

康師傅控股

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

康師傅控股有限公司*

Stock Code: 0322

2021

INTERIM REPORT

欢乐饮食 美好生活
Life + Delicacy



Incorporated in Cayman Islands with Limited Liability
* For identification purposes only

SUMMARY

RMB'000	For the six months ended 30 June		
	2021	2020	Change
• Revenue	35,395,833	32,934,421	↑ 7.47%
• Gross margin	31.05%	33.43%	↓ 2.38 ppt.
• Gross profit of the Group	10,991,819	11,009,724	↓ 0.16%
• EBITDA	4,517,006	5,166,659	↓ 12.57%
• Profit for the period	2,406,388	2,653,381	↓ 9.31%
• Profit attributable to owners of the Company	2,035,214	2,380,431	↓ 14.50%
• Earnings per share (RMB cents)			
Basic	36.18	42.33	↓ 6.15 cents
Diluted	36.14	42.28	↓ 6.14 cents

As at 30 June 2021, cash and cash equivalents was RMB23,096.761 million, representing an increase of RMB1,665.608 million when compared to 31 December 2020. Gearing ratio was -40.39%.

2021 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 2021 together with the comparative figures for the corresponding period in 2020. 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 Six Months Ended 30 June 2021

	<i>Note</i>	January to June 2021 (Unaudited) RMB'000	January to June 2020 (Unaudited) RMB'000
Revenue	2	35,395,833	32,934,421
Cost of sales		(24,404,014)	(21,924,697)
Gross profit		10,991,819	11,009,724
Other revenue		364,516	307,200
Other net income		725,558	342,648
Distribution costs		(7,582,302)	(6,499,889)
Administrative expenses		(1,178,630)	(1,128,172)
Other operating expenses		(113,059)	(277,379)
Finance costs	4	(112,504)	(214,470)
Share of results of associates and joint ventures		119,441	125,424
Profit before taxation	4	3,214,839	3,665,086
Taxation	5	(808,451)	(1,011,705)
Profit for the period		<u>2,406,388</u>	<u>2,653,381</u>
Profit attributable to:			
Owners of the Company		2,035,214	2,380,431
Non-controlling interests		371,174	272,950
Profit for the period		<u>2,406,388</u>	<u>2,653,381</u>
Earnings per share	6	<i>RMB</i>	<i>RMB</i>
Basic		36.18 cents	42.33 cents
Diluted		36.14 cents	42.28 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2021

	January to June 2021 (Unaudited)	January to June 2020 (Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	2,406,388	2,653,381
Other comprehensive income (loss)		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Exchange differences on consolidation	152,840	(165,860)
	152,840	(165,860)
Other comprehensive income (loss) for the period	152,840	(165,860)
	152,840	(165,860)
Total comprehensive income for the period	2,559,228	2,487,521
Total comprehensive income attributable to:		
Owners of the Company	2,178,930	2,217,252
Non-controlling interests	380,298	270,269
	2,559,228	2,487,521

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		At 30 June 2021	At 31 December 2020
	<i>Note</i>	(Unaudited) RMB'000	(Audited) RMB'000
ASSETS			
Non-current assets			
Investment properties		1,806,800	1,771,700
Property, plant and equipment		21,633,124	21,934,571
Right-of-use assets		3,762,163	3,804,456
Intangible assets		177,085	165,668
Goodwill		97,910	97,910
Interest in an associate		89,412	94,802
Interest in joint ventures		666,068	627,031
Financial assets at fair value through profit or loss		555,192	1,329,479
Equity instruments designated as at fair value through other comprehensive income		139,044	140,444
Deferred tax assets		368,115	429,027
Long-term time deposits		5,171,900	2,435,000
		34,466,813	32,830,088
Current assets			
Inventories		4,071,484	3,347,676
Trade receivables	8	2,112,477	1,660,389
Tax recoverable		29,910	21,194
Prepayments and other receivables		2,364,710	2,240,898
Financial assets at fair value through profit or loss		96,000	—
Pledged bank deposits		31,279	37,832
Bank balances and cash		23,065,482	21,393,321
		31,771,342	28,701,310
Total assets		66,238,155	61,531,398

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		At 30 June 2021	At 31 December 2020
	<i>Note</i>	(Unaudited)	(Audited)
		<i>RMB'000</i>	<i>RMB'000</i>
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	9	235,510	235,422
Share premium		753,143	730,075
Reserves		18,262,301	20,147,227
Total capital and reserves attributable to owners of the Company		19,250,954	21,112,724
Non-controlling interests		3,554,637	3,626,659
Total equity		22,805,591	24,739,383
Non-current liabilities			
Long-term interest-bearing borrowings	10	8,815,621	7,805,122
Lease liabilities		201,188	215,609
Employee benefit obligations		83,363	122,166
Deferred tax liabilities		1,577,587	1,577,110
		10,677,759	9,720,007
Current liabilities			
Financial liabilities at fair value through profit or loss		9,959	9,959
Trade payables	11	9,412,232	8,146,974
Other payables and deposits received		14,145,011	10,079,278
Current portion of interest-bearing borrowings	10	6,506,615	5,891,412
Other current liabilities		40,000	40,000
Lease liabilities		146,362	101,191
Advance payments from customers		2,035,886	2,360,954
Taxation		458,740	442,240
		32,754,805	27,072,008
Total liabilities		43,432,564	36,792,015
Total equity and liabilities		66,238,155	61,531,398
Net current (liabilities) assets		(983,463)	1,629,302

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2021

	Attributable to owners of the Company					
	Issued capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Reserves (Unaudited) RMB'000	Total capital and reserves (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total Equity (Unaudited) RMB'000
At 1 January 2020	235,401	724,384	18,618,789	19,578,574	3,467,533	23,046,107
Profit for the period	—	—	2,380,431	2,380,431	272,950	2,653,381
Other comprehensive loss						
Exchange differences on consolidation	—	—	(163,179)	(163,179)	(2,681)	(165,860)
Total other comprehensive loss	—	—	(163,179)	(163,179)	(2,681)	(165,860)
Total comprehensive income for the period	—	—	2,217,252	2,217,252	270,269	2,487,521
Transactions with owners of the Company						
<i>Contributions and distribution</i>						
Equity settled share-based transactions	—	—	10,916	10,916	—	10,916
Shares issued under share option scheme	7	1,816	(450)	1,373	—	1,373
2019 final and special dividend approved and paid	—	—	(3,330,981)	(3,330,981)	(365,506)	(3,696,487)
	7	1,816	(3,320,515)	(3,318,692)	(365,506)	(3,684,198)
<i>Changes in ownership interests</i>						
Change in ownership interest in a subsidiary without change in control	—	—	(3,086)	(3,086)	(17,423)	(20,509)
Total transactions with owners of the Company	7	1,816	(3,323,601)	(3,321,778)	(382,929)	(3,704,707)
At 30 June 2020	235,408	726,200	17,512,440	18,474,048	3,354,873	21,828,921

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2021

	Attributable to owners of the Company			Total capital and reserves (Unaudited) RMB'000	Non- controlling interests (Unaudited) RMB'000	Total Equity (Unaudited) RMB'000
	Issued capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Reserves (Unaudited) RMB'000			
At 1 January 2021	235,422	730,075	20,147,227	21,112,724	3,626,659	24,739,383
Profit for the period	—	—	2,035,214	2,035,214	371,174	2,406,388
Other comprehensive income						
Exchange differences on consolidation	—	—	143,716	143,716	9,124	152,840
Total other comprehensive income	—	—	143,716	143,716	9,124	152,840
Total comprehensive income for the period	—	—	2,178,930	2,178,930	380,298	2,559,228
Transactions with owners of the Company						
<i>Contributions and distribution</i>						
Equity settled share-based transactions	—	—	3,734	3,734	—	3,734
Shares issued under share option scheme	88	23,068	(5,327)	17,829	—	17,829
2020 final and special dividend approved	—	—	(4,062,263)	(4,062,263)	(452,320)	(4,514,583)
Total transactions with owners of the Company	88	23,068	(4,063,856)	(4,040,700)	(452,320)	(4,493,020)
At 30 June 2021	235,510	753,143	18,262,301	19,250,954	3,554,637	22,805,591

