,003	1,630,449	890,880	1,795,409
Amortisation	27,357	54,984	25,444	49,903
Impairment loss of property, plant and equipment (included in other operating expense)	34,998	575,249	62,847	73,852
	<u>863,358</u>	<u>2,260,682</u>	<u>979,171</u>	<u>1,919,164</u>

6. Taxation

	April to June 2018 (Unaudited) RMB '000	January to June 2018 (Unaudited) RMB '000	April to June 2017 (Unaudited) RMB '000	January to June 2017 (Unaudited) RMB '000
Current tax – the PRC Enterprise income tax				
Current period	319,044	672,271	194,913	412,617
Deferred taxation				
Origination and reversal of temporary differences, net	(68,648)	(233,988)	(6,327)	1,179
Effect of withholding tax on the distributable earnings of the Group's PRC subsidiaries	50,076	69,974	23,863	51,074
	<u>300,472</u>	<u>508,257</u>	<u>212,449</u>	<u>464,870</u>
Total tax charge for the period	<u>300,472</u>	<u>508,257</u>	<u>212,449</u>	<u>464,870</u>

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 profit subject to Hong Kong Profits Tax for the six months ended 30 June 2018 and 2017.

The applicable PRC enterprise income tax for the PRC subsidiaries is at 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 PRC ("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 a preferential rate of 15% (2016: 15%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends distributed to foreign investors by the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings accumulated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and jurisdiction of the foreign investors. For the Group's PRC subsidiaries, associates and joint ventures, the applicable rate is 10%. Deferred tax liability is provided on 50% of post-2007 net earnings of the Group's PRC subsidiaries that are expected to be distributed in the foreseeable future. The remaining 50% of post-2007 net earnings of the Group's PRC subsidiaries that are not expected to be distributed in the foreseeable future would be subject to additional taxation when they are distributed. Undistributed earnings of the Group's PRC associates and joint ventures are not subject to withholding tax as these companies are held by a PRC subsidiary.

7. Earnings per share

a) Basic earnings per share

	April to June 2018 (Unaudited) RMB'000	January to June 2018 (Unaudited) RMB'000	April to June 2017 (Unaudited) RMB'000	January to June 2017 (Unaudited) RMB'000
Profit attributable to ordinary shareholders (RMB'000)	594,416	1,306,478	266,700	700,204
Weighted average number of ordinary shares ('000)	5,617,196	5,616,614	5,604,798	5,604,651
Basic earnings per share (RMB cents)	10.58	23.26	4.76	12.49

b) Diluted earnings per share

	April to June 2018 (Unaudited) RMB'000	January to June 2018 (Unaudited) RMB'000	April to June 2017 (Unaudited) RMB'000	January to June 2017 (Unaudited) RMB'000
Profit attributable to ordinary shareholders (RMB'000)	594,416	1,306,478	266,700	700,204
<i>Weighted average number of ordinary shares (diluted) ('000)</i>				
Weighted average number of ordinary shares	5,617,196	5,616,614	5,604,798	5,604,651
Effect of the Company's share option scheme	12,585	11,663	2,956	1,943
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,629,781	5,628,277	5,607,754	5,606,594
Diluted earnings per share (RMB cents)	10.56	23.21	4.76	12.49

8. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: nil).

9. Trade receivables

The majority of the Group's sales is cash-on-delivery. The remaining balances of sales are mainly at credit terms ranging from 30 to 90 days. The aging analysis of the 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:

	At 30 June 2018 (Unaudited) RMB'000	At 31 December 2017 (Audited) RMB'000
0 - 90 days	1,820,121	1,517,678
Over 90 days	93,864	118,707
	<u>1,913,985</u>	<u>1,636,385</u>

10. Trade payables

The aging analysis of trade payables based on invoice date at the end of the reporting period is as follows:

	At 30 June 2018 (Unaudited) RMB'000	At 31 December 2017 (Audited) RMB'000
0 - 90 days	7,760,517	6,335,339
Over 90 days	863,999	784,084
	<u>8,624,516</u>	<u>7,119,423</u>

11. Approval of interim financial statements

The interim financial statements of 2018 were approved by the Board of Directors on 27 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro and Industry environment

In the first half of 2018, the Chinese economy continued the development trend of registering a stable performance with good momentum. GDP grew by 6.8% yoy, and per capita disposable income of residents grew steadily. With the continuous advancement of the structural reform on the supply side, the consumer goods market has grown steadily and rapidly. The urban-rural gap has gradually narrowed, and the overall consumption transformation and upgrading trend has continued.

