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康師傅控股有限公司\*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 322)

## THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30TH SEPTEMBER 2015

### SUMMARY

US\$'000	For the three months ended 30 September			For the nine months ended 30 September		
	2015	2014	Change	2015	2014	Change
• Turnover	2,763,470	2,953,923	↓ 6.45%	7,633,872	8,458,341	↓ 9.75%
• Gross margin	33.30%	32.07%	↑ 1.23 pp	33.04%	31.42%	↑ 1.62 pp
• Gross profit of the Group	920,186	947,337	↓ 2.87%	2,522,235	2,657,830	↓ 5.10%
• EBITDA	408,063	401,360	↑ 1.67%	1,087,701	1,104,774	↓ 1.55%
• Profit for the period	188,094	205,532	↓ 8.48%	461,386	542,531	↓ 14.96%
• Profit attributable to owners of the Company	144,275	159,653	↓ 9.63%	341,934	391,559	↓ 12.67%
• Earnings per share (US cent)						
Basic	2.57	2.85	↓ 0.28 cent	6.10	6.99	↓ 0.89 cent
Diluted	2.57	2.84	↓ 0.27 cent	6.09	6.97	↓ 0.88 cent

As at 30 September 2015, cash and cash equivalents are US\$1,666.044 million, which is an increase of US\$482.941 million when compared to 31 December 2014. Gearing ratio is 0.28 times.

### 2015 THIRD QUARTERLY RESULTS

The Board of 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 three months and nine months ended 30 September 2015 together with the comparative figures for the corresponding periods in 2014. These unaudited condensed consolidated third quarterly financial statements have been reviewed by the Company's Audit Committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the Three Month and Nine Month Ended 30 September 2015

		<b>July to September 2015 (Unaudited) US\$'000</b>	<b>January to September 2015 (Unaudited) US\$'000</b>	<b>July to September 2014 (Unaudited) US\$'000</b>	<b>January to September 2014 (Unaudited) US\$'000</b>
<b>Turnover</b>	2	2,763,470	7,633,872	2,953,923	8,458,341
Cost of sale		(1,843,284)	(5,111,637)	(2,006,586)	(5,800,511)
Gross profit		920,186	2,522,235	947,337	2,657,830
Other revenue and other net income		46,811	142,737	44,270	154,044
Distribution costs		(522,802)	(1,486,877)	(598,107)	(1,703,582)
Administrative expenses		(90,993)	(265,118)	(68,503)	(237,273)
Other operating expenses		(76,444)	(208,401)	(35,740)	(105,425)
Finance costs	5	(14,954)	(45,844)	(12,220)	(33,120)
Share of result of associate and joint venture		5,390	15,219	4,820	14,292
<b>Profit before taxation</b>	5	267,194	673,951	281,857	746,766
Taxation	6	(79,100)	(212,565)	(76,325)	(204,235)
<b>Profit for the period</b>		<u>188,094</u>	<u>461,386</u>	<u>205,532</u>	<u>542,531</u>
<b>Attributable to</b>					
Owner of the Company		144,275	341,934	159,653	391,559
Non-controlling interest		43,819	119,452	45,879	150,972
<b>Profit for the period</b>		<u>188,094</u>	<u>461,386</u>	<u>205,532</u>	<u>542,531</u>
<b>Earnings per share</b>	7				
Basic		<u>2.57 cen</u>	<u>6.10 cen</u>	<u>2.85 cen</u>	<u>6.99 cen</u>
Diluted		<u>2.57 cen</u>	<u>6.09 cen</u>	<u>2.84 cen</u>	<u>6.97 cen</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the Three Month and Nine Month Ended 30 September 2015

