康師傅控股

**TINGYI (CAYMAN ISLANDS) HOLDING CORP.**

**康師傅控股有限公司***

Incorporated in Cayman Islands with Limited L

Stock Code：0322

# 2019

# INTERIM REPORT

好好饮食 美好生活

Life+Delicacy


*For identification purposes only

## SUMMARY

| | For the six months ended 30 June | | |
|---|---|---|---|
| **RMB'000** | **2019** | **2018** | **Change** |
| • Revenue | 30,495,309 | 30,996,144 | ↓ 1.62% |
| • Gross margin | 31.93% | 31.23% | ↑ 0.70 ppt. |
| • Gross profit of the Group | 9,736,448 | 9,680,408 | ↑ 0.58% |
| • EBITDA | 4,154,177 | 3,740,573 | ↑ 11.06% |
| • Profit for the period | 1,801,832 | 1,488,294 | ↑ 21.07% |
| • Profit attributable to owners of the Company | 1,503,085 | 1,306,478 | ↑ 15.05% |
| • Earnings per share (RMB cents) | | | |
| Basic | 26.74 | 23.26 | ↑ 3.48 cents |
| Diluted | 26.72 | 23.21 | ↑ 3.51 cents |

As at 30 June 2019, cash and cash equivalents was RMB16,080.682 million, representing an increase of RMB2,240.261 million when compared to 31 December 2018. Gearing ratio was -33.08%.

## 2019 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 2019 together with the comparative figures for the corresponding period in 2018. 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 2019

| | *Note* | **January to June 2019** *(Unaudited)* *RMB'000* | **January to June 2018** *(Unaudited)* *RMB'000* |
|---|---|---|---|
| **Revenue** | 2 | 30,495,309 | 30,996,144 |
| Cost of sales | | (20,758,861) | (21,315,736) |
| Gross profit | | 9,736,448 | 9,680,408 |
| Other revenue | | 245,532 | 163,926 |
| Other net income | | 356,766 | 633,922 |
| Distribution costs | | (6,345,585) | (6,167,114) |
| Administrative expenses | | (1,189,274) | (1,239,210) |
| Other operating expenses | | (317,740) | (948,567) |
| Finance costs | 4 | (205,665) | (222,515) |
| Share of results of associates and joint ventures | | 270,711 | 95,701 |
| **Profit before taxation** | 4 | 2,551,193 | 1,996,551 |
| Taxation | 5 | (749,361) | (508,257) |
| **Profit for the period** | | 1,801,832 | 1,488,294 |
| **Profit attributable to:** | | | |
| Owners of the Company | | 1,503,085 | 1,306,478 |
| Non-controlling interests | | 298,747 | 181,816 |
| **Profit for the period** | | 1,801,832 | 1,488,294 |
| **Earnings per share** | 6 | *RMB* | *RMB* |
| Basic | | 26.74 cents | 23.26 cents |
| Diluted | | 26.72 cents | 23.21 cents |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2019

| | **January to June 2019** *(Unaudited)* *RMB'000* | **January to June 2018** *(Unaudited)* *RMB'000* |
|---|---|---|
| **Profit for the period** | 1,801,832 | 1,488,294 |
| **Other comprehensive loss** | | |
| *Items that will not be reclassified to profit or loss:* | | |
| Fair value changes in equity instruments designated as at fair value through other comprehensive income | (64) | (12,397) |
| *Items that are or may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on consolidation | (6,823) | (129,520) |
| **Other comprehensive loss for the period** | (6,887) | (141,917) |
| **Total comprehensive income for the period** | 1,794,945 | 1,346,377 |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | 1,491,002 | 1,176,923 |
| Non-controlling interests | 303,943 | 169,454 |
| | 1,794,945 | 1,346,377 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | Note | At 30 June 2019 (Unaudited) RMB'000 | At 31 December 2018 (Audited) RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment properties | | 1,120,200 | 1,119,000 |
| Right-of-use assets | | 4,112,114 | – |
| Property, plant and equipment | | 23,742,652 | 24,927,630 |
| Prepaid lease payments | | – | 3,570,367 |
| Intangible assets | | 183,825 | 186,458 |
| Goodwill | | 97,910 | 97,910 |
| Interest in associates | | 140,619 | 127,725 |
| Interest in joint ventures | | 926,941 | 698,743 |
| Financial assets at fair value through profit or loss | | 435,804 | 448,121 |
| Equity instruments designated as at fair value through other comprehensive income | | 114,192 | 114,018 |
| Other non-current assets | | 457,964 | 375,964 |
| Deferred tax assets | | 406,946 | 429,262 |
| | | 31,739,167 | 32,095,198 |
| **Current assets** | | | |
| Inventories | | 2,842,455 | 2,651,740 |
| Trade receivables | 8 | 2,092,721 | 1,715,471 |
| Tax recoverable | | – | 30,150 |
| Prepayments and other receivables | | 2,795,782 | 2,669,689 |
| Pledged bank deposits | | 90,617 | 32,458 |
| Bank balances and cash | | 15,990,065 | 13,807,963 |
| | | 23,811,640 | 20,907,471 |
| **Total assets** | | 55,550,807 | 53,002,669 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | *Note* | **At 30 June 2019 (Unaudited)** *RMB'000* | **At 31 December 2018 (Audited)** *RMB'000* |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Issued capital | 9 | 235,387 | 235,204 |
| Share premium | | 720,807 | 664,400 |
| Reserves | | 17,760,905 | 18,753,872 |
| **Total capital and reserves attributable to owners of the Company** | | 18,717,099 | 19,653,476 |
| **Non-controlling interests** | | 4,087,846 | 3,958,955 |
| **Total equity** | | 22,804,945 | 23,612,431 |
| **Non-current liabilities** | | | |
| Financial liabilities at fair value through profit or loss | | 9,862 | 9,862 |
| Long-term interest-bearing borrowings | 10 | 3,718,004 | 4,372,723 |
| Lease liabilities | | 345,183 | — |
| Other non-current liabilities | | 40,000 | 40,000 |
| Employee benefit obligations | | 84,023 | 115,436 |
| Deferred tax liabilities | | 894,578 | 967,682 |
| | | 5,091,650 | 5,505,703 |
| **Current liabilities** | | | |
| Trade payables | 11 | 8,473,863 | 6,953,961 |
| Other payables and deposits received | | 11,816,388 | 8,522,996 |
| Lease liabilities | | 162,503 | — |
| Current portion of interest-bearing borrowings | 10 | 6,171,272 | 6,461,785 |
| Advance payments from customers | | 735,125 | 1,678,782 |
| Taxation | | 295,061 | 267,011 |
| | | 27,654,212 | 23,884,535 |
| **Total liabilities** | | 32,745,862 | 29,390,238 |
| **Total equity and liabilities** | | 55,550,807 | 53,002,669 |
| **Net current assets (liabilities)** | | (3,842,572) | (2,977,064) |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2019