The packaged food and beverage industry in which the Group operates was restored to stability with growth. However, the accelerated consumption upgrade of residents, the fragmented channels, the high prices of some raw materials, and the adjustment of China's tax policy, international trade friction, exchange rate changes and etc. still brought multiple opportunities and challenges for the Group's development.

BUSINESS REVIEW

In the first half of 2018, the Group grew steadily under the established strategy of "consolidation, innovation and development". By persisting in basing the core products on the mass market, the Group ensured stable cash inflows. Given the instant noodle business has now stabilized, the Group started the product structure adjustment in the beverage business and increased the prices of most of the products. Being confronted with the challenge of the industry environment, the Group continued to drive the supply-side reform, improved the utilization rate of production capacity through light asset and asset activation, and the rationalization of supply chain and capacity allocation; improved operational efficiency through organization delayering and process optimization; and actively explored diversified channels, improved cooperation with distributors at all levels, strengthened channel inventory management, and enhanced brand image and promoted sales through IP cooperation, scenario and sport marketing. In addition, the Group embarked on establishing presence in the high-end market with a view to meeting the diversified consumer demand of the middle class in the future. During the period, Master Kong was included in the "National Brand Project" of Xinhua News Agency, which also established the role of the Group in the national brand power strategy.

In the first half of 2018, the Group's revenue increased by 8.50% to RMB30,996 million yoy (year-on-year compared with the corresponding period in 2017). Revenue from instant noodles and beverages increased by 8.40% and 9.19%, respectively, yoy. During the period, prices from key raw material such as PET resin and paper material maintained at high level, the Group continued to modify product mix, and thanked for price adjustment for product upgrade, the Group's gross profit margin increased by 2.13 ppt. to 31.23% yoy. Distribution costs represented 19.90% of the revenue for the period and increased by 0.09 ppt. yoy. EBITDA of the Group increased by 11.88% to RMB3,741 million yoy. Profit attributable to owners of the Company during the period grew by 86.59% to RMB1,306 million. Earnings per share increased by RMB10.77 cents to RMB23.26 cents. If the effects of RMB420 million from the income of activation on assets and RMB575 million of the provision of impairment losses on machinery and equipment are excluded, EBITDA of the Group in the first half of 2018 increased by 16.67% to RMB3,901 million yoy.

INSTANT NOODLE BUSINESS

In the first half of 2018, the Chinese instant noodle market continued the warming trend. According to the data from Nielsen, overall sales volume increased by 5.9% yoy while sales amount grew by 10.1% yoy. In the first half of 2018, the market shares of Master Kong in terms of sales volume and sales amount were 43.7% and 49.4%, respectively, maintained No.1 position.

In the first half of 2018, the Group's revenue from the instant noodle business was RMB11,134 million, which grew by 8.40% yoy, accounting for 35.92% of the total revenue of the Group. During the period, the Group has modified product mix, promoted product upgrade, and thanked for price adjustments in the previous period and the growth of sales volume, gross profit margin of instant noodles increased by 2.31 ppt. to 29.83%. Benefited from the sales growth, improvement of gross profit margin and decline on distribution costs, profit attributable to owners of the Company in the overall instant noodle business increased by 25.30% to RMB667 million. (If the effects of the income of activation on assets and the provision of impairment losses on machinery and equipment are excluded, profit attributable to shareholders of the instant noodle business in the first half of 2018 increased by 57.92% yoy.)

In the first half year, the instant noodle business continued to push forward the multi-price strategy. It consolidated the high-end noodle markets and developed its premium noodles market to adapt to the consumption upgrade and the demand of consumers for healthiness, and met different consumption scenarios through products with multiple specifications, achieving steady growth in sales. Through sport marketing such as marathon and Pingchang Noodle Restaurant, we continued to invigorate the brand. With respect to food safety, we created the instant noodle oil whole process quality control system and innovatively applied the "TGP" indicator to it, and continued to lead the development of the industry by cooperating with the Chinese aerospace industry to convey the safe and healthy image of instant noodles. In the first half year, the instant noodle business continued to activate assets, optimize asset allocation and production layout, control capital expenditures and further drive production line automation.