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2021

	January to June 2021 (Unaudited) RMB'000	January to June 2020 (Unaudited) RMB'000
OPERATING ACTIVITIES		
Cash generated from operations	3,539,355	6,657,683
The People's Republic of China ("PRC") enterprise income tax paid	(738,549)	(747,569)
Interest paid	(109,252)	(214,470)
Net cash from operating activities	<u>2,691,554</u>	<u>5,695,644</u>
INVESTING ACTIVITIES		
Interest received	364,516	307,200
Increase in long-term time deposits	(2,736,900)	(850,000)
Proceeds from disposal of financial assets at fair value through profit or loss	859,263	13,911
Purchase of property, plant and equipment	(1,177,816)	(804,406)
Purchase of right-of-use assets	—	(56,843)
Net cash inflow on disposal of subsidiaries	87,875	103,050
Others	365,861	(432,662)
Net cash used in investing activities	<u>(2,237,201)</u>	<u>(1,719,750)</u>
FINANCING ACTIVITIES		
Dividends paid to non-controlling interests	(452,320)	(369,108)
Payments of lease liabilities	(92,984)	(103,711)
Proceeds from bank borrowings	6,482,376	7,772,727
Repayments of bank borrowings	(4,739,021)	(5,386,345)
Others	17,829	(19,136)
Net cash from financing activities	<u>1,215,880</u>	<u>1,894,427</u>
Net increase in cash and cash equivalents	1,670,233	5,870,321
Cash and cash equivalents at 1 January	21,431,153	17,430,387
Effect on exchange rate changes	(4,625)	6,604
Cash and cash equivalents at 30 June	<u><u>23,096,761</u></u>	<u><u>23,307,312</u></u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	23,065,482	23,224,810
Pledged bank deposits	31,279	82,502
	<u><u>23,096,761</u></u>	<u><u>23,307,312</u></u>

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 2020 annual financial statements. The accounting policies adopted in preparing the condensed consolidated interim financial statements for the six months ended 30 June 2021 are consistent with those in the preparation of the Group’s annual financial statements for the year ended 31 December 2020, except for the adoption of the new/revised 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 2021 as described below.

Amendments to HKAS 39, Interest Rate Benchmark Reform — Phase 2
HKFRSs 4, 7, 9 and 16

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.

2. Segment information

Segment results

	For the Six Months ended 30 June 2021				
	Instant noodles (Unaudited) RMB’000	Beverages (Unaudited) RMB’000	Others (Unaudited) RMB’000	Inter-segment elimination (Unaudited) RMB’000	Total (Unaudited) RMB’000
Revenue					
Revenue from contract with customers	12,717,429	22,274,328	364,347	—	35,356,104
Timing of revenue recognition:					
Recognised at a point in time	12,717,429	22,274,328	364,347	—	35,356,104
Revenue from other sources:					
Rental income from investment properties	—	—	39,729	—	39,729
Inter-segment revenue	4,810	1,174	440,234	(446,218)	—
Segment revenue	12,722,239	22,275,502	844,310	(446,218)	35,395,833
Segment results after finance costs	1,193,435	1,911,082	(10,441)	693	3,094,769
Share of results of an associate and joint ventures	583	129,815	(10,957)	—	119,441
Unallocated expenses, net	—	—	629	—	629
Profit (loss) before taxation	1,194,018	2,040,897	(20,769)	693	3,214,839
Taxation	(298,419)	(487,340)	(22,692)	—	(808,451)
Profit (loss) for the period	895,599	1,553,557	(43,461)	693	2,406,388

2. Segment information (Continued)

	For the Six Months ended 30 June 2020				
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	Total (Unaudited) RMB'000
Revenue					
Revenue from contract with customers	14,905,255	17,603,780	383,541	—	32,892,576
Timing of revenue recognition:					
Recognised at a point in time	14,905,255	17,603,780	325,095	—	32,834,130
Recognised over time	—	—	58,446	—	58,446
	14,905,255	17,603,780	383,541	—	32,892,576
Revenue from other sources:					
Rental income from investment properties	—	—	41,845	—	41,845
Inter-segment revenue	5,007	12,840	800,498	(818,345)	—
Segment revenue	14,910,262	17,616,620	1,225,884	(818,345)	32,934,421
Segment results after finance costs	2,321,078	1,351,220	(141,993)	9,381	3,539,686
Share of results of an associate and joint ventures	44	131,361	(5,981)	—	125,424
Unallocated income, net	—	—	(24)	—	(24)
Profit (loss) before taxation	2,321,122	1,482,581	(147,998)	9,381	3,665,086
Taxation	(627,062)	(371,277)	(13,366)	—	(1,011,705)
Profit (loss) for the period	1,694,060	1,111,304	(161,364)	9,381	2,653,381

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 and resources allocation based on the net profit for the period and the profit (loss) before taxation, share of results of an associate and joint ventures and unallocated income (expenses), net.

2. Segment information (Continued)

Segment assets and liabilities

	At 30 June 2021				
	Instant noodles	Beverages	Others	Inter-segment	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	21,675,933	36,305,260	8,146,412	(1,339,166)	64,788,439
Interest in an associate	—	89,412	—	—	89,412
Interest in joint ventures	958	659,699	5,411	—	666,068
Unallocated assets					694,236
Total assets					<u>66,238,155</u>
Segment liabilities	7,173,922	22,281,405	14,999,886	(1,106,012)	43,349,201
Unallocated liabilities					83,363
Total liabilities					<u>43,432,564</u>

	At 31 December 2020				
	Instant noodles	Beverages	Others	Inter-segment	Total
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	25,182,638	31,152,963	5,007,269	(2,003,228)	59,339,642
Interest in an associate	—	94,802	—	—	94,802
Interest in joint ventures	375	598,337	28,319	—	627,031
Unallocated assets					1,469,923
Total assets					<u>61,531,398</u>
Segment liabilities	9,073,005	16,942,691	12,413,035	(1,758,882)	36,669,849
Unallocated liabilities					122,166
Total liabilities					<u>36,792,015</u>

Segment assets include all assets with the exception of interest in an associate 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 equity instruments designated as at fair value through other comprehensive income. Segment liabilities include all liabilities with the exception of employee benefit obligations.

3. 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.

4. Profit before taxation

This is stated after charging:

	January to June 2021 (Unaudited) RMB'000	January to June 2020 (Unaudited) RMB'000
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	101,196	192,756
Interest on bank and other borrowings wholly repayable over five years	2,867	11,063
Finance costs on lease liabilities	8,441	10,651
	112,504	214,470
Other items		
Depreciation	1,550,359	1,591,043
Amortisation	3,820	3,260
Impairment loss of property, plant and equipment (included in other operating expense)	—	61,603
	—	61,603

5. Taxation

	January to June 2021 (Unaudited) RMB'000	January to June 2020 (Unaudited) RMB'000
Current tax		
Current period	634,835	884,364
Deferred taxation		
Origination and reversal of temporary differences, net	45,256	(23,965)
Effect of withholding tax on the distributable earnings of the Group's PRC subsidiaries	128,360	151,306
	808,451	1,011,705
Total tax charge for the period	808,451	1,011,705

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

For the six months ended 30 June 2021, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax regime. Under the two-tiered profits tax regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5% (2020: For the six months ended 30 June 2020, Hong Kong Profits Tax has not been provided as the Group's entities had no assessable profit subject to Hong Kong Profits Tax).