| | 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 2018** | 235,053 | 611,736 | 17,565,290 | 18,412,079 | 3,881,965 | 22,294,044 |
| Profit for the period | – | – | 1,306,478 | 1,306,478 | 181,816 | 1,488,294 |
| **Other comprehensive loss:** | | | | | | |
| Exchange differences on consolidation | – | – | (117,158) | (117,158) | (12,362) | (129,520) |
| Fair value changes in equity instruments designated as at fair value through other comprehensive income | – | – | (12,397) | (12,397) | – | (12,397) |
| **Total other comprehensive loss** | – | – | (129,555) | (129,555) | (12,362) | (141,917) |
| **Total comprehensive income for the period** | – | – | 1,176,923 | 1,176,923 | 169,454 | 1,346,377 |
| **Transactions with owners of the Company:** | | | | | | |
| *Contributions and distribution* | | | | | | |
| Equity settled share-based transactions | – | – | 15,685 | 15,685 | – | 15,685 |
| Shares issued under share option scheme | 145 | 50,637 | (12,552) | 38,230 | – | 38,230 |
| 2017 final dividend approved | – | – | (909,539) | (909,539) | (107,163) | (1,016,702) |
| **Total transactions with owners of the Company** | 145 | 50,637 | (906,406) | (855,624) | (107,163) | (962,787) |
| **At 30 June 2018** | 235,198 | 662,373 | 17,835,807 | 18,733,378 | 3,944,256 | 22,677,634 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2019

| | 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 2019** | 235,204 | 664,400 | 18,753,872 | 19,653,476 | 3,958,955 | 23,612,431 |
| Profit for the period | – | – | 1,503,085 | 1,503,085 | 298,747 | 1,801,832 |
| **Other comprehensive (loss) income:** | | | | | | |
| Exchange differences on consolidation | – | – | (12,019) | (12,019) | 5,196 | (6,823) |
| Fair value changes in equity instruments designated as at fair value through other comprehensive income | – | – | (64) | (64) | – | (64) |
| **Total other comprehensive (loss) income** | – | – | (12,083) | (12,083) | 5,196 | (6,887) |
| **Total comprehensive income for the period** | – | – | 1,491,002 | 1,491,002 | 303,943 | 1,794,945 |
| **Transactions with owners of the Company:** | | | | | | |
| *Contributions and distribution* | | | | | | |
| Equity settled share-based transactions | – | – | 13,595 | 13,595 | – | 13,595 |
| Shares issued under share option scheme | 183 | 56,407 | (13,191) | 43,399 | – | 43,399 |
| 2018 final and special dividend approved | – | – | (2,463,321) | (2,463,321) | (109,682) | (2,573,003) |
| | 183 | 56,407 | (2,462,917) | (2,406,327) | (109,682) | (2,516,009) |
| *Changes in ownership interests* | | | | | | |
| Change in ownership interest in a subsidiary without change in control | – | – | (21,052) | (21,052) | (65,370) | (86,422) |
| **Total transactions with owners of the Company** | 183 | 56,407 | (2,483,969) | (2,427,379) | (175,052) | (2,602,431) |
| **At 30 June 2019** | 235,387 | 720,807 | 17,760,905 | 18,717,099 | 4,087,846 | 22,804,945 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2019

| | January to June 2019 (Unaudited) *RMB'000* | January to June 2018 (Unaudited) *RMB'000* |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Cash generated from operations** | 4,656,956 | 5,504,168 |
| The People's Republic of China ("PRC") enterprise income tax paid | (752,954) | (823,682) |
| Interest paid | (204,305) | (221,010) |
| **Net cash from operating activities** | 3,699,697 | 4,459,476 |
| **INVESTING ACTIVITIES** | | |
| Interest received | 245,532 | 163,926 |
| Purchase of property, plant and equipment | (943,728) | (742,352) |
| Prepaid lease payments | – | (12,956) |
| Purchase of right-of-use assets | (8,490) | – |
| Net cash inflow on disposal of subsidiaries | 145,579 | 284,987 |
| Net movement of amounts due from former subsidiaries | – | 1,302,005 |
| Others | 271,702 | 167,133 |
| **Net cash (used in) from investing activities** | (289,405) | 1,162,743 |
| **FINANCING ACTIVITIES** | | |
| Dividends paid to non-controlling interests | (101,635) | (108,817) |
| Payments of lease liabilities | (77,373) | – |
| Proceeds from bank borrowings | 2,783,171 | 1,103,557 |
| Repayments of bank and other borrowings | (3,732,497) | (4,633,006) |
| Others | (43,023) | 38,230 |
| **Net cash used in financing activities** | (1,171,357) | (3,600,036) |
| **Net increase in cash and cash equivalents** | 2,238,935 | 2,022,183 |
| **Cash and cash equivalents at 1 January** | 13,840,421 | 10,284,889 |
| Effect on exchange rate changes | 1,326 | 11,811 |
| **Cash and cash equivalents at 30 June** | 16,080,682 | 12,318,883 |
| **Analysis of the balances of cash and cash equivalents:** | | |
| Bank balances and cash | 15,990,065 | 12,224,535 |
| Pledged bank deposits | 90,617 | 94,348 |
| | 16,080,682 | 12,318,883 |

## 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 2018 annual financial statements. The accounting policies adopted in preparing the condensed consolidated interim financial statements for the six months ended 30 June 2019 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2018, 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 2019 as described below.

| | |
|---|---|
| Annual Improvements to HKFRSs | 2015–2017 Cycle |
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKAS 19 | Employee benefits |
| Amendments to HKAS 28 | Investments in Associates and Joint Ventures |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |

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 16 as described below.

***HKFRS 16: Leases***

The Group has adopted HKFRS 16 retrospectively from 1 January 2019 (i.e. date of initial application), but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from HKFRS 16 are therefore recognised in the opening balance sheet on 1 January 2019.

**(a) Adjustment recognised on adoption of HKFRS 16**

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to certain leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.82%. The lessor accounting requirements brought forward from HKAS 17 are substantially unchanged.

The adjustments to the opening balances (affected items only) below resulted from the initial application of HKFRS 16 as at 1 January 2019. The prior-period amounts were not adjusted.

| | Carrying amount on 31 December 2018 under HKAS 17 *(Audited)* *RMB'000* | Adjustments *RMB'000* | Carrying amount on 1 January 2019 under HKFRS 16 *(Unaudited)* *RMB'000* |
|---|---|---|---|
| **Assets** | | | |
| Right-of-use assets | – | 4,199,723 | 4,199,723 |
| Prepaid lease payments | 3,570,367 | (3,570,367) | – |
| Prepayments and other receivables | 2,669,689 | (120,765) | 2,548,924 |
| **Liabilities** | | | |
| Lease liabilities | – | 508,591 | 508,591 |

*(i) Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

1. **Basis of preparation and accounting policies** *(Continued)*

(**b**) **The Group's leasing activities and how these are accounted for**

The Group leases various buildings, machinery and equipment. Rental contracts are typically made for fixed periods of 1 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of buildings, machinery and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Payments for leasehold land were recorded in prepaid lease payments and amortisation was charged to profit or loss on a straight line basis over the period of the leasehold period.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group, except for leases that have a lease term of 12 months or less ("short term leases") and leases of low value assets. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Land use right in respect of leasehold land in PRC previously classified as prepaid lease payments and prepayments and other receivables were also reclassified as right-of-use assets. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2. **Segment information**

**Segment results**

| | For the Six Months ended 30 June 2019 | | | | |
|---|---|---|---|---|---|
| | **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 | 11,541,967 | 18,358,830 | 547,309 | – | 30,448,106 |
| **Timing of revenue recognition:** | | | | | |
| Recognised at a point in time | 11,541,967 | 18,358,830 | 332,137 | – | 30,232,934 |
| Recognised over time | – | – | 215,172 | – | 215,172 |
| | 11,541,967 | 18,358,830 | 547,309 | – | 30,448,106 |
| Revenue from other sources | – | – | 47,203 | – | 47,203 |
| Inter-segment revenue | 1,952 | 8,530 | 672,744 | (683,226) | – |
| Segment revenue | 11,543,919 | 18,367,360 | 1,267,256 | (683,226) | 30,495,309 |
| **Segment results after finance costs** | 1,244,661 | 1,102,167 | (67,499) | (2,219) | 2,277,110 |
| Share of results of associates and joint ventures | (300) | 274,463 | (3,452) | – | 270,711 |
| Unallocated income, net | – | – | 3,372 | – | 3,372 |
| **Profit (loss) before taxation** | 1,244,361 | 1,376,630 | (67,579) | (2,219) | 2,551,193 |
| Taxation | (369,661) | (365,649) | (14,051) | – | (749,361) |
| **Profit (loss) for the period** | 874,700 | 1,010,981 | (81,630) | (2,219) | 1,801,832 |