High-priced noodles

High-priced noodles continued to consolidate core products to ensure the growth of overall performance, met different consumption scenarios with products with multiple specifications, and stimulated consumer demand with new flavors, supplemented with brand marketing, to attract young families and young consumer groups, and achieve sales growth yoy. The price increase of high-end noodle products at the end of last year was successfully accepted by channels. “Roasted Beef” had deep cooperation with Parent-child Animation (親子動漫) to create a family love scene of “Dream Life, This is the Taste (夢想生活,就是這個味兒)”, attracting young family consumer groups with children; and launched a new package of aerospace version, emphasizing the high-quality image recognized by aerospace. “Pickled Mustard” continued to cooperate with Kung Fu Panda to launch offline promotions, which effectively promoted sales and enhanced brand vitality. “Hot Beef/Stir-fired Beef/Pickled Pepper Beef/Spicy Beef” joined hands with the popular game, “Arena of Valor”, to carry out sales promotions to rejuvenate the brand image and boost sales.

Premium Noodles/Innovative Products

In order to adapt to the rapid growth of the high-end market and its demand for health, we continued to strengthen high-end product operation with the premium soup series, and deployed an innovative product layout to attract middle class and young metropolitan consumers, achieving sales growth yoy. Premium soup products such as “Pork Rib”, “Golden Stock” and “Pepper” met consumer demand with “nutritious and delicious” and achieved double-digit year-on-year growth in overall sales by combining sport marketing and media placement. Among them, “Golden Stock” cooperated with the popular TV series, “Old Boy”, to enhance brand awareness. “Pork Rib” disseminated itself through social media such as Weibo and xiaohongshu.com to create “Super Dad with the Same Noodle (超級奶爸同款麵)” with young families as the communication target. “Soup Chef” launched new flavors in the market and met the demand of the middle class for health and quality through flavor enhancement without MSG. Non-fried “DIY noodle” put emphasis on sport marketing and continued to carry out the “Caring Companion Plan” with Lang Ping/Zhu Ting.

Mid-end Noodles/Snack Noodles

Mid-end noodles focused on consolidating the market. The “Jin Shuang Series” met the affordable consumer demand at a moderate price to ensure a leading market share. Snack noodles, “Xiang Bao Cui”, speeded up product upgrading, with new flavors launched taking advantage of the start of school and Children’s day, and cooperated with well-known mobile games to win the favor of young consumers.

BEVERAGE BUSINESS

According to the data from Nielsen, the growth of the beverage industry in China was steady in the first half of 2018. The sales volume and sales amount grew by 3.4% and 5.0%, respectively, yoy in the first half of 2018. In the first half of 2018, the ready-to-drink (RTD) tea (including milk tea) of the Group’s beverage business accounted for a 47.6% market share in terms of sales volume and continued to secure the top ranking position in the market. The fruit juice brands under Master Kong and Tropicana accounted for a market share of 15.4%, ranking No.2 in the market. Market share for bottled water was 10.3%, ranking No.3 in the market for the time being. According to the data from a third party research company, in terms of sales volume, the overall market share of Pepsi carbonated drinks was 31.9% in the first half year, ranking No.2 in the market. The market share of Pepsi Cola was 48.3% in the cola carbonated drinks market, ranking No.1 in the market.

In the first half of 2018, the overall revenue of the beverage business was RMB19,148 million, grew by 9.19% yoy, accounting for 61.78% of the Group’s total revenue. During the period, gross profit margin of the beverage business increased by 2.08 ppt. to 32.13% yoy, mainly due to product upgrade and price adjustments on certain products. Due to revenue growth and gross profit margin improved during the period, the profit attributable to shareholders of the beverage business in the first half of 2018 was RMB369 million, grew by 122.63% yoy. (If the effect of the provision of impairment losses on machinery and equipment is excluded, profit attributable to shareholders of the beverage business in the first half of 2018 increased by 215.55% yoy.)