	<b>July to September 2015 (Unaudited) US\$ 000</b>	<b>January to September 2015 (Unaudited) US\$ 000</b>	<b>July to September 2014 (Unaudited) US\$ 000</b>	<b>January to September 2014 (Unaudited) US\$ 000</b>
<b>Profit for the period</b>	188,094	461,386	205,532	542,531
<b>Other comprehensive (loss) income</b>				
<b>Items that are or may be reclassified   subsequently to profit and loss:</b>				
Exchange difference on consolidation	(118,021)	(123,628)	38,365	(66,284)
Fair value change in available-for-sale financial assets	(3,551)	2,709	2,371	2,371
Reclassification adjustment relating to available-for-sale financial assets disposed of in the period	—	(5,736)	—	—
<b>Other comprehensive (loss) income for the period</b>	(121,572)	(126,655)	40,736	(63,913)
<b>Total comprehensive income for the period</b>	<u>66,522</u>	<u>334,731</u>	<u>246,268</u>	<u>478,618</u>
<b>Total comprehensive income attributable to:</b>				
Owner of the Company	51,298	246,857	194,565	349,900
Non-controlling interest	15,224	87,874	51,703	128,718
	<u>66,522</u>	<u>334,731</u>	<u>246,268</u>	<u>478,618</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 September 2015

	At 30 September 2015 (Unaudited) <i>US\$'000</i>	At 31 December 2014 (Audited) <i>US\$'000</i>
<i>Note</i>		
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	5,659,190	5,859,905
Prepaid lease payments	719,474	737,387
Intangible assets	26,739	27,305
Interests in associates	32,964	31,973
Interests in joint ventures	89,052	74,153
Available-for-sale financial assets	88,669	79,052
Deferred tax assets	51,832	53,009
	<u>6,667,920</u>	<u>6,862,784</u>
<b>Current assets</b>		
Financial assets at fair value through profit or loss	7,590	2,352
Inventory	362,938	386,958
Trade receivables	310,322	238,239
Prepayments and other receivables	442,057	532,621
Pledged bank deposits	17,534	12,203
Bank balances and cash	1,648,510	1,170,900
	<u>2,788,951</u>	<u>2,343,273</u>
<b>Total assets</b>	<u><u>9,456,871</u></u>	<u><u>9,206,057</u></u>

	<b>At 30 September 2015 (Unaudited) US\$'000</b>	<b>At 31 December 2014 (Audited) US\$'000</b>
<i>Net</i>		
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Issued capital	28,014	28,019
Share premium	63,900	65,421
Reserves	2,996,006	2,940,117
<b>Total capital and reserves attributable to owners of the Company</b>	<b>3,087,920</b>	<b>3,033,557</b>
<b>Non-controlling interests</b>	<b>1,108,669</b>	<b>1,062,107</b>
<b>Total equity</b>	<b>4,196,589</b>	<b>4,095,664</b>
<b>Non-current liabilities</b>		
Long-term interest-bearing borrowing	1,371,900	1,246,720
Employee benefit obligation	30,606	28,702
Deferred tax liabilities	227,152	198,487
	1,629,658	1,473,909
<b>Current liabilities</b>		
Trade payable	1,163,390	896,131
Other payable and deposits received	1,169,876	1,233,472
Current portion of interest-bearing borrowing	1,171,082	1,382,034
Advance payments from customer	48,942	100,522
Taxation	77,334	24,325
	3,630,624	3,636,484
<b>Total liabilities</b>	<b>5,260,282</b>	<b>5,110,393</b>
<b>Total equity and liabilities</b>	<b>9,456,871</b>	<b>9,206,057</b>
<b>Net current liabilities</b>	<b>(841,673)</b>	<b>(1,293,211)</b>
<b>Total asset less current liabilities</b>	<b>5,826,247</b>	<b>5,569,573</b>

## 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. The condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard (HKAS) 34 Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). The condensed consolidated interim financial statements should be read in conjunction with the 2014 annual financial statements. The accounting policies adopted in preparing the condensed consolidated interim financial statements for the nine months ended 30 September 2015 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except for the adoption of the revised standard of Hong Kong Financial Reporting Standard (HKFRS) which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2015.

Amendment of HKAS 19 (2011)	Defined Benefit Plan	Employee Contribution
Variance HKFRS	Annual Improvement Project	2010-2012 cycle
Variance HKFRS	Annual Improvement Project	2011-2013 cycle

The adoption of the amendments of HKFRS did not result in a material change to the Group's accounting policies and amounts reported for the current and prior periods.

### 2. Turnover

The Group's turnover represents revenue arising from the sale of goods and services to customers, net of returns, discounts and other allowances.