**2.** **Segment information** *(Continued)*

| | For the Six Months ended 30 June 2018 | | | | |
|---|---|---|---|---|---|
| | **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 | 11,133,898 | 19,146,959 | 679,044 | – | 30,959,901 |
| **Timing of revenue recognition:** | | | | | |
| Recognised at a point in time | 11,133,898 | 19,146,959 | 385,471 | – | 30,666,328 |
| Recognised over time | – | – | 293,573 | – | 293,573 |
| | 11,133,898 | 19,146,959 | 679,044 | – | 30,959,901 |
| Revenue from other sources | – | – | 36,243 | – | 36,243 |
| Inter-segment revenue | 352 | 979 | 735,286 | (736,617) | – |
| Segment revenue | 11,134,250 | 19,147,938 | 1,450,573 | (736,617) | 30,996,144 |
| **Segment results after finance costs** | 979,811 | 619,550 | 297,432 | 163 | 1,896,956 |
| Share of results of associates and joint ventures | 62 | 96,114 | (475) | – | 95,701 |
| Unallocated income, net | – | – | 3,894 | – | 3,894 |
| **Profit before taxation** | 979,873 | 715,664 | 300,851 | 163 | 1,996,551 |
| Taxation | (312,920) | (177,269) | (18,068) | – | (508,257) |
| **Profit for the period** | 666,953 | 538,395 | 282,783 | 163 | 1,488,294 |

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. Starting from current period, the Group focuses on the operating decisions and the performance evaluation of two reportable segments which are Instant noodles and Beverages. Instant food is no longer considered as a separate reportable segment and has been included in others. As a result of the above re-alignment, comparative figures presented have also been restated to conform to current period's presentation. 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 before taxation, share of results of associates and joint ventures and unallocated income, net.

**2. Segment information** *(Continued)*

**Segment assets and liabilities**

| | At 30 June 2019 | | | | |
|---|---|---|---|---|---|
| | **Instant noodles (Unaudited)** *RMB'000* | **Beverages (Unaudited)** *RMB'000* | **Others (Unaudited)** *RMB'000* | **Inter-segment elimination (Unaudited)** *RMB'000* | **Total (Unaudited)** *RMB'000* |
| **Segment assets** | 19,462,914 | 28,619,357 | 6,733,155 | (882,175) | 53,933,251 |
| Interest in associates | — | 140,619 | — | — | 140,619 |
| Interest in joint ventures | 99 | 880,053 | 46,789 | — | 926,941 |
| Unallocated assets | | | | | 549,996 |
| **Total assets** | | | | | 55,550,807 |
| **Segment liabilities** | 7,244,865 | 15,639,529 | 11,251,744 | (1,474,299) | 32,661,839 |
| Unallocated liabilities | | | | | 84,023 |
| **Total liabilities** | | | | | 32,745,862 |

| | At 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | **Instant noodles (Audited)** *RMB'000* | **Beverages (Audited)** *RMB'000* | **Others (Audited)** *RMB'000* | **Inter-segment elimination (Audited)** *RMB'000* | **Total (Audited)** *RMB'000* |
| **Segment assets** | 19,508,958 | 27,360,079 | 5,516,526 | (771,501) | 51,614,062 |
| Interest in associates | — | 127,725 | — | — | 127,725 |
| Interest in joint ventures | 399 | 650,509 | 47,835 | — | 698,743 |
| Unallocated assets | | | | | 562,139 |
| **Total assets** | | | | | 53,002,669 |
| **Segment liabilities** | 8,181,378 | 14,704,521 | 7,749,539 | (1,360,636) | 29,274,802 |
| Unallocated liabilities | | | | | 115,436 |
| **Total liabilities** | | | | | 29,390,238 |

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 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 2019 (Unaudited) *RMB'000* | January to June 2018 (Unaudited) *RMB'000* |
|---|---|---|
| **Finance costs** | | |
| Interest on bank and other borrowings wholly repayable within five years | 178,791 | 205,564 |
| Interest on bank and other borrowings wholly repayable over five years | 14,614 | 16,951 |
| Finance costs on lease liabilities | 12,260 | – |
| | 205,665 | 222,515 |
| **Other items** | | |
| Depreciation | 1,639,698 | 1,630,449 |
| Amortisation | 3,153 | 54,984 |
| Impairment loss of property, plant and equipment (included in other operating expense) | 80,834 | 575,249 |

**5. Taxation**

| | January to June 2019 (Unaudited) *RMB'000* | January to June 2018 (Unaudited) *RMB'000* |
|---|---|---|
| **Current tax – the PRC Enterprise income tax** | | |
| Current period | 621,551 | 672,271 |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences, net | 19,745 | (233,988) |
| Effect of withholding tax on the distributable earnings of the Group's PRC subsidiaries | 108,065 | 69,974 |
| Total tax charge for the period | 749,361 | 508,257 |

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 2019 and 2018.

The applicable PRC enterprise income tax for the PRC subsidiaries is at the statutory rate of 25% (2018: 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% (2018: 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.

**6. Earnings per share**

*a) Basic earnings per share*

| | January to June 2019 (Unaudited) | January to June 2018 (Unaudited) |
|---|---|---|
| Profit attributable to ordinary shareholders (RMB'000) | 1,503,085 | 1,306,478 |
| Weighted average number of ordinary shares ('000) | 5,620,600 | 5,616,614 |
| Basic earnings per share (RMB cents) | 26.74 | 23.26 |

*b) Diluted earnings per share*

| | January to June 2019 (Unaudited) | January to June 2018 (Unaudited) |
|---|---|---|
| Profit attributable to ordinary shareholders (RMB'000) | 1,503,085 | 1,306,478 |
| *Weighted average number of ordinary shares (diluted) ('000)* | | |
| Weighted average number of ordinary shares | 5,620,600 | 5,616,614 |
| Effect of the Company's share option scheme | 4,705 | 11,663 |
| Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share | 5,625,305 | 5,628,277 |
| Diluted earnings per share (RMB cents) | 26.72 | 23.21 |

**7. Dividend**

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: nil).

**8. 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 loss allowance) based on invoice date, at the end of the reporting period is as follows:

| | At 30 June 2019 (Unaudited) *RMB'000* | At 31 December 2018 (Audited) *RMB'000* |
|---|---|---|
| 0 - 90 days | 1,951,192 | 1,584,771 |
| Over 90 days | 141,529 | 130,700 |
| | 2,092,721 | 1,715,471 |

**9. Issued capital**

| | At 30 June 2019 (Unaudited) | | | At 31 December 2018 (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 | 5,617,968,360 | 28,091 | 235,204 | 5,613,229,360 | 28,067 | 235,053 |
| Shares issued under share option scheme | 5,418,000 | 27 | 183 | 4,739,000 | 24 | 151 |
| At the end of the reporting period | 5,623,386,360 | 28,118 | 235,387 | 5,617,968,360 | 28,091 | 235,204 |

During the reporting period, 5,418,000 options were exercised to subscribe for 5,418,000 ordinary shares of the Company at a total consideration of RMB43,399,000 of which RMB183,000 was credited to share capital and the balance of RMB43,216,000 was credited to the share premium account. In addition, RMB13,191,000 has been transferred from the share-based payment reserve to the share premium account.