The beverage business continued to focus on core product categories and products to meet the mass consumption demand, and implemented product structural adjustments to increase prices for most of the products and achieve sales growth in the first half of the year. While consolidating outdoor channels, we drove the development of indoor channels. We invested in brand building and boosted sales through scenario marketing and IP cooperation, etc. We also continued to push forward asset activation and light assets, optimized the supply chain layout, and improved supply chain synergies.

RTD Tea

With consolidating the mass consumption market with core products as a prerequisite, RTD tea promoted product price increases and reduced the medium packaging capacity to meet the consumer demand, and attracted young consumers and household consumer groups through scenario marketing, sport marketing and IP cooperation, which facilitated the year-on-year growth of product category performance. “Master Kong Ice Tea” promoted its brand and increased sales by establishing the NBA championship theme store in Shanghai; and launched the “Toy Story” Tetra Pak through IP cooperation to attract spending by young families and parents. It also attracted young consumer groups through IP cooperation with “Monster Hunt 2” and “Produce 101” to achieve overall sales growth. “Green Tea” launched IP cooperation with Tencent’s animation, “Douro Mainland”, to expand consumer groups. The “Jasmine Series” continued its romantic scenario marketing, and joined hands with Tencent QQ Music to launch a music confession bottle to attract young consumers. The Milk Tea Series promoted sales growth through the new flavor of “Cheese Milk Tea” and festival occasion marketing.

Bottled Water

Based on the multiple price range strategy, the product structure was adjusted in response to the consumption upgrade, and the needs of different consumption scenarios were met with multiple specifications. “Master Kong bottled drinking water” was upgraded and its price was increased. The reassuring quality of water produced by the “eight processes with national patents” was emphasized and a large package was launched to expand the household demand. With its NSF-certified-internationally high quality, “Youyue” continued to attract white-collar consumer groups. In the first half year, high-end product natural mineral water, “Han Yang Quan”, was launched, highlighting its high quality and cultural attributes, and became the designated water for “NPC & CPPCC Special Interview with Xinhuanet in 2018 (新華網2018全國兩會特別訪談)” and “Shenzhen Cultural Expo (深圳文化博覽會)” to attract middle and high-end consumers.

Carbonated Drinks

Carbonated drinks continued to introduce new specifications such as new packaging, new flavors and sleek cans, and carried out full channel construction and expanded into low-tier cities. They also focused on different marketing themes and communicated with consumers in a targeted manner to achieve steady growth in sales. “Pepsi” launched the theme of “Love it, Live it” in summer to convey the brand spirit of unbridled love and pursuing dreams to consumers and enhanced sales. Through the creative animation bottle body and the new flavor of lychee and online sales, “Mirinda” enhanced the brand image of “Mess with Your Senses” to attract young consumers. “7 up” deeply operated the food and beverage channel and occupied the lemon-flavored carbonated market through “2018 Limited Can” and “7 up Mixing Drink”.

Juice Drinks

We adjusted product prices of some products to adapt to the trend of consumption upgrading, continued to consolidate our leading position in Chinese style juice drinks and promoted the sales of Western-style juice products by introducing new flavors, creating consumption scenarios and expanding catering channels. Chinese style juice drink “Rock Candy Pear” with its new flavor of rock candy pomelo and multiple specification packaging strengthened its penetration into the catering channels. “The Tradition Sweet-Sour Plum Juice”, with its Chinese classic drink image, continued to meet the demands in the catering channels. Western style juice drink “Master Kong Juices” focused on promoting large-package sales during festive scenarios. “Light Fruits (輕養果薈)” launched the new flavor of “Peach Flavor Drink” to attract new white-collar workers. “Tropicana” launched the new flavor of pineapple lemon, upgraded the product packaging, and used a variety of specifications to meet the needs of different consumption scenarios such as dining together and take-out and promote sales growth.

Functional Drinks/Probiotics Drinks/Coffee Drinks

Functional drink “Gatorade” continued to build the first brand image of sports drinks, further established the link between products and sport scenarios, used the new theme “Nothing Beats Gatorade” to communicate with consumers, and enhanced consumer viscosity through co-branded marketing activities comprising sports events, sports venues and mobile phone sports software to increase sales.