The statutory PRC Enterprise Income Tax for the PRC subsidiaries is 25% (2020: 25%). According to the Tax Relief Notice (Cai Shui [2020] no.23) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Taxation Administration and National Development and Reform Commission, foreign investment enterprises located in the western region of the PRC (the "Western Region") with over 60% (2020: 70%) of principal revenue generated from the encouraged business activities are continuously entitled to a preferential income tax rate of 15% from 1 January 2021 to 31 December 2030. Accordingly, certain subsidiaries located in the Western Region are entitled to an income tax rate of 15% (2020: 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 the PRC and jurisdiction of the foreign investors. For the Group's PRC subsidiaries, the applicable rate is 5% (2020: 5%). Deferred tax liability is provided on the basis that the undistributed earnings of the Group's entities are expected to be distributed in the foreseeable future. The remaining 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.

6. Earnings per share

a) Basic earnings per share

	January to June 2021 (Unaudited)	January to June 2020 (Unaudited)
Profit attributable to ordinary equity shareholders (RMB'000)	2,035,214	2,380,431
Weighted average number of ordinary shares ('000)	5,625,354	5,623,861
Basic earnings per share (RMB cents)	36.18	42.33

b) Diluted earnings per share

	January to June 2021 (Unaudited)	January to June 2020 (Unaudited)
Profit attributable to ordinary equity shareholders (RMB'000)	2,035,214	2,380,431
<i>Weighted average number of ordinary shares (diluted) ('000)</i>		
Weighted average number of ordinary shares	5,625,354	5,623,861
Effect of the Company's share option scheme	6,051	5,996
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,631,405	5,629,857
Diluted earnings per share (RMB cents)	36.14	42.28

7. Dividend

Dividend payable to owners of the Company attributable to the period:

	January to June 2021 (Unaudited) RMB'000	January to June 2020 (Unaudited) RMB'000
Special interim dividend proposed after the end of the reporting period of US6.88 cents (2020: Nil) per ordinary share	2,500,000	—

At meeting held on 23 August 2021, the directors approved the payment of a special interim dividend of US6.88 cents per ordinary share. The special interim dividend has not been recognised as dividends payable in the condensed consolidated statement of financial position.

8. Trade receivables

The majority of the Group's sales is cash-before-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 loss allowance) based on invoice date, at the end of the reporting period is as follows:

	At 30 June 2021 (Unaudited) RMB '000	At 31 December 2020 (Audited) RMB '000
0 - 90 days	1,984,166	1,579,741
Over 90 days	128,311	80,648
	2,112,477	1,660,389

9. Issued capital

	At 30 June 2021 (Unaudited)			At 31 December 2020 (Audited)		
	No. of shares	US\$'000	Equivalent to RMB'000	No. of shares	US\$'000	Equivalent to RMB'000
Authorised:						
Ordinary shares of US\$0.005 each	7,000,000,000	35,000		7,000,000,000	35,000	
Issued and fully paid:						
At the beginning of the period/year	5,624,386,360	28,123	235,422	5,623,786,360	28,120	235,401
Shares issued under share option scheme	2,740,000	14	88	600,000	3	21
At the end of the reporting period	5,627,126,360	28,137	235,510	5,624,386,360	28,123	235,422

During the reporting period, 2,740,000 options were exercised to subscribe for 2,740,000 ordinary shares of the Company at a total consideration of RMB17,829,000 of which RMB88,000 was credited to share capital and the balance of RMB17,741,000 was credited to the share premium account. In addition, RMB5,327,000 has been transferred from the share-based payment reserve to the share premium account.

10. Interest-bearing borrowings

	At 30 June 2021	At 31 December 2020
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
The maturity of the interest-bearing borrowings:		
Within one year	6,506,615	5,891,412
In the second year	4,276,968	2,655,588
In the third year to the fifth years, inclusive	4,538,653	5,065,216
Over five years	—	84,318
	15,322,236	13,696,534
Portion classified as current liabilities	(6,506,615)	(5,891,412)
	8,815,621	7,805,122
Non-current portion	8,815,621	7,805,122

The interest-bearing borrowings consist of secured bank loans, unsecured bank loans and unsecured notes.

The carrying value of the unsecured notes issued by the Company on 24 September 2020 (the “Notes”) at the end of the reporting period is US\$495,535,000 (equivalent to approximately RMB3,199,075,000) (2020: US\$495,032,000 (equivalent to approximately RMB3,228,004,000)) and is included in the interest-bearing borrowings with maturity in the third to fifth years (2020: in the third to fifth years). The Notes are listed on the Singapore Exchange Securities Trading Limited. The fair value of the Notes as at 30 June 2021, based on the quoted market price, was US\$493,400,000 (equivalent to approximately RMB3,185,292,000) (2020: US\$498,165,000 (equivalent to approximately RMB3,248,434,000)).

During the six months ended 30 June 2021, the Group obtained bank loans in aggregate amount of RMB6,482,376,000 (2020: RMB7,772,727,000), repayments of bank loans amounting to RMB4,739,021,000 (2020: RMB5,386,345,000) were made in line with previously disclosed repayment term.

11. 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 2021	At 31 December 2020
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	8,666,678	7,243,120
Over 90 days	745,554	903,854
	9,412,232	8,146,974
	9,412,232	8,146,974

12. Disposal of subsidiaries

During the period, the Group entered into three sale and purchase agreements with an independent third party for the disposal of the partial equity interests in three subsidiaries at an aggregate consideration of approximately RMB144,000,000. The disposals were completed before March 2021. The net assets of subsidiaries at the date of disposal were amounting to approximately in aggregate of RMB65,670,000. The gain on disposal of subsidiaries of RMB174,330,000, which including the gain on retained interests, was recognised in profit or loss and recorded as other net income.

13. Fair Value Measurements

(a) Financial assets and liabilities carried at fair value

The following table presents the financial assets and liabilities measured at fair value or required to disclose their fair value in these condensed consolidated financial statements on a recurring basis at 30 June 2021 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level of input that is significant to the entire measurement. The levels are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

	At 30 June 2021 (Unaudited)				At 31 December 2020 (Audited)			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets								
<i>Financial assets at fair value through profit and loss</i>								
– Investment funds	—	—	554,995	554,995	771,104	—	558,177	1,329,281
– Equity securities, listed	197	—	—	197	198	—	—	198
– Equity securities, unlisted	—	96,000	—	96,000	—	—	—	—
<i>Equity instruments designated as at fair value through other comprehensive income</i>								
– Equity securities, unlisted	—	—	139,044	139,044	—	—	140,444	140,444
	<u>197</u>	<u>96,000</u>	<u>694,039</u>	<u>790,236</u>	<u>771,302</u>	<u>—</u>	<u>698,621</u>	<u>1,469,923</u>
Liabilities								
<i>Financial liabilities at fair value through profit or loss</i>								
– Contingent consideration payable	—	—	9,959	9,959	—	—	9,959	9,959
	<u>—</u>	<u>—</u>	<u>9,959</u>	<u>9,959</u>	<u>—</u>	<u>—</u>	<u>9,959</u>	<u>9,959</u>

During the six months ended 30 June 2021 and 2020, there was no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

13. Fair Value Measurements (Continued)

(a) Financial assets and liabilities carried at fair value (Continued)

The details of the movements of the recurring fair value measurements categorised as Level 3 of the fair value hierarchy for the six months ended 30 June 2021 and 2020 are shown as follows:

	30 June 2021 (Unaudited)			30 June 2020 (Unaudited)		
	Assets	Liabilities		Assets	Liabilities	
	Financial assets at fair value through profit or loss	Equity instruments designated as at fair value through other comprehensive income		Financial assets at fair value through profit or loss	Equity instruments designated as at fair value through other comprehensive income	
	Investment funds	Equity securities, unlisted	Contingent consideration payable	Investment funds	Equity securities, unlisted	Contingent consideration payable
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
At beginning of the period	558,177	140,444	(9,959)	425,698	115,614	(9,674)
Purchases	2,911	—	—	427,040	—	—
Disposal	(929)	—	—	(13,911)	—	—
Total gains or (losses) recognised:						
– in profit or loss	405	—	—	(25,051)	—	—
Exchange difference	(5,569)	(1,400)	—	4,314	1,452	—
At the end of the reporting period	554,995	139,044	(9,959)	818,090	117,066	(9,674)
Change in unrealised (losses) or gain for the period included in profit or loss for assets and liabilities held at the end of the reporting period	—	—	—	(25,027)	—	—

Valuation techniques and significant inputs used in Level 2 and Level 3 fair value measurement

(i) Financial assets at fair value through profit or loss: Investment funds

As at 30 June 2021, the Group's financial assets at fair value through profit or loss mainly comprise four investment funds which are categorised as Level 3 (2020: four Level 3) of the fair value hierarchy.

The fair value of three (31 December 2020: three) of the investment funds in Level 3 is estimated based on the net asset value of the investment fund reported to the investors by the investment manager as of the end of the reporting period. For the remaining one (31 December 2020: one) investment fund in Level 3, the fair value is estimated based on the fair values of the companies invested by the funds. All of the investment funds in Level 3 included both listed investments and unlisted investments. The fair values of listed investments are estimated with reference to quoted market price, while the fair values of unlisted investments are estimated by the respective investment managers using valuation techniques including mainly price-to-sales (P/S) ratio model and net asset value approach. In determining the fair value of unlisted investments, it includes assumptions that are not supported by observable market prices or rates, including the expected annual growth rates and average price-to-sales (P/S) multiples of comparable companies of the corresponding industries.

(ii) Financial assets at fair value through profit or loss: Unlisted equity securities

The fair value of unlisted equity securities was determined with reference to the pre-determined consideration and subject to adjustment pursuant to the terms as stipulated in the sale and purchase agreements.

13. Fair Value Measurements (Continued)

(a) Financial assets and liabilities carried at fair value (Continued)

Valuation techniques and significant inputs used in Level 2 and Level 3 fair value measurement (Continued)

(iii) Equity instruments designated as at fair value through other comprehensive income: Unlisted equity securities

The fair value of the unlisted equity securities in Level 3 are mainly determined by the investment managers by using price-to-sales (P/S) multiple model. In determining the fair value of the unlisted equity securities, it includes assumptions that are not supported by observable market prices or rates, including expected annual growth rates and comparable companies average P/S multiples.

(iv) Financial liabilities at fair value through profit or loss: Contingent consideration payable

The fair value of contingent consideration payable in Level 3 is determined by using the income approach based on the expected payment amounts and their associated probabilities. When appropriate, it is discounted to present value. In the opinion of the directors, changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly.

There was no change in valuation techniques during the reporting period. The assumptions of the unobservable inputs used in Level 3 fair value measurement at the end of the reporting period have no significant difference with those used in the Group's annual financial statements for the year ended 31 December 2020.

Sensitivity to changes in significant unobservable inputs

In the opinion of the Directors, the impact of changes in significant unobservable inputs on the Level 3 fair value measurement and the Group's profit and other comprehensive income for the period have no significant difference with those in the Group's annual financial statements for the year ended 31 December 2020, as there was no significant change in the reasonably possible range of significant unobservable inputs for Level 3 fair value measurements as at 30 June 2021 comparing to 31 December 2020.

Valuation processes used in Level 3 fair value measurement

In estimating the fair value of investment funds and unlisted equity securities within Level 3 of the fair value hierarchy, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group obtains the valuations provided by the respective investment managers or trust administrator for the investment funds.

The Group's finance department includes a team that reviews the valuations performed by the investment managers or trust administrator of the investment funds for financial reporting purposes. The team reports directly to the senior management. Discussions of valuation processes and results are held between the management, investment managers or trust administrator of the investment funds at least once every year. At each financial year end, the finance department works closely with the investment managers or trust administrator of the investment funds to establish the appropriate valuation techniques and inputs to the valuation models, verifies all major unobservable inputs in the valuations, assesses valuations movements when compared to the prior year valuation report and holds discussions with the investment managers or trust administrator of the investment funds. At the end of the reporting period, the finance department assessed fair values of an asset or a liability within Level 3 of the fair value hierarchy based on the valuations performed by investment managers or trust administrator at preceding financial year end taking into account of any significant changes in the assumptions of the unobservable inputs used in fair value measurements during the reporting period.

(b) Fair values of financial assets and liabilities carried at other than fair value

In the opinion of the directors, no other financial assets and liabilities of the Group are carried at amount materially different from their fair values as at 30 June 2021 and 31 December 2020.

14. Capital expenditure commitments

	At 30 June 2021 (Unaudited) RMB'000	At 31 December 2020 (Audited) RMB'000
Contracted but not provided for: Expenditures on property, plant and equipment	<u>574,344</u>	<u>672,014</u>

15. Related party transactions

In addition to the transactions disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions in the ordinary course of the Group's business.

	January to June 2021 (Unaudited) RMB'000	January to June 2020 (Unaudited) RMB'000
(a) Sales of goods to:		
Companies controlled by a substantial shareholder of the Company	67,903	74,371
An associate	16,935	16,882
Joint ventures	<u>396,275</u>	<u>248,373</u>
(b) Purchases of goods from:		
A group of companies controlled by the family members and relatives of the Company's directors	3,190,916	2,446,463
Joint ventures	<u>16,298</u>	<u>26,537</u>
(c) Distribution costs paid to:		
A group of companies controlled by the family members and relatives of the Company's directors	<u>775,959</u>	<u>40,187</u>

16. Approval of interim financial statements

The interim financial statements of 2021 were approved by the Board of Directors on 23 August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO AND INDUSTRY ENVIRONMENT

In the first half of 2021, the pandemic was effectively controlled in China and the economy recovered steadily. GDP grew 12.7% year-on-year, and total retail sales of consumer goods increased by 23%. However, the extremely uneven global pandemic situation and international commodity prices fluctuation brought pressure on domestic industries. The overall economic environment is one of both opportunities and challenges. The instant noodle industry, in which the Group operates, gradually returned to normal consumption in the first half of 2021 compared to the special period of pandemic last year. The beverage industry, on the other hand, showed an upward trend. Consumers are now more health awareness in the post-pandemic era. With the pandemic under control, outdoor consumption has gradually recovered while home consumption habits are continuing. The diversification of consumption scenarios, new models such as O2O and community group purchase have brought to the Group new challenges and opportunities.

BUSINESS REVIEW

The Group continued its established strategy of “Consolidate, Reform and Develop” with deeper dig into mass market, expansion into high-end market for the middle-class, and set foot in the new rural market. The Group serves consumers with different demands through our products with variety of flavours and multi-sized packaging targeting different scenarios. The Group enhances its brand penetration on all fronts through uni-marketing and full media reach, as well as strengthening store coverage and service efforts. According to Kantar’s “Brand Footprint in Asia 2021” report, Master Kong was ranked top tier with brand penetration rate of 84.3% in 2020.