**10. Interest-bearing borrowings**

| | At 30 June 2019 (Unaudited) *RMB'000* | At 31 December 2018 (Audited) *RMB'000* |
|---|---|---|
| The maturity of the interest bearing borrowings: | | |
| Within one year | 6,171,272 | 6,461,785 |
| In the second year | 2,677,777 | 2,726,578 |
| In the third year to the fifth years, inclusive | 693,521 | 1,250,729 |
| Over five years | 346,706 | 395,416 |
| | 9,889,276 | 10,834,508 |
| Portion classified as current liabilities | (6,171,272) | (6,461,785) |
| Non-current portion | 3,718,004 | 4,372,723 |

During the six months ended 30 June 2019, the Group obtained bank loans in aggregate amount of RMB2,783,171,000 (2018: RMB1,103,557,000), repayments of bank loans amounting to RMB3,732,497,000 (2018: RMB4,633,006,000) 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 2019 (Unaudited) *RMB'000* | At 31 December 2018 (Audited) *RMB'000* |
|---|---|---|
| 0 - 90 days | 7,611,228 | 6,075,099 |
| Over 90 days | 862,635 | 878,862 |
| | 8,473,863 | 6,953,961 |

**12. Disposal of subsidiaries**

During the period, the Group disposed the entire equity interest in three wholly-owned subsidiaries to two independent third parties at an aggregate consideration of approximately RMB388,203,000. The disposals were completed before the end of the reporting period. The net assets of subsidiaries at the date of disposal were amounting to approximately in aggregate of RMB163,123,000. As a result, the gain on disposal of subsidiaries of RMB225,080,000 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 2019 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 2019 (Unaudited) | | | | At 31 December 2018 (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** | | | | | | | | |
| *Financial assets at fair value through profit and loss* | | | | | | | | |
| – Investment funds | – | – | 435,202 | 435,202 | – | – | 447,496 | 447,496 |
| – Equity securities, listed | 602 | – | – | 602 | 625 | – | – | 625 |
| *Equity instruments designated as at fair value through other comprehensive income* | | | | | | | | |
| – Equity securities, unlisted | – | – | 114,192 | 114,192 | – | – | 114,018 | 114,018 |
| | 602 | – | 549,394 | 549,996 | 625 | – | 561,514 | 562,139 |
| **Liabilities** | | | | | | | | |
| *Financial liabilities at fair value through profit or loss* | | | | | | | | |
| – Contingent consideration payable | – | – | 9,862 | 9,862 | – | – | 9,862 | 9,862 |
| | – | – | 9,862 | 9,862 | – | – | 9,862 | 9,862 |

During the six months ended 30 June 2019 and 2018, 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 2019 and 2018 are shown as follows:

| | 30 June 2019 (Unaudited) | | | 30 June 2018 (Unaudited) | | |
|---|---|---|---|---|---|---|
| | Assets | | Liabilities | Assets | | Liabilities |
| | Investment funds *RMB'000* | Equity securities, unlisted *RMB'000* | Contingent consideration payable *RMB'000* | Investment funds *RMB'000* | Equity securities, unlisted *RMB'000* | Contingent consideration payable *RMB'000* |
| At beginning of the period | 447,496 | 114,018 | (9,862) | 504,359 | 110,722 | (5,258) |
| Reclassification upon adoption of HKFRS 9 | – | – | – | – | 21,971 | – |
| Purchases | – | – | – | 2,621 | – | – |
| Disposal | (31,699) | – | – | (66,848) | (3,586) | – |
| Total gains or (losses) recognised: | | | | | | |
| – in profit or loss | 18,219 | – | – | 12,724 | – | – |
| – in other comprehensive income | – | (64) | – | – | (12,397) | – |
| Exchange difference | 1,186 | 238 | – | 7,521 | 2,109 | – |
| **At the end of the reporting period** | 435,202 | 114,192 | (9,862) | 460,377 | 118,819 | (5,258) |
| Change in unrealised gain for the period included in profit or loss for assets and liabilities held at the end of the reporting period | 12,154 | – | – | 5,928 | – | – |

**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 2019, the Group's financial assets at fair value through profit or loss mainly comprise four investment funds which are categorised as Level 3 (2018: four Level 3) of the fair value hierarchy.

The fair value of one of the investment funds in Level 3 is 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 three (31 December 2018: three) investment funds in Level 3, their fair values are 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 using price/earning (P/E) multiple model and price/sales (P/S) multiple model. In determining the fair value of unlisted investments, it includes assumptions are that are not supported by observable market prices or rates, including the expected annual growth rates, average price/earnings (P/E) and average price/sales (P/S) multiples of comparable companies of the corresponding industries.

(ii) 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/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.

**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) 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 2018.

**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 2018, 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 2019 comparing to 31 December 2018.

**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 2019 and 31 December 2018.

**14. Capital expenditure commitments**

**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 2019 (Unaudited) *RMB'000* | January to June 2018 (Unaudited) *RMB'000* |
|---|---|---|---|
| **(a)** | **Sales of goods to:** | | |
| | Companies controlled by a substantial shareholder of the Company | 76,446 | 64,805 |
| | Associates | 24,393 | 20,244 |
| | Joint ventures | 266,229 | 126,622 |
| **(b)** | **Purchases of goods from:** | | |
| | A group of companies jointly controlled by the Company's Directors and their dependent | 2,510,106 | 2,441,945 |
| | Joint ventures | 31,203 | 38,133 |

**16. Approval of interim financial statements**

The interim financial statements of 2019 were approved by the Board of Directors on 26 August 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Macro and Industry Environment

In the first half of 2019, the overall Chinese economy remain stable. GDP expanded 6.3% year-on-year, contributed by an increase in residents' income and consumption and a continuous upgrade in the consumption structure. Uncertainty risks in the external environment, such as the China-US trade war, international financial market volatility, and commodity price fluctuation have brought certain challenges to the Group whilst the regulatory policies such as VAT cuts and fee reductions have had a positive impact on the Group.

In the first half of 2019, the instant noodle industry and beverage industry continued to grow steadily. Due to the rise of urban agglomerations and the development of new towns, consumption has shown a stratified trend, and consumer demand for high-end products and cost-effective products has increased. Correspondingly, the channel continues to show a trend of fragmentation with a rapid growth in online retail, catering and other channels. These above industry environmental changes have brought both opportunities and challenges to the Group.

## BUSINESS REVIEW

In response to the trends of consumption stratification and channel fragmentation, the Group adopted "Consolidate, Reform and Develop" as its guiding strategy to consolidate the mass consumer market and to explore the premium market. The Group continued to improve the product portfolio and, as a result, focused on optimizing production layouts, exploring diversified channels, optimizing its organizational structure and strengthening its system construction in order to enhance organizational efficiency. Since the reform of the instant noodle business took place prior to that of the beverage business, the former has already entered the period of steady growth after experiencing some fluctuations, while the latter remains in the process of structural adjustments but it has begun to gradually recover.