“Wei Chuan Ambient Probiotics Drink” met the demand of consumers for nutrition and quality. Positive and healthy growth in sales was achieved in a variety of ways: While consolidating the advantageous areas, we actively developed the potential areas; actively deployed new channels and accelerated the development of the dairy channels; met the differentiated scenario demand through festive gift box packaging; and actively planned new flavors subsequent to the original and strawberry flavors.

We continued to expand in China's RTD coffee market, led the development of the premium market in cooperation with our international strategic partner Starbucks, and used "Bernachon coffee" to expand the room temperature mid-high priced market so as to maintain sustained sales growth. Starbucks continued to launch new products. The "Frappuccino" series introduced a new low-fat and reduced-sugar product called "Starbucks Light Frappuccino-Vanilla Flavor". In the second quarter, the new canned "Doubleshot" series was launched to attract young white-collar workers with four flavors; and to accelerate regional expansion and focus on the development of the e-commerce and special channels. "Bernachon coffee" met consumer demands with various flavors, and promoted its professional brand image using the precision marketing model to promote sales growth.

INSTANT FOOD BUSINESS

According to the data from Nielsen, overall sales volume of the biscuit market for the first half of 2018 decreased by 0.2% yoy, sales amount increased by 5.2% yoy, of which sales volume of sandwich crackers decreased by 1.8% and sales amount increased by 6.8% yoy. In terms of sales amount, the market share of Master Kong egg rolls increased to 24.5% and ranked No.1 in the market. The market share of sandwich crackers was 10.3% and ranked No.2 in the market.

In the first half of 2018, revenue of the instant food business was RMB385 million, which dropped by 3.20% yoy and amounted to 1.24% of the Group's total revenue. Gross profit margin increased by 1.17 ppt. to 35.41%. Thanked for the savings from distribution costs and administrative expenses, the loss attributable to owners of instant food business narrowed to RMB7.81 million, improved by 46.81% yoy.

In the first half year, the instant food business actively promoted the established strategy, and continued to focus on its core operation of cake and cracker product categories, introduced products of multiple specifications to cater to different consumption occasions, and focused on demands for healthy diet among middle-class. Emerging channels were vigorously established, and dealers' choices were optimized. Product price adjustment was implemented gradually. Cost refinement projects were launched and product line automated transformation was accelerated, so as to reduce the stress from increasing raw material prices. Master Kong's "3+2 sandwich crackers" continued to promote small package products to meet consumers' consumption needs for small amount, diverse and higher frequency, and enjoyed steady growth, especially the "3+2 wheat germ sandwich crackers" targeting middle-class consumers continued to develop steadily.

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 30 June 2018, the Group's cash and bank deposits totalled RMB12,319 million, an increase of RMB2,034 million from 31 December 2017. A sufficient amount of cash holding was still maintained. As at 30 June 2018, the Group's total assets and total liabilities amounted to approximately RMB54,457 million and RMB31,780 million respectively. This showed an increase in RMB358 million and a decrease in RMB25 million respectively compared to 31 December 2017. The debt ratio decreased by 0.43 ppt. to 58.36% compared to 31 December 2017. Gearing ratio was dropped to -7.08% from 22.26% as at 31 December 2017.

As at 30 June 2018, the Group's total interest bearing borrowings was RMB10,992 million which decreased by RMB3,392 million from 31 December 2017. At the end of the reporting period, the Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 79% and 21% 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 51% and 49% respectively, as compared to 46% and 54% respectively as at 31 December 2017. In line with the Group's overall strategy of cash being the king, The Group 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. 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 period, Renminbi appreciated against US dollar by 2.57%, due to the fluctuation of exchange rate, realized/unrealized exchange gains of RMB40.56 million has been recognized in the Group's income statement from January to June 2018.

Financial Ratio

	As at 30 June 2018	As at 31 December 2017
Finished goods turnover	13.77 Days	11.31 Days
Trade receivables turnover	10.37 Days	9.99 Days
Current ratio	0.83 Times	0.79 Times
Debt ratio (Total liabilities to total assets)	58.36%	58.79%
Gearing ratio (Net debt to equity attributable to owners of the Company)	-7.08%	22.26%

HUMAN RESOURCES

As of 30 June 2018, the Group had 54,458 employees (30/06/2017: 60,449 employees). The Group continued to focus on strategic talent layout and talent development. Through various means such as talent localization, management rejuvenation and talent diversification, the Group promoted the improvement of the “quality” of human resources in order to adapt well to the delayed organization.