The Group’s revenue for the first half of 2021 rose by 7.47% year-on-year to RMB35,396 million. Revenue from instant noodle declined by 14.67% year-on-year, while revenue from beverage grew by 26.45% year-on-year. Gross profit margin for the period decreased by 2.38 percentage points year-on-year to 31.05%. Distribution cost as a percentage of revenue increased by 1.68 percentage points year-on-year to 21.42%. EBITDA declined by 12.57% year-on-year to RMB4,517 million; profit attributable to shareholders of the Company declined by 14.50% year-on-year to RMB2,035 million due to lower gross profit margin and higher distribution cost ratio. Basic earnings per share decreased by RMB6.15 cents to RMB36.18 cents.

INSTANT NOODLE BUSINESS

According to Nielsen data, in the first half of 2021, the overall instant noodle industry experienced a 7.7% year-on-year decline in sales volume and a 7.3% year-on-year decline in sales value. During the period, Master Kong held a 45.4% market share of sales volume¹, up 2.5 percentage points year-on-year, and a 47.9% market share of sales value¹, up 2.1 percentage points year-on-year, placing it firmly in first place in the market.

Revenue from the Group’s instant noodle business for the first half of 2021 was RMB12,722 million, representing a year-on-year decline of 14.67% and accounting for 35.94% of the Group’s total revenue. During the period, the gross margin of instant noodle decreased by 6.46 percentage points year-on-year to 23.89% due to higher raw material prices and changes in product mix. Profit attributable to shareholders of the Company for the overall instant noodle business declined by 47.13% year-on-year to RMB896 million in the first half of 2021 due to lower revenue and lower gross margin year-on-year.

During the period, Master Kong’s instant noodle business adhered to a multi-price strategy, gradually strengthening the layout of high-end products and meeting diversified consumer needs with various flavours and specifications. We continued to promote creative cuisines through new media to attract young and family consumers. The online channel maintained high growth by actively expanding O2O cooperation opportunities. Faced with upward pressure on raw material prices, we continued to improve supply chain efficiency and serve the market through measures such as automation, energy saving and logistics optimisation.

Note¹: Nielsen’s city coverage was upgraded in the first quarter of 2021, and historical data on market share of sales volume and sales value had been updated retrospectively in parallel.

High-Priced and Premium Noodles

The business consolidated its existing core products and extended them with various flavours and specifications to meet the diversified needs of consumers. The business also continued to strengthen its communication with young consumers and enhance its brand image through IP cooperation such as “I CAN I BB”, “Kung Fu Panda”, “Peace Elite” and “Douro Mainland”.

The Roasted Noodles Series of Master Kong joined hands with the popular online variety show “I CAN I BB” to strengthen the interaction with the young generation, and launched the co-branded packaging “Golden Phrase Bucket” to inspire young people to take a courageous step of action for their dreams and drive the optimisation of the brand image.

Master Kong’s Dry Noodles had been enhanced with the launch of the “Vegetable Double” pack, based on the innovative water filters, which focused more on the nutritional and health needs of its consumer group.

In April, Premium Noodle “Soup Master” launched a new flavour, “Sour and Hot Noodles with Pork Bone”, which focuses on “delicious soup and rich flavours” and enriched flavour choices of the series. At the same time, it continued to promote its packet noodles to meet the needs of home consumers. The series reached middle class, white-collar workers, students and other consumer groups with precision digital marketing, resulting in a rapid increase in sales.

Super-Premium Noodles

In response to middle class’s upgraded consumption needs and to seize the opportunity of household consumption and consumers’ demand for tastes, “Express Chef’s Noodles” series launched the “Japanese BBQ pork bone noodle” in April to meet consumers’ demand for better quality with more trendy flavours. Express Chef’s Noodles offer “Express Bowl Noodles”, “Express Cooked Noodles” and “Express Self-heating Noodles” targeting a variety of scenarios including offices, homes and outdoors, accommodating the consumers to “enjoy noodles anytime, anywhere”.

Mid-Priced Noodles/Snack Noodles

The business met the needs for cost-effectiveness with mid-priced noodles. At the same time, the large-sized product “50% Plus Hunger-feed” launched bowl noodles and new flavours were continuously added to meet consumers’ demand for hunger feed and taste options, helping to capture the mid-priced and large-sized product market segment with rapid sales growth.

In continuous cooperation with “Luo Tianyi”, the snack noodles “Flavored and Crunchy” attracted students and a wider crowd through card collecting activities, social media marketing, e-commerce operations and flavour refinement, as a result, sales continued to grow.

BEVERAGE BUSINESS

According to Nielsen data, the beverage industry² in the first half of 2021 saw a 15.7% year-on-year growth in overall sales volume and 17.6% year-on-year growth in sales value. During the period, Master Kong’s ready-to-drink tea (including milk tea) held 42.1% market share, continuing to rank first in the market. Fruit juice had 17.5% market share, ranking second. Bottled water had market share of 6.2%. Ready-to-drink coffee had market share of 12.1%, ranking second. According to the monitoring data from a third party research company, the sales volume of Pepsi’s carbonated soft drinks occupied the second place in the market with a proportion of 33.2%.

Overall revenue of the beverage business for the first half of 2021 was RMB22,276 million, representing a year-on-year growth of 26.45% and accounting for 62.93% of the Group’s total revenue. During the period, the beverage gross margin decreased by 1.00 percentage points year-on-year to 34.78% due to higher raw material prices and changes in portfolio mix. Profit attributable to shareholders of the Company for the beverage business increased by 41.04% year-on-year to RMB1,182 million in the first half of 2021 due to sales growth and lower selling expense ratio year-on-year.

The beverage business focused on core categories, increased indoor product offering, and focused on the expansion of the catering channel and the construction of new retail-to-home channels. The beverage business shortened the channel hierarchy and strengthened terminal shop coverage and service efforts.

Note²: The categories in the beverage industry contain ready-to-drink tea without milk, milk tea, bottled water, fruit juice, carbonated soft drinks, functional drinks, traditional Asian drinks, and ready-to-drink coffee.

Ready-to-drink Tea

In response to health needs, the new product “Sugar-free Ice Tea” was blockbuster launched in March, relying on strong product power and cool appearance, and became a new hit this year. The “Jasmine Series” continued to build up its brand image of fragrant jasmine through IP cooperation. “Green Tea”, in cooperation with its spokesperson Jackson Yee, launched the “Heart with Vitality, Miracle Boy” TV commercial, which had attracted large social media traffic and reinforced the brand image of freshness and vitality. “Oolong Tea” launched a new flavour of Peach Oolong to meet the new generation consumers’ demand for fruit tea and healthy flavours, with the new pink packaging launch attracting consumers. The high-end “Sugar-Free Pure Tea Series” emphasized on “pure extraction method and sugar-free aftertaste”, continuing to cultivate healthy sugar-free products.

Carbonated Soft Drinks

The Pepsi carbonated soft drink bottler business continued to promote flavour innovation, enriching its sugar-free and reduced sugar product lines to meet consumer demand in different scenarios with multiple flavours, sizes and entries, together with aggressive refrigerator launch ahead of peak season to capture the demand. “Pepsi” launched “Beast Family Can” and festive packaging products in conjunction with Mirinda and 7 up to meet the needs of gift-giving scenarios, taking into account Chinese New Year activities and drinking scenarios. In the second quarter, it launched a new product, “Pepsi White Peach and Oolong Flavour”, which was operated together with “Pepsi Osmanthus Flavor” to continue to build awareness of the Pepsi series. “Pepsi No Sugar” was launched in new packaging and the new lime flavour achieved strong sales growth, with the original/raspberry/lime flavour operating to continue to capture the sugar-free market. The new launch of “Bubly Sparkling Water”, with 0 sugar, 0 calories and 0 fat to meet consumers’ demand for health, in cooperation with celebrities, quickly raised brand awareness and captured the market share of sparkling water in the first month of launch. Mirinda, together with a variety show, launched online communication and offline activities, and launched the “Mirinda Inspiration Park” App, which continued to build brand assets in all aspects. Passion fruit & pineapple mix flavour launched new fruit juice sparkling drinks to capture the high-end fruit soda market. The launch of new spokesperson for 7 up boosted brand awareness. It launched 1.25L and 2L versions of the product to enhance the penetration of the meal service scenario, with the launch of the new FIDO DIDO 3.0 full-size packaging, using secondary IP to revitalise the brand and enhance brand preference.