In the first half of 2019, the Group's revenue decreased by 1.62% to RMB30.495 billion yoy (year-on-year compared with the corresponding period in 2018). Revenue from instant noodles and beverages increased by 3.68% and decreased by 4.08%, respectively. During the first half of 2019, although purchase price of some major raw material such as flour and PET resin maintained at high level, the Group was also benefited from price down of carton box, sugar and palm oil. The Group continued to optimize product mix and product upgrade, and together with government policies of VAT cuts and fee reductions, the Group's gross margin expanded by 0.70ppt. yoy to 31.93%. Distribution costs represented 20.81% of the revenue for the period and increased by 0.91ppt. yoy. EBITDA of the Group increased by 11.06% yoy to RMB4.154 billion. Thanked for the improvement of gross margin, cost cut of finance and G&A expenses and decrease of other operating expenses profit attributable to owners of the Company increased by 15.05% yoy to RMB 1.503 billion, basic earnings per share increased by RMB3.48 cents to RMB26.74 cents.

During the period, the Group met the needs of different consumption occasions with multi-specification products. In view of the trend of consumption stratification, the Group launched high-end products to attract affluent middle-class consumers while actively promoting cost-effective products to meet the demands of consumers looking for large-sized products. During the period, the Group founded the "Joint Laboratory for Aerospace Instant Food Products" (航天方便食品聯合實驗室) with Shenzhen Luhang Interstella Space Science and Technology Institute to further drive product upgrade. The Group also cooperated with the China Space Foundation and the Winter Training Center for the General Administration of Sport of China (國家體育總局冬訓中心) to boost the image of its product categories and brands. Moreover, it increased its investment in advertising to enhance the exposure of its brands and products, and strengthened omnimedia marketing to enhance the efficiency of customer reaching.

In response to the trend of channel fragmentation, the Group actively explored diversified channels and strengthened its cooperation with new retailers in preparation for exploring the premium market. Meanwhile, the Group continued to pursue channel profit optimization strategy, seeking win-win cooperation with its channel partners and optimize its terminal coverage rate and service qualities in core urban areas.

To be in line with new channel arrangements, the Group adjusted its organizational structure, equipped it with more matching talents and expanded its terminal service team to serve channel customers and partners faster and better.

In tandem with product mix adjustments and to make good use of capital expenditures, the Group continued to pursue the supply chain rationalization strategy, optimize production layouts, make further efforts to go asset-light and activate asset, and promote smart production. The Group also made further progress in process optimization, system simplification, IT system enhancement and share service center construction in order to improve operational efficiency.

## INSTANT NOODLE BUSINESS

According to the data from Nielsen, in the first half of 2019, the overall sales volume of the instant noodle market in China increased by 1.4% yoy while sales amount grew by 7.5% yoy. During the period, the market shares of Master Kong in terms of sales volume and sales amount were 42.9% and 46.6%, respectively, maintained No.1 position in the market.

In the first half of 2019, the Group's revenue from the instant noodle business was RMB11.544 billion, which grew by 3.68% yoy, accounting for 37.85% of the total revenue of the Group. The gross margin of instant noodles decreased by 1.67 ppt. yoy to 28.16% due to price adjustments and soaring prices of certain raw materials during the period. As a result of the yoy sales growth finance expenses decrease and other operating expenses decrease, profit attributable to owners of the Company of the overall instant noodle business increased by 31.24% yoy to RMB0.875 billion in the first half of 2019.

During the period, the instant noodle business maintained to push forward the multi-price strategy in order to consolidate the high-priced and high-end market and develop it into the core, and set out to move into the super-premium market. Diverse consumption occasions have been created through the increase in the investment in advertising and multi-media marketing and ongoing IP cooperation, and the demands of consumers in the abovementioned consumption occasions have been met with products available in multiple specifications and multiple flavors, which attracted young families and young consumers. Through cooperation with the Winter Training Center of General Administration of Sport of China and China Space Foundation, the Group further improved the food safety standards, enhanced the image of the category and its brand to make a lead in the development of the industry. During the period, the instant noodle business improved its channel services, increased its coverage area of terminal services in the core urban areas and promoted win-win cooperation with distributors in lower-tier cities. In addition, the instant noodle business continued its supply chain optimization and improved its supply chain efficiency through initiatives such as shutting down old factories, improving production layouts and enhancing product line automation.

**High-priced Noodles and Premium Noodles**

Under consumption stratification, we achieved sales growth through consolidating the high-priced and high-end market with core products and satisfying different demands of consumers with products available in multiple specifications and multiple flavors. We enhanced our brand image and attracted young families and working-class consumers through our cooperation with Space Foundation, sports marketing, IP cooperation and multi-media marketing.

The instant noodle business launched products available in multiple specifications to meet different consumption scenarios and individual demands. In order to cope with the demands for cost-effectives products in low-tier cities, we actively promoted the sale of large-package products and achieved sales growth. We launched a cup version of "Fresh Vegetable Noodle" and "Mini Cup" to meet the demands of the market for small package and "tea-time version". We also promoted the sale of "dry noodles" for hot summer and achieved sales growth.

For the sake of creating consumption scenarios and attracting young consumers and young families, the instant noodle business promoted IP cooperation and multi-media marketing. Through the cooperation with the parent-child variety show "Bring me somewhere far"(帶我去遠方), "Roasted Beef Noodle" and "Premium Soup Series" were promoted with dining scenes in the travel-related show; "Pickled Mustard" continued its IP cooperation with "Kung Fu Panda" to rejuvenate its brand; "Rattan Pepper Beef Noodle" carried out IP cooperation with animation "Douro Mainland", integrating the offline comprehensive experience stores and appealing to fashionable urban consumer groups; "Fresh Vegetable Noodle" improved its online marketing and increased its brand exposure through social media sites such as Weibo and Douyin.

**Super-premium Noodles**

In response to the trend of consumption upgrading, the instant noodle business launched the super-premium instant noodle product "Express Chef's Noodle" targeting at affluent middle class and priced at over RMB20 in the fourth quarter of last year. During the period, the Group focused on selling the product online and through special channels (such as amusement parks and long-distance passenger transports) and the sales volume continued to climb. The Group also leveraged the Winter Olympics Games and grabbed the opportunity to cooperate with the General Administration of Sport of China to further improve the food safety standards and enhance its brand image. On 10 May 2019, just 1,000 days before the Winter Olympics, as the sole sports nutritious instant meal provision partner of the Winter Sports Management Center of the General Administration of Sport of China, Master Kong successfully delivered its first batch of "Express Chef's Noodle exclusive to Chinese winter sports athletes", responding to the title of "healthy China" and the Chinese dream of becoming a major sporting nation by offering healthy meals.

**Mid-end Noodles/Snack Noodles**

Mid-end noodles strived to satisfy the functional consumption demands of low-tier cities and rural areas. With cost-effective products with multiple flavors, the Group attracted families for consumption and the gift market. Strengthening the brand building with advertisement, the Group maintained the leading position in the market. Snack noodles, "Xiang Bao Cui" concentrated on maintaining its price at the RMB1 range and attracted youngsters through IP cooperation and with new flavors. The launch of new flavor products under the cheese series and IP cooperation with the renowned mobile game "Junior Three Kingdoms" (少年三國志) during the period contributed to sales growth.

## BEVERAGE BUSINESS

According to the data from Nielsen, the sales volume and sales amount of the beverage industry in China grew by 4.7% and 6.3%, respectively, yoy in the first half of 2019. In the first half of the year, the ready-to-drink (RTD) tea (including milk tea) of the beverage business accounted for a 44.8% market share in terms of sales volume and continued to secure the top ranking position in the market. The fruit juice products of the Group accounted for a market share of 14.5%, ranking No.2 in the market. Market share for bottled water was 5.4%. According to the monitoring data from a third party research company, in terms of sales volume, the overall market share of Pepsi carbonated drinks increased by 0.6 ppt. yoy to 32.5% in the first half of 2019, ranking No.2 in the market. Among which, the market share of Pepsi Cola in terms of sales volume increased by 0.4 ppt. yoy to 48.7% in the cola carbonated drinks market, ranking No.1 in the market.