In terms of talent management, we optimized the echelon construction of strategic talents, supplemented with scientific selection and differentiated training. At the same time, we accelerated the training of talents at the basic level, introduced young and diverse talents, and carried out case-based teaching through online and offline training. In respect of the talent pool in schools, the Group implemented the “Young Master Talent Reserve” project, members of the 2018 session have already commenced their job rotational trainings. The Group also adhered to the guiding spirit of the 19th National Congress of the CPC regarding the cooperation between schools and enterprises, continued enhancing the cooperation with key universities and medium level vocational training schools nationwide, and introduced and trained talents for marketing companies and supply chain.

CORPORATE SOCIAL RESPONSIBILITY

The Group persisted in achieving corporate social responsibility, committing to providing consumers with safe, convenient and delicious products, and contributing to the country and national development.

The Group adhered to the strict food safety standards and actively promoted popular science education on food safety. The cooperation between Master Kong and the Chinese aerospace industry has accelerated the process of Master Kong meeting the quality standard of aerospace. The Group will also take this as an opportunity to cooperate with the Chinese aerospace industry in organizing national popular science exhibitions. The Group also continued to promote food safety popular science through activities such as production line visits, community and campus publicity.

In response to the government’s energy conservation and environmental protection policy, the Group continued to promote a number of energy conservation and emission reduction projects, and actively contributed its efforts to environmental protection education. The Group has promoted the “Water Education” programme together with the China Beverage Industry Association for the fourth consecutive year, provided popular science education in Shanghai schools, and carried out publicity by combining the concepts of drinking water treatment technology, water source protection and water conservation. The Group also organized environmental protection public welfare activities such as Chongqing Earth Protection Day.

The Group values the inheritance of the Chinese traditional culture. In Shanghai, we cooperated with primary schools to promote the inheritance of the Chinese traditional poetry culture and the spirit of Chinese studies, and let the public feel the determination of Master Kong to promote the Chinese food culture.

With respect to poverty alleviation, in response to the government’s call, the Group engaged in donation services and community condolence, and continued to contribute to solving the issues relating to the agriculture, rural areas, and rural people. Continued efforts were made in updating the agricultural technology through assistance in farmers’ planting, strict control of quality at the origin and supervision over inspection. The Group was granted the Poverty Alleviation Award of the Year at the Twelfth People’s Corporate Social Responsibility Awards.

The Group also gave back to the education sector. It promoted the “Master Kong Dream Scholarship Project” organized jointly with Waseda University, such project subsidized outstanding undergraduate students from 5 top universities in the country, comprising Peking University, Shanghai Jiao Tong University for an exchange program in Japan. The Group also promoted the Practice Training Program in cooperation with the Tsinghua University Schwarzman Scholars.

PROSPECTS

Under a volatile international environment, the Chinese economy is expected to experience changes amidst stability in the second half of 2018. It is anticipated that the packaged food and beverage industry will continue to develop. However, the Group still faces a series of challenges such as high prices of some raw materials, variable consumer demand and fragmentation of channels. The Group insists on leading the industry upgrade. Through the implementation of the established strategy, it is expected that the instant noodle business will have stable performance with good momentum. The beverage business will still face the challenge of structural adjustment.

The Group will still persist in the multiple price range strategy and product structure adjustment. It will strive for making progress while maintaining stability, and with consolidating the mass consumption market as a prerequisite, will gradually establish presence in the high-end market, with a view to juggling both short-term and medium- and long-term development. The Group will continue to invest in brand building, implement diverse sales channels, strengthen the partnership with wholesalers and dealers, and optimize channel inventory to promote sales growth.

To respond to the high prices of some raw materials, the Group will relieve profit pressure through such manners as the improvement of formulae and the adjustment of package capacity. It will continue to implement the supply-side reform, and with the protection of free cash flow as a prerequisite, optimize capacity layout through asset-light, activation on asset, increase supply chain synergies, increase capacity utilization and control capital expenditures. In addition, the Group will raise operational efficiency through organizational transformation and upgrade as well as cost control, and constantly optimize its process, simplify its management, accelerate the progress of information digitalization, utilize internet empowerment and set up the service sharing mechanism during this process.