Juices

Chinese juice leadership continued to be consolidated, while Western-style sales grew strongly. “Rock Candy Pear” interpreted Chinese culinary culture and remained to be characterized by a therapeutic brand image of nourishing every moment. “Traditional Drink Sweet-Sour Plum Juice” integrated modern juicemaking process into Chinese classic drink making, conveying the need to promoting the secretion of saliva, quenching thirst and reducing grease. The “Juice Master”, a well-received category of the Western-style “Master Kong Juices”, stepped up comprehensive upgrading and brand marketing, and strove to build an optimistic and joyful brand image. Newly launched cranberry flavour promoted multi-flavour development and educated multiple scenarios for family consumption drinking. “NutriLight Fruits”, based on its main flavor of “Honey and Citron”, went with other flavored products including “Mango Flavor Drink” and collaborated with new generation actors to portray a fruitful and outstanding drinking scenario to attract young consumers. “Tropicana 100%” series collaborated with popular celebrities, combining media and spokesperson variety shows to build brand awareness and favorability. The “Tropicana” series focused on “mixed fruit flavours” to maintain long-term interaction with consumers.

Bottled Water

The bottled water category focused on economical water, developing mid-priced water and cultivating high-end natural mineral water. It focused on capturing the demand for multi-packs/big packs for household consumption. Economical water “Master Kong Bottled Drinking Water” conveyed the brand image of “The Best Choice for Safety and Health”, creating a national brand with affordable price and excellent quality. Mid-priced water “Drink Boiled Water” insisted on the differentiated competition strategy of 135 degree ultra-high temperature sterilised boiled water, building the product value of good absorption of boiled water and quickly opening up the market. “Aquafina” continued to enhance brand awareness through online and offline interactive marketing. Besides, the high-end water “Han Yang Quan” was relaunched with an upgraded packaging and managed to strengthen its positioning of “Being Natural, Precious, and Rich in Natural Trace Elements” with 4.5L natural mineral water to meet the needs of household consumption.

Coffee Drinks/Functional Drinks/Probiotics

According to Nielsen data, the ready-to-drink coffee market grew 29.6% year-on-year in sales volume and 31.3% in sales value in the first half of the year. Sales of “Starbucks RTD Coffee” performed well during the period, with the launch of Starbucks Frappuccino LTO (Limited time offer) flavour and new packaging to grow the market share. Sales of the new Starbucks SELECT were strong as it was launched. The “Bernachon Coffee” series continued to focus on Yangtze River Delta, Pearl River Delta and other core cities and expanded into mid-to-high price market, resulting in good sales performance.

“Gatorade”, a functional drink, continued to build its brand image as the No.1 sports drink by continuing its brand theme of “Every Drop of Sweat Counts”. At the same time, “Gatorade Light”, a new sugar-free vitamin electrolyte drink, was launched to cater for light sports and daily hydration scenarios, expanding the brand’s reach to consumers.

The “Wei Chuan Ambient Probiotics Drink” series focused on core flavours to consolidate the Yangtze River Delta market. The new lactobacillus beverage “Xiao Lao Duo Duo” debuted in the market, establishing a fresh, fat-free and healthy product image, focusing on palate cleansing and hydrating while dining.

FINANCIAL OPERATIONS

The Group, with “Cash Is King” as its long-held overall strategy, has been characterized by proficient control of capital expenditures and effective execution of asset-light and asset activation, which would generate stable net cash inflows. During the period, the Group generated a net cash inflow from operating activities of RMB2,692 million and a net cash outflow from investing activities of RMB2,237 million. During the period, the Group promoted asset activation by selling partial equity interests in three subsidiaries to an independent third party, resulting in a net cash inflow of RMB88 million.

The Group continued to maintain a sound financial structure through effective control of trade receivables, trade payables, bank balances and cash as well as inventories. As at 30 June 2021, the Group had cash and bank deposits of RMB23,097 million, an increase of RMB1,666 million compared with 31 December 2020, with sufficient cash available. As at 30 June 2021, the Group’s interest-bearing borrowings were RMB15,322 million, an increase of RMB1,626 million compared with 31 December 2020. Net cash was RMB7,775 million, an increase of RMB40 million compared with 31 December 2020. The ratio of foreign currency to RMB loans at the end of the period was 95%:5%, compared with 89%:11% at the end of last year. The ratio of long-term and short-term loans was 58%:42%, compared with 57%:43% at the end of last year.

The Group’s total assets and total liabilities as at 30 June 2021 were RMB66,238 million and RMB43,433 million respectively, representing an increase of RMB4,707 million and RMB6,641 million respectively compared with 31 December 2020; the debt ratio was 65.57%, an increase of 5.78 percentage points compared with 31 December 2020; the gearing ratio decreased from -36.63% as at 31 December 2020 to -40.39% in the current period.

The exchange rate of U.S. dollar against RMB fell by 1.00% during the period. This fluctuation resulted in the recognition of realized and unrealized exchange loss, amounting to RMB8.034 million in the Group’s income statement.

Financial Ratio

	30 June 2021	31 December 2020
Finished goods turnover	17.18days	17.73days
Trade receivables turnover	9.65days	8.99days
Current ratio	0.97times	1.06times
Debt ratio (total liabilities to total assets)	65.57%	59.79%
Gearing ratio (Net debt to equity attributable to owners of the Company)	-40.39%	-36.63%

HUMAN RESOURCES

As of 30 June 2021, the Group had 60,464 employees. In the first half of 2021, the Group continued to drive organizational change under the strategy of “smaller headquarter and bigger business units”. From talent review, talent reserve to succession planning, we continued to improve our strategic talent management system. We developed new leadership skills for our core managements and promoted the Management Training Centre, focusing on management skills and leadership development in the digital era.

The Group deepened its school-enterprise cooperation with universities and vocational schools. We have established deep school-enterprise cooperation with 32 universities and 53 vocational schools nationwide to explore the model of “deepening the integration of production and education and joint education between schools and enterprises”. In terms of university collaboration, we cooperated with domestic universities, such as Tsinghua University, Peking University and Shanghai Jiao Tong University, to conduct research on strategic talent development cooperation, food safety, production process and technology, big data application, sustainable development and application development, and supported the industrialisation of university innovation research results and core technologies. In terms of vocational education cooperation, we continued to explore innovative approaches in student training and employment by both schools and enterprises, and established a long-term education mechanism.

On the international front, a new Master Kong - Waseda University strategic cooperation plan for 2021-2030 was released to continue to support talent education and employee training. We carried out the “Design Thinking Innovation Workshop” which was originally started from Stanford d.school to bring innovation methodology and thinking training to cross-functional and cross-work employees. We launched the Big Data Trilateral Partnership with Wharton Business School and JD.COM to accelerate the development of the Group’s business insights and digital strategy.