In the first half of 2019, the overall revenue of the beverage business was RMB18.367 billion, dropped by 4.08% yoy, accounting for 60.23% of the Group's total revenue. During the period, gross margin of the beverage business increased by 2.11 ppt. to 34.24% yoy, mainly due to factors such as the Group's ongoing optimization of product mix, product upgrade and a decrease in the price of certain raw material and national policies of VAT cuts and fee reductions. Due to the improved gross margin, and decrease of other operating expenses the profit attributable to shareholders of the Company of the beverage business in the first half of 2019 grew by 91.27% yoy to RMB706 million.

The beverage business is still under the process of product mix adjustments but has managed to recover. During the period, the beverage business focused on its core categories and products to meet the mass consumption demands and launched high-end products to meet the needs of consumption upgrades. It also continued to modify its product mix, increase its investment in advertising and brand building and seek win-win results in channels. It coped with different consumption scenarios and attracted young families and young consumers with products available in multiple specifications and multiple packages. Through IP cooperation, sports marketing and scene marketing, the Group strengthened its brand building and increased brand investment to raise its brand awareness. The Group actively promoted the diversification of channels and developed indoor and outdoor channels; expanded its service coverage for stores in core urban areas and improved channel profit and sought win-win cooperation with distributors. The Group also made a sustained effort to activate assets and go asset-light, improved its production layouts, increased capital expenditures of new product lines to an appropriate extent, developed a smart manufacturing system and hence improved the overall efficiency of the supply chain.

**RTD Tea**

The Group consolidated the mass consumption market with its core RTD Tea products, coped with different consumption scenarios with products available in multiple specifications and multiple flavors and launched the high-end product "Master Kong Chacanting Lemon Tea" to seize the high-end market, maintaining its leading position in the RTD market. During the period, the Group continued its brand investment and attracted young consumers and families through IP cooperation, sports marketing and scene marketing. "Master Kong Ice Tea" created sports scene with NBA China Game, music scene with Produce Camp 2019, family and dining scenes with Disney and Universal Studios to promote sales. The "Jasmine Series" created a brand image of "light aromatic jasmine" and appealed to young consumers through IP cooperation. "Green Tea" continued to reinforce its "fresh and energetic" brand image and appealed to young consumer groups with its cooperation with popular IP. "Master Kong Milk Tea" carried out IP cooperation with "Rocket Girls 101", unleashing the purchasing power and communication power of their fans. It attracted consumers with its products available in new specifications and new packages. The newly launched "Oolong Tea Series" satisfied the demands of new generation consumers under urbanization for fruit tea during the period. The high-end product lemon-tea "Master Kong Chacanting" met the needs of consumption upgrades needs and achieved rapid sales growth.

**Bottled Water**

During the period, we continued to implement last year's product upgrade and price increase strategies, and expand our presence in low to high price markets. The Group actively invested in brand building and carried out IP cooperation to meet different consumer needs with products available in multiple specifications and wide price range, as well as continued to optimize channels to boost profits and promoted a gradually steady and rebounding sales. The Group continuously conducted brand upgrade for affordable water "Master Kong Bottled Drinking Water", cooperated with our brand spokesperson to deliver the brand image of "The best choice for family", and attracted consumers with its cost-effective products available in multiple specifications. "Aquafina", a water product for mid-end water market, has been launched with its large package and has met different consumer needs with such product available in multiple specifications and was promoted as a product for outdoor consumption. "Han Yang Quan", a water product for high-end water market, has highlighted its brand image of high quality and rich cultural implications, met the demands of the middle class for natural mineral water and focus on core business areas and modern channels to establish a premium brand image.

**Carbonated Drinks**

For the Pepsi's carbonated drinks bottling business, the Group met different consumer needs with products available in multiple flavors, multiple specifications and attractive packaging, and along with the marketing activities for brand-building, it achieved a double-digit growth in sales amount yoy. For its "Pepsi-cola" business, the Group has launched several new drinks, such as the limited-edition salted-caramel flavor cola and raspberry flavor (no sugar) cola, along with the marketing event of "Pepsi Concept Store" to attract young consumers, thereby resulted in a steady sales growth. For its "Mirinda" business, the Group has launched new stylish bottles distinguishing various fruit flavors and a new banana flavor, aiming at gaining higher brand recognition and customer retention. The annual promotional campaign for "7 up" commenced with the use of "Feel good to be you" as new theme, and the strengthening of its channel penetration was achieved by leveraging on its product mix and "7 up Low Sugar".

**Juice Drinks**

During the period, for the beverage business, the Group has increased its investments on brand-building and optimizing channels to boost profits for juice drinks, consolidated the leading position of Chinese juice products and promoted the sales of Western juice products, thus achieving an overall growth on sales. The Group created consumption scenarios and expanded catering and take-out channels with products available in multiple specifications, and it also attracted young consumers through IP cooperation and media marketing. Chinese-style juice "Rock Candy Pear" was targeted at students and young families; for this line of business, the Group cooperated with variety popular shows to deepen the brand image. The "Traditional Drink Sweet-Sour plum juice" cooperated with popular IP to meet the needs of consumers in catering channels with the image of a Chinese classic drink. Western-style juice "Master Kong Juices" and "Light Fruits" met different consumer demands with their multiple specifications and flavors, resulting in an increase in sales. "Tropicana" met the needs of different scenarios through new flavors and multiple specifications, and proactively promoted consumption scenarios such as take-out and dinner parties. In response to a shift towards healthier choices, the Group launched more flavors for 100% juices "Tropicana 100%" to attract consumers.

**Coffee Drinks/Functional Drinks/Probiotics Drinks**

In the ready-to-drink (RTD) coffee market, the Group, having established a foothold in the midhigh-priced RTD coffee segment, cooperated with international strategic partner "Starbucks" to expand the market share in the premium market and expanded its market share in the room temperature midhigh-priced RTD coffee segment with "Bernachon coffee" to sustain sales growth. During the period, more efforts were put on the innovation and development of Starbucks RTD, three new bottle canned products were introduced into the market, among which the "Starbucks Doubleshot Energy Series" had ground-breaking moves by adding in green tea extracts, vitamins and minerals, offering a brand-new taste experience of ice or fire flavor of coffee. "Starbucks Pike Place Black Coffee" selects the same kind of beans been used in Starbuck stores in order to attract the consumers of Americano. For its "Bernachon coffee" business, the Group launched a new specification – sleek can and actively sought to operate in core urban areas and modern channels and combined online and offline marketing to establish a professional coffee brand image and achieve rapid sales growth.

The functional drink "Gatorade", which was intended to promote the brand as the first sport brand, focused on various sports scenarios such as football, basketball, running, fitness etc., and combined with online and offline marketing to achieve a steady sales growth. The online marketing campaign targeted on promotion of themes related to sports enthusiasts and vertical media; the offline marketing campaign involved extending the coverage on sports scenarios through sponsoring sports tournament and events and combining with promotion through KOLs (Key Opinion Leader) to enhance its brand influence.