Food safety will remain a prerequisite for the Group's development. The Group will further promote the research and development of food safety technology and increase investment in food safety by taking aerospace cooperation as an opportunity, and will pay attention to health appeals brought by the consumption upgrade.

Taking being selected into the National Brands Project of Xinhua News Agency as an opportunity, the Group will fulfill the needs of people's lives as our business fundamental, serve the demands of the middle class as the long-term development goal and win together with our customers and partners as the foundation for success. With the idea and conviction of being rooted in the China market, the Group will promote the upgrade and improvement of the packaged food and beverage industry in China.

CORPORATE GOVERNANCE

The Company has, throughout the period ended 30 June 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 of the CG Code. The reason for the deviation is explained below.

Code provision A.4.1

Code provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from this provision because the Non-Executive Directors and Independent Non-Executive Directors of the Company do not currently have specific terms of appointment. However, the articles of association of the 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 the 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.

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 Audit Committee. The latest meeting of the Audit Committee was held to review the results of the Group for the period under review.

Internal Control and Risk Management

The principal spirit of internal control procedure established by the Company is compliance with five elements in COSO structure, i.e. environment monitoring, risk assessment, control, information and communication, and monitoring and assessment. The expected objective is to define the management structure and authorization so as to enhance the achievement of operating performance and operational efficiency as well as asset safety protection, to ensure the reliability of financial report while in compliance with the requirements of national regulations.

The Audit Committee will assist the Board in reviewing the design and operational effectiveness of the risk management and internal control system of the Group. Under the supervision of the Board, the Company has established a clear structural organization and line of responsibility and authority. As of 30 June 2018, we completed the improvement and compliance supervision of internal control diagnosis and approval authorization in respect of finance and operation. According to the review of internal control and audit department, we have not identified any material deficiency in internal control and risk management.

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 as its own code of conduct regarding Directors’ securities transactions. 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 period under review.

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 period under review.

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 six months ended 30 June 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 six months ended 30 June 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\$	Balance as at 1 January 2018	Number of share option			Balance as at 30 June 2018	Weighted average closing price immediately before exercise HK\$	Note
					Granted during the period	Exercised during the period	Cancelled/ lapsed during the period			
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	—	809,000	718,000	2,618,000	16.38	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	—	—	—	7,588,000	—	Table A (6)
	17 April 2014	22.38	22.35	8,484,000	—	—	—	8,484,000	—	Table A (7)
	5 June 2015	16.22	15.92	11,754,000	—	690,000	—	11,064,000	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	—	4,549,000	2,545,000	89,791,000			

For the period of six months ended 30 June 2018, 4,549,000 options had been exercised under the 2008 Share Option Scheme. Weighted average exercise price was HK\$10.30 and the weighted average market closing price before the date of exercise was HK\$16.22.

(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 six months ended 30 June 2018 pursuant to the 2018 Share Option Scheme: (Table D)

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 30 June 2018	Weighted average closing price immediately before exercise HK\$	Note
				Balance as at 1 January 2018	Granted during the period	Exercised during the period	Cancelled/lapsed during the period			
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	—	483,000	—	—	483,000	—	Table C (1b)
Director of a subsidiary										
Wei Hong-Chen	27 April 2018	16.18	15.02	—	483,000	—	—	483,000	—	Table C (1b)
Chief Executive Officer										
James Chun-Hsien	27 April 2018	16.18	15.02	—	2,478,000	—	—	2,478,000	—	Table C (1a)
Wei	27 April 2018	16.18	15.02	—	27,000	—	—	27,000	—	Table C (1b)
Other employees in aggregate										
	27 April 2018	16.18	15.02	—	4,163,000	—	—	4,163,000	—	Table C (1b)
Total				—	8,104,000	—	—	8,104,000	—	

During the six months ended 30 June 2018, no share options were exercised under the terms of the 2018 Share Option Scheme.

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. Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada are Independent Non-executive Directors.

By Order of the Board
Wei Ing-Chou
Chairman

Shanghai, the PRC, 27 August 2018

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

* For identification purpose only