The Group sponsored universities in their international talent education efforts. In April 2021, on the occasion of Tsinghua University’s 110th anniversary, Master Kong donated to Tsinghua University to establish the “Master Kong Global Talent Development Fund”. The fund will be used to support the international exchange and fellowship programs of Tsinghua students, encouraging them to broaden their horizons and integrate with the rest of the world in order to face the future. The fund is the first fund dedicated to supporting international talent exchange at Tsinghua University after the pandemic, and will provide support and assistance for the university to move from the internationalisation of talent training to globalisation, as a national enterprise to help Chinese higher education on its new journey to the forefront of the world’s leading universities.

CORPORATE SOCIAL RESPONSIBILITY

With the mission of “Promoting Chinese Food and Beverage Culture” and the vision of “Becoming a Respected Company”, Master Kong adheres to the sustainable development concept of “Keep Our Nature Green”, communicates closely with stakeholders and actively fulfils its social responsibility. We continue to explore and refine our performance in the area of sustainability, and are committed to sharing our corporate values with our stakeholders to enhance the well-being of society, and to enjoy “Life + Delicacy” with our stakeholders.

In 2021, Master Kong established the Sustainable Development Committee, which has four working groups: Beverage Resources, Instant Noodle Resources, Research and Development, and Communication. Meanwhile, Master Kong joined the United Nations Global Compact (UNGC) as a participant, and will further expand its global sustainability influence.

The Group has been actively responding to the basic policy of energy conservation and emission reduction of the country, as well as the country’s “carbon emission peak” and “carbon neutrality” targets, and has been promoting a number of projects by means of technological innovation and advancement. In 2021, the Group will strengthen its energy and water conservation projects to improve environmental management and resource utilization efficiency. In addition, the Group will launch projects to reduce the use of PET and other materials by recycling PET, reducing the grammage of beverage bottles and optimising packaging materials. We assisted local governments in carrying out “low carbon walks” to promote low carbon living. In addition, the Group launched a carbon accounting and inventory project to conduct a comprehensive accounting of carbon emissions with the guidance and support of professional organisations, to understand the sources of carbon emissions and the carbon footprint of the Group, and to collect comprehensive data on resource and energy usage in preparation for carbon reduction optimisation and the setting of scientific carbon reduction targets to help achieve carbon neutrality.

The Group actively gives back to the community by carrying out activities such as disaster relief donations and community welfare, supporting sports and promoting ourselves as a national brand. In events such as the earthquake in Yangbi County, Dali, Yunnan Province and Maduo County, Guoluo Prefecture, Qinghai Province, the Group provided timely logistical support to the affected people and disaster relief units. The Group also carried out community charity activities nationwide, donating water to different social groups, donating goods to the poor and visiting children's welfare homes and people with disabilities. As the sports nutrition partner of the Winter Sports Management Center of the General Administration of Sport of China, the Group participated in the "National Snow and Ice Season" organised by the Winter Sports Management Center of the General Administration of Sport of China for two consecutive years to promote snow and ice sports, popularise knowledge of snow and ice sports and build a national brand. The Group has also incorporated traditional culture into its product design to showcase its national cultural heritage.

The Group regards food safety as its foundation, continuously improving its food safety system management, aligning with aerospace quality and strictly controlling product quality. In 2021, the Group actively responded to the national "Year of Food Safety Responsibility" and the General Administration of Market Regulation's "Anti-Food Waste" National Food Safety Publicity Week to strengthen staff awareness of food safety. At the same time, the Group continued to promote food safety and aerospace food safety science, organising activities such as the Food Safety Promotion Month and a Tour Across China for Promoting Space Exploration Spirit to disseminate food safety and the space spirit to public groups such as primary and secondary school students and families, so as to promote societywide food safety management.

PROSPECTS

China's economy is expected to continue to recover in the second half of 2021, along with the uncertainty from the rebound of domestic and global pandemic as well as the complexity of macro environment. The Group will stick to its strategy of "Consolidate, Reform and Develop" and capitalize on the trends of consumer stratification, health demand and channel fragmentation. The instant noodle business will meet the consumer demands with products of various price tiers, sizes and flavours, while the beverage business will strengthen its product mix to drive steady business growth.

The Group will continue to promote digital transformation, optimize big data technology, and use smart tools to improve operational efficiency and supply chain effectiveness. We will carry on organizational reforms with business as the core, improve the building of talent echelon and strengthen the organization. On supply chain side, we will make our efforts towards green and low-carbon development practice with measures in energy saving, emission and plastic reduction, and fully support China's sustainable development and consumers' pursuit for a better life.

The Group will continue to uphold the original intention of "Promoting Chinese Food and Beverage Culture", and regard serving the needs of consumers as its supreme purpose. With food safety as cornerstone, the Group will make constant efforts to sustainable development, thus building itself a "Chinese National Brand" of comprehensive food and beverage that is trustworthy for the government, business partners, and consumers.

CORPORATE GOVERNANCE

We have, during the six months ended 30 June 2021, 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 deviations from code provisions A.4.1 and A.4.2. The reasons for these deviations are 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 may 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 CG code.

Code Provision A.4.2

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

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

Directors’ responsibility for the financial statements

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

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.

Risk Management and Internal Control

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

Under the supervision of the Board, the Group has established an organization structure, responsibility and authority in the construction of three lines of defense for risk management. The Audit Committee will assist the Board to review the design and operation effectiveness of the risk management and internal control system of the Group. As of 30 June 2021, the Group has been carrying out self-assessment of internal control where a prudent and effective self-inspection system has been established to achieve full coverage of external and internal inspection on each aspect thought the management circle. Meanwhile, more efforts have been put in supervision over subsidiaries where management regulations have been formulated with a priority to processes of higher risk and streamlined and implementable limits of authority have been defined for approval of expenditures and human resource affairs. In addition, the Group has been promoting the monitoring work in respect of laws and regulations. According to the internal audit of the internal inspection 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.

Model Code For Directors' Securities Transactions

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 SHARES

There were no purchases, sales or redemptions of the Company's listed shares 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 2021, 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 2021 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 2021	Number of share option			Balance as at 30 June 2021	Weighted average closing price immediately before exercise HK\$	Note
					Granted during the period	Exercised during the period	Cancelled/ lapsed during the period			
Executive Director										
Tseng Chien	12 April 2011	19.96	19.96	206,000	—	—	206,000	—	—	Table A (4)
	26 April 2012	20.54	19.88	112,000	—	—	—	112,000	—	Table A (5)
	27 May 2013	20.16	20.05	140,000	—	—	—	140,000	—	Table A (6)
	17 April 2014	22.38	22.35	164,000	—	—	—	164,000	—	Table A (7)
	5 June 2015	16.22	15.92	232,000	—	—	—	232,000	—	Table A (8)
Wei Hong-Ming	21 April 2017	10.20	10.20	1,000,000	—	—	—	1,000,000	—	Table A (10)
Wei Hong-Chen	21 April 2017	10.20	10.20	1,000,000	—	—	—	1,000,000	—	Table A (10)
Chief Executive Officer										
Chen Yinjang	17 April 2014	22.38	22.35	262,000	—	—	—	262,000	—	Table A (7)
	5 June 2015	16.22	15.92	380,000	—	—	—	380,000	—	Table A (8)
	4 July 2016	7.54	7.54	500,000	—	—	—	500,000	—	Table A (9)
	21 April 2017	10.20	10.20	500,000	—	—	—	500,000	—	Table A (10)
Substantial Shareholder										
Wei Ing-Chou [#]	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)
Other employees in aggregate	12 April 2011	19.96	19.96	7,310,000	—	—	7,310,000	—	—	Table A (4)
	26 April 2012	20.54	19.88	4,816,000	—	—	—	4,816,000	—	Table A (5)
	27 May 2013	20.16	20.05	6,236,000	—	—	—	6,236,000	—	Table A (6)
	17 April 2014	22.38	22.35	7,049,000	—	—	—	7,049,000	—	Table A (7)
	5 June 2015	16.22	15.92	11,196,000	—	—	—	11,196,000	—	Table A (8)
	4 July 2016	7.54	7.54	7,172,000	—	2,420,000	—	4,752,000	14.49	Table A (9)
	21 April 2017	10.20	10.20	8,070,000	—	320,000	—	7,750,000	15.86	Table A (10)
Total				64,579,000	—	2,740,000	9,780,000	52,059,000		

For the period of six months ended 30 June 2021, 2,740,000 options had been exercised under the 2008 Share Option Scheme. Weighted average exercise price was HK\$7.85 and the average market closing price before the date of exercise was HK\$14.65.