"Wei Chuan Room Temperature Ambient Probiotics Drink" consolidated its share in the Yangtze River Delta market and was in line with consumers' pursuit of nutrition and health. Through flavors and packaging upgrade, along with the young and vibrant public image of a high-traffic spokesperson, the product appealed to young consumers, enhanced its brand recognition and saw an increase in sales.

## FINANCING

The Group continued to maintain a stable and healthy financial structure through effective control of the balances of trade receivables, trade payables, bank balances and cash as well as inventories. As at 30 June 2019, the Group's cash and bank balances totaled RMB16.081 billion, an increase of RMB2.240 billion compared to 31 December 2018. A sufficient amount of cash in hand was still maintained. As at 30 June 2019, the Group's total assets and total liabilities amounted to RMB55.551 billion and RMB32.746 billion respectively, representing an increase of RMB2.548 billion and an increase of RMB3.356 billion respectively when compared to 31 December 2018. The debt ratio increased by 3.50ppt. to 58.95% compared to 31 December 2018. Gearing ratio dropped to -33.08% from -15.29% as at 31 December 2018. As at 30 June 2019, the total liabilities included 2018 final and special dividend of RMB 2.463 billion, which was approved at the Annual General Meeting held on 3 June 2019 and was paid on 10 July 2019.

As at 30 June 2019, the Group's total interest-bearing borrowings was RMB9.889 billion, which decreased by RMB0.945 billion from 31 December 2018. At the end of the period, the Group's proportion of the total borrowings denominated in foreign currencies and Renminbi was 72% against 28%, which is the same as at the end of last year. The proportion between the Group's long-term borrowings and short-term borrowings was 38% against 62%, as compared to 40% against 60% as at the end of last year. In line with the Group's overall strategy of "Cash Is King," the Group has implemented sound control over capital expenditure and has effectively implemented asset-light and activation on asset, which is expected to generate stable cash inflows. In the future, the Group will continue to gradually reduce the level of interest-bearing borrowings through the usage of internal resource so as to achieve more flexible and healthier financial structure objectives and further improve the operational basis.

During the period, US dollars appreciated against Renminbi by 0.22%. Due to the fluctuation of exchange rate during the year, realized and unrealized exchange gains in aggregate of RMB7.10 million has been recognized in the Group's income statement for the year.

**Financial Ratio**

| | **As at 30 June 2019** | **As at 31 December 2018** |
|---|---|---|
| Finished goods turnover | 14.23 Days | 12.42 Days |
| Trade receivables turnover | 11.30 Days | 10.08 Days |
| Current ratio | 0.86 Times | 0.88 Times |
| Debt ratio (Total liabilities to total assets) | 58.95% | 55.45% |
| Gearing ratio (Net debt to equity attributable to owners of the Company) | -33.08% | -15.29% |

## HUMAN RESOURCES

As at 30 June 2019, the number of employees of the Group was 54,332. The Group continuously optimized the organizational structure and built efficient organizations. The Group also continued to inject young blood into its management team and diversified its talent pool as its objectives. Through measures such as optimizing the strategic deployment of talents and planning for talent development, the Group managed to push forward its human resources reform.

The Group has optimized its channels by promoting organizational reforms, thus provided better services for channels and achieved business growth. The reforms focused on allocating more organizations and staff to provide services for new channels, increasing coverage rates and strengthening the self-operating abilities of province-level companies. By implementing measures such as optimizing organizational structure, speeding up talent recruitments and introducing incentive measures and skill trainings, the human resources division was able to conduct reforms and provide services for the frontline team.

The Group continued to optimize its talent pool, enhanced organizational capabilities and improved its talent team. During the period, the Group improved the mechanism for identifying and cultivating young potential talents within the organization and focused on plans to build up its reserve of talents for mid and long terms. The Group continued to build up its reserve of campus talents through the "Young Master Program" and established a tailor-made rotational training program to build up its talent pool. The Group also deepened campus-enterprise relationships and strengthened cooperation with educational institutions by offering apprenticeship to campus talents, so as to expand the frontline talent pool.

For the academia and industry collaboration, the Group deepened its long-term strategic cooperation with Peking University, one of the best universities in China. During the period, a tripartite cooperation framework agreement was entered into among Peking University, Waseda University and Master Kong, pursuant to which an in-depth forefront study on certain fields such as health-related big data, artificial intelligence, food and nutrition for the young and elderly and sports medicine was being conducted through the academia-industry cooperation, in order to support the national policy of "Healthy China 2030" Planning Outline. Such study will be a scientific basis for future technological innovation.

**Corporate Social Responsibility**

The Group consistently implemented the concept of "sustainable operation, contribution to society" and carry out corporate social responsibility efforts in such areas as food safety, energy conservation and environmental protection and contribution to society.

The Group regards food safety as the cornerstone of corporate success. As a partner of China's aerospace industry, the Group strengthened its food safety management system, took food safety technologies and standards in aerospace industry as targets, and exercised rigorous control over the safety and quality of its products. The Group continued to increase investment in food safety research, innovated new food safety technologies and increased all employees' awareness about food safety responsibility in every section. Moreover, the Group attaches great importance to science education on food safety. During the period, the Group continued to carry out activities such as "Aerospace Spirit China Tour & Food Safety Science Education Program" and the "Month of Food Safety" across the country, aiming to popularize food safety education to the whole society and to raise awareness about public supervision through trainings, flight inspections and organizing open days for family members of employees.

The Group actively responded to the basic national policies on environmental protection and promoted the use of renewable energies and the work of energy conservation and consumption reduction through technology innovation and technological improvement. It also actively promoted environmental protection education and environmental protection welfare events. During the period, the Group effectively increased the resource utilization efficiency through energy conservation and consumption reduction measures such as water, electricity and gas intelligent management system, reuse of wastewater, capacity expansion of water reclaiming system and replacement of iced water by water from public water tower. The Group also attaches great importance to environmental protection education. It joined hands with the China Beverage Industry Association for the fifth consecutive year to hold the "Water Education" program, aiming to promote environmental protection and public awareness of "know water, love water, save water" among primary school students. During the period, the Group organized various environmental protection events relating to tree planting and waste sorting such as "Qing Love Earth" and "Small action, Big impact", further spreading the concept of environmental protection.

The Group actively contributed to the community and offered assistance to individuals and groups in need. It provided relief supplies to Yibin earthquake-stricken areas, Hulunbuir fire-stricken area, Qipan Mountain fire-stricken area and offered care and water to police stations, firefighters, students taking college entrance examinations and public janitors. The Group also donated money and goods to the poverty-stricken people and supported the government's poverty alleviation fund.

The Group has always attached great importance to giving back to the cause of education. The "Master Kong Dream Scholarship Project" co-organized with Waseda University has now entered its sixth cohort, and has provided funds for more than 100 students from five top universities in the country to study in Japan through an exchange program. This year, the Group founded a Waseda University & Master Kong Scholarship Student Alumni Association, aiming to nurture future leaders and talents through the alumni platform and open up a new platform for the Group's introduction of well-educated distinguished talents in the future. In addition, the Group continued to work with top universities such as Stanford University and Tsinghua University Schwarzman Scholars to carry out internship programme.

## PROSPECTS

Although the Chinese macroeconomy is facing downward pressure, it remained stable overall. The packaged food and beverage industry maintained stability with growth. Although the rising prices of certain materials brought some challenges to the Group, the regulatory policies such as VAT cuts and fee reductions had a positive impact on the Group in the macro environment. By leveraging the opportunities arising from consumption stratification, the rise of lower-tier cities and channel fragmentation trends, the instant noodle business is expected to develop steadily in the second half of the year, while the beverage business will continue to promote structural adjustment and achieve gradual growth recovery.