[#] Wei Ing-Chou was the former Chairman of the Board and a former Executive Director. He is a beneficiary of two trusts which holds 25% interests in Profit Surplus Holdings Limited and Profit Surplus 3 Holdings Limited, respectively. Profit Surplus Holdings Limited is indirectly interested in 75.064% of Ting Hsin (Cayman Islands) Holding Corp. Profit Surplus 3 Holdings Limited is indirectly interested in 17.835% of Ting Hsin (Cayman Islands) Holding Corp. Ting Hsin (Cayman Islands) Holding Corp. directly holds 1,882,927,866 shares of the Company (see Note 1).

(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 2021 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 2021	Weighted average closing price immediately before exercise HK\$	Note
				Balance as at 1 January 2021	Granted during the period	Exercised during the period	Cancelled/lapsed during the period			
Executive Director										
Wei Hong-Ming	27 April 2018	16.18	15.02	385,000	—	—	—	385,000	—	Table C (1a)
	27 April 2018	16.18	15.02	98,000	—	—	—	98,000	—	Table C (1b)
Wei Hong-Chen	27 April 2018	16.18	15.02	385,000	—	—	—	385,000	—	Table C (1a)
	27 April 2018	16.18	15.02	98,000	—	—	—	98,000	—	Table C (1b)
Chief Executive Officer										
Chen Yinjiang	27 April 2018	16.18	15.02	144,000	—	—	—	144,000	—	Table C (1b)
Substantial Shareholder										
Wei Ing-Chou #	27 April 2018	16.18	15.02	470,000	—	—	—	470,000	—	Table C (1b)
Other employees in aggregate										
	27 April 2018	16.18	15.02	1,708,000	—	—	—	1,708,000	—	Table C (1a)
	27 April 2018	16.18	15.02	2,975,000	—	—	—	2,975,000	—	Table C (1b)
Total				6,263,000	—	—	—	6,263,000	—	

During the six months ended 30 June 2021, no share options were exercised under the terms of the 2018 Share Option Scheme.

Wei Ing-Chou was the former Chairman of the Board and a former Executive Director. He is a beneficiary of two trusts which holds 25% interests in Profit Surplus Holdings Limited and Profit Surplus 3 Holdings Limited, respectively. Profit Surplus Holdings Limited is indirectly interested in 75.064% of Ting Hsin (Cayman Islands) Holding Corp. Profit Surplus 3 Holdings Limited is indirectly interested in 17.835% of Ting Hsin (Cayman Islands) Holding Corp. Ting Hsin (Cayman Islands) Holding Corp. directly holds 1,882,927,866 shares of the Company (see Note 1).

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER IN SHARES

As at 30 June 2021, the interests and short positions of the Directors and Chief Executive Officer in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares and underlying Shares

Name	Number of ordinary shares Personal interests	Percentage of the issued share capital	Number of underlying shares held under share options Beneficial owner	Percentage of the issued share capital
Directors				
Wei Hong-Ming	5,000,000	0.09%	1,483,000	0.03%
Wei Hong-Chen	5,000,000	0.09%	1,483,000	0.03%
Tseng Chien	—	—	648,000	0.01%
Chief Executive Officer				
Chen Yinjang	—	—	1,786,000	0.03%

Save as disclosed above, at no time during the six months ended 30 June 2021 were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in or any other body corporate.

Save as disclosed in this paragraph, as at 30 June 2021, none of the Directors and Chief Executive Officer had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

Notes:

1. These 1,882,927,866 shares are held by and registered under the name of Ting Hsin (Cayman Islands) Holding Corp. (“Ting Hsin”). Ting Hsin is beneficially owned as to approximately 44.825% by Ho Te Investments Limited (“Ho Te”), as to approximately 30.239% by Rich Cheer Holdings Limited (“Rich Cheer”), as to approximately 17.835% by Rich Gold Capital Inc. (“Rich Gold”), as to approximately 6.482% by Asahi Group Holdings, Ltd., and as to the remaining 0.619% by unrelated third party. Ho Te and Rich Cheer are owned as to 100% by Profit Surplus Holdings Limited (“Profit Surplus”). Profit Surplus is the trustee of a unit trust, which is in turn held by four discretionary trusts in equal proportions. The settlors and discretionary objects of the four trusts are as follows:
 - Wei Chang Lu-Yun is the settlor of one of the discretionary trusts with Wei Chang Lu-Yun and Wei Ing-Chou as discretionary objects;
 - Lin Li-Mien is the settlor of one of the discretionary trusts with Lin Li-Mien and Wei Ying-Chiao as discretionary objects;
 - Wei Hsu Hsu-Mien is the settlor of one of the discretionary trusts with Wei Hsu Hsu-Mien and Wei Yin-Chun as discretionary objects; and
 - Wei Tu Miao is the settlor of one of the discretionary trusts with Wei Tu Miao and Wei Yin-Heng as discretionary objects.

Rich Gold is wholly owned by Tingho Capital Holding Co., Ltd., which is owned by Profit Surplus 3 Holdings Limited (“Profit Surplus 3”). Profit Surplus 3 is the trustee of a unit trust, which is in turn held by four discretionary trusts in equal proportions. The settlors and discretionary objects of the four trusts have similar structures to those listed above.

Lion Trust (Singapore) Limited is the trustee of each of the discretionary trusts mentioned above.

2. Wei Ing-Chou is also personally interested in 13,942,000 shares and holds 6,440,000 share options (details shown as Table B and Table D on page 28 and 29 respectively) under the share option schemes of the Company. Wei Chang Lu-Yun, being the spouse of Wei Ing-Chou, is also deemed to be interested in the shares and the underlying shares held by Wei Ing-Chou.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in register required to be kept under section 336 of the SFO as at 30 June 2021.

PAYMENT OF SPECIAL INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has decided to pay a special interim dividend of US\$6.88 cents per ordinary share. The special interim dividend will be paid on or about 15 December 2021 to shareholders whose names appear on the register of members of the Company as at 11 November 2021.

The register of members of the Company will be closed from 9 November 2021 to 11 November 2021 (both dates inclusive). To qualify for the special interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Hong Kong Registrars Limited at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 8 November 2021.

Shareholders registered under the Hong Kong branch register of members will receive their dividends in Hong Kong dollars ("HK\$"). The HK\$ equivalent of the special dividend is HK\$0.53585 per share, which is based on today's exchange rate of US\$ against HK\$ at US\$1.00 to HK\$7.7885.

BOARD OF DIRECTORS

As at the date of this report, Mr. Wei Hong-Ming, Mr. Junichiro Ida, Mr. Wei Hong-Chen, Mr. Koji Shinohara, Mr. Yuko Takahashi and Ms. Tseng Chien 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 Hong-Ming

Chairman

Hong Kong, 23 August 2021

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

* *For identification purpose only*