The Group adheres to the strategy of "Consolidate, Reform and Develope", and will maintain its focus on the mass consumption market and gradually expand the high-end market. The Group will optimize its production layouts and organizational structure in order to continue to promote product mix adjustments, thereby better serving our channel partners and consumers.

The Group will focus on core products with multiple specifications and multiple flavors to attract mass consumers according to the consumption stratification. It will launch more products with wider price ranges to appeal to new urbanization population, middle working-class and affluent middle class consumers. The Group will further enhance its product quality through the "Joint Laboratory for Aerospace Instant Food Products" (航天方便食品聯合實驗室). In the second half of the year, the Group will continue its efforts in brand investment and brand building, and enhance the image of its brand and product categories through cooperating with the China Space Foundation and the Winter Training Center for the General Administration of Sport of China. Meanwhile, it will increase its brand awareness through omnimedia marketing, and IP cooperation in order to appeal to young consumers and young families.

In order to be in line with the product mix upgrading, the Group will continue to implement the reform of supply chain rationalizations and optimize its production layouts. On the basis of making good use of capital expenditures, the Group will make further efforts to go asset-light and activate asset, and promote intelligent production in order to improve operational efficiency.

In response to the trend of channel fragmentation, the Group will actively explore a diverse range of channels, strengthen its cooperation with new retailers and e-commerce partners while exploring advantages of traditional channels. The Group will continue to promote the channel optimization strategy, commit itself to achieving reasonable allocation of channel profits and seek win-win cooperation with channel partners. The Group will expand the coverage of direct retailers in first-tier cities and attract quality distributors and seek cooperation with channel partners in low-tier cities. In response to the new channel arrangements, the Group will also push forward organizational rationalization and organizational structure adjustments in order to provide more effective services to channel customers and partners.

In addition, the Group will continue the establishment of share service center and accelerate the transformation of digitalization, optimize the information management platform and apply technologies such as big data and artificial intelligence to assist in the decision making of commercial digitalization. The Group will further promote process optimization and system simplification to improve operational efficiency.

In order to develop itself into a brand company with an enduring foothold in China's food and beverage industry, the Group regards food safety as the cornerstone of development, and will capitalize on its cooperation with the Winter Training Center for the General Administration of Sport of China and the Joint Laboratory for Aerospace Instant Food Products to further promote the development of food safety technology and the creation of a product traceability system. With fulfilling the needs of people's lives as its business fundamental, serving the demands of the middle class as the long-term development goal and winning together with customers and partners as the foundation for success, the Group will motivate itself as a National Brand, build itself into a comprehensive food and beverage company with sustainable operation and continue to promote the healthy development of the industry.

## CORPORATE GOVERNANCE

We have, during the six months ended 30 June 2019, 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 2019, the Group has been carrying out self-assessment of internal control including finance, information and operation. At the same time, according to operational needs, the Group sorted out core restriction of authority again, announced and published it within the Group. Besides, the Group has also been prompting the implementating regulations and monitoring other work. According to the internal audit of the internal control inspection and audit department, we have not identified any material deficiency in risk management and internal control. Therefore, the Board and the Audit Committee believe that the Group's risk management and internal control system are effective.

**Compliance with the Model Code**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules 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 2019, 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 2019 pursuant to the 2008 Share Option Scheme: (Table B)

| | | | | Number of share option | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Date of grant | Exercise price HK$ | Closing price of the shares on the date of grant HK$ | Balance as at 1 January 2019 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | Balance as at 30 June 2019 | Weighted average closing price immediately before exercise HK$ | Note |
| **Executive Director** | | | | | | | | | | |
| Lin Chin-Tang | 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) |
| 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) |
| **Substantial Shareholder** | | | | | | | | | | |
| Wei Ing-Chou# | 22 April 2009 | 9.38 | 9.37 | 2,816,000 | – | 2,816,000 | – | – | 12.13 | 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) |
| **Other employees in aggregate** | 22 April 2009 | 9.38 | 9.37 | 2,428,000 | – | 2,452,000 | (24,000) | – | 12.13 | Table A (2) |
| | 1 April 2010 | 18.57 | 18.42 | 7,128,000 | – | – | 554,000 | 6,574,000 | – | Table A (3) |
| | 12 April 2011 | 19.96 | 19.96 | 9,164,000 | – | – | 650,000 | 8,514,000 | – | Table A (4) |
| | 26 April 2012 | 20.54 | 19.88 | 5,868,000 | – | – | 324,000 | 5,544,000 | – | Table A (5) |
| | 27 May 2013 | 20.16 | 20.05 | 6,508,000 | – | – | 340,000 | 6,168,000 | – | Table A (6) |
| | 17 April 2014 | 22.38 | 22.35 | 8,354,000 | – | – | 1,431,000 | 6,923,000 | – | Table A (7) |
| | 5 June 2015 | 16.22 | 15.92 | 10,915,000 | – | – | 127,000 | 10,788,000 | – | Table A (8) |
| | 4 July 2016 | 7.54 | 7.54 | 4,723,000 | – | 150,000 | – | 4,573,000 | 12.27 | Table A (9) |
| | 21 April 2017 | 10.20 | 10.20 | 4,770,000 | – | – | – | 4,770,000 | – | Table A (10) |
| **Total** | | | | 88,024,000 | – | 5,418,000 | 3,626,000 | 78,980,000 | | |

For the period of six months ended 30 June 2019, 5,418,000 options had been exercised under the 2008 Share Option Scheme. Weighted average exercise price was HK$9.33 and the weighted average market closing price before the date of exercise was HK$12.13.

**(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 2019 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 1 January 2019 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | Balance as at 30 June 2019 | Weighted average closing price immediately before exercise HK$ | Note |
|---|---|---|---|---|---|---|---|---|---|---|
| **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** | | | | | | | | | | |
| James Chun-Hsien | 27 April 2018 | 16.18 | 15.02 | 1,708,000 | – | – | – | 1,708,000 | – | Table C (1a) |
| Wei | 27 April 2018 | 16.18 | 15.02 | 797,000 | – | – | – | 797,000 | – | 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 | 4,127,000 | – | – | 1,805,000 | 2,322,000 | – | Table C (1b) |
| **Total** | | | | 8,068,000 | – | – | 1,805,000 | 6,263,000 | – | |

During the six months ended 30 June 2019, 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 44.825% 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 1,882,927,966 shares of the Company.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER IN SHARES

As at 30 June 2019, 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% |
| Lin Chin-Tang | 674,000 | 0.01% | 334,000 | 0.01% |
| Wei Hong-Chen | 5,000,000 | 0.09% | 1,483,000 | 0.03% |
| **Chief Executive Officer** | | | | |
| James Chun-Hsien Wei | — | — | 14,863,000 | 0.26% |

Save as disclosed above, at no time during the six months ended 30 June 2019 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 2019, 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. (L): Long Position

2. 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 China Foods Investment Corp., a subsidiary of 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) Trustee Limited is the trustee of each of the discretionary trusts mentioned above.

3. Wei Ing-Chou is also personally interested in 13,942,000 shares and holds 10,904,000 share options (details shown as Table B and Table D on page 29 and 30 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 2019.

## BOARD OF DIRECTORS

As at the date of this report, Mr. Wei Hong-Ming, Mr. Junichiro Ida, Mr. Lin Chin-Tang, Mr. Koji Shinohara, Mr. Wei Hong-Chen and Mr. Yuko Takahashi 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*

Shanghai, the PRC, 26 August 2019

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

* *For identification purpose only*