### 3. Segment information

#### Segment results

	For the Nine Months ended 30 September 2015					
	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Instant food (Unaudited) US\$'000	Others (Unaudited) US\$'000	Inter-segment elimination (Unaudited) US\$'000	Group (Unaudited) US\$'000
<b>Turnover</b>						
Revenue from external customers	2,853,995	4,599,831	102,936	77,110	—	7,633,872
Inter-segment revenue	55	421	185	101,308	(101,969)	—
Segment revenue	<u>2,854,050</u>	<u>4,600,252</u>	<u>103,121</u>	<u>178,418</u>	<u>(101,969)</u>	<u>7,633,872</u>
<b>Segment results after finance cost</b>	378,821	291,705	(9,809)	(1,060)	1,004	660,661
Share of result of associate and joint venture	—	22,016	(6,797)	—	—	15,219
Unallocated expense, net	—	—	—	(1,929)	—	(1,929)
<b>Profit (loss) before taxation</b>	378,821	313,721	(16,606)	(2,989)	1,004	673,951
Taxation	(112,965)	(97,831)	—	(1,769)	—	(212,565)
<b>Profit (loss) for the period</b>	<u>265,856</u>	<u>215,890</u>	<u>(16,606)</u>	<u>(4,758)</u>	<u>1,004</u>	<u>461,386</u>
	For the Nine Months ended 30 September 2014					
	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Instant food (Unaudited) US\$'000	Others (Unaudited) US\$'000	Inter-segment elimination (Unaudited) US\$'000	Group (Unaudited) US\$'000
<b>Turnover</b>						
Revenue from external customers	3,165,869	5,060,957	136,883	94,632	—	8,458,341
Inter-segment revenue	40	575	118	71,143	(71,876)	—
Segment revenue	<u>3,165,909</u>	<u>5,061,532</u>	<u>137,001</u>	<u>165,775</u>	<u>(71,876)</u>	<u>8,458,341</u>
<b>Segment results after finance cost</b>	388,096	353,995	(7,361)	2,079	(2,367)	734,442
Share of result of associate and joint venture	—	22,136	(7,844)	—	—	14,292
Unallocated expense, net	—	—	—	(1,968)	—	(1,968)
<b>Profit (loss) before taxation</b>	388,096	376,131	(15,205)	111	(2,367)	746,766
Taxation	(107,692)	(96,475)	428	(496)	—	(204,235)
<b>Profit (loss) for the period</b>	<u>280,404</u>	<u>279,656</u>	<u>(14,777)</u>	<u>(385)</u>	<u>(2,367)</u>	<u>542,531</u>

Segment information is prepared based on the regular internal financial information reported to the Company's executive directors for their decision on revenue allocation of the Group's business components and review of the components' performance. The Company's executive directors assess the performance of reportable segments based on profit (loss) before taxation, share of result of associate and joint venture and unallocated expense, net.

### 3. Segment information (continued)

#### Segment assets

	At 30 September 2015					
	Instant noodles	Beverages	Instant food	Others	Inter-segment	Group
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	elimination	(Unaudited)
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Segment assets</b>	3,590,535	5,043,843	137,674	1,366,387	(899,843)	9,238,596
Inere in a oia e	—	32,932	32	—	—	32,964
Inere in join enre	—	78,076	10,976	—	—	89,052
Unallo ed a e						96,259
<b>Total assets</b>						<u>9,456,871</u>
Segmen liabilie	980,422	3,061,951	51,542	1,977,470	(841,708)	5,229,677
Unallo ed liabilie						30,605
<b>Total liabilities</b>						<u>5,260,282</u>

  

	At 31 December 2014					
	Instant noodles	Beverages	Instant food	Others	Inter-segment	Group
	(Audited)	(Audited)	(Audited)	(Audited)	elimination	(Audited)
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Segment assets</b>	3,446,274	5,227,348	160,291	1,340,036	(1,155,422)	9,018,527
Inere in a oia e	—	30,646	1,327	—	—	31,973
Inere in join enre	—	58,346	15,807	—	—	74,153
Unallo ed a e						81,404
<b>Total assets</b>						<u>9,206,057</u>
Segmen liabilie	1,041,013	3,311,438	62,817	1,766,568	(1,100,145)	5,081,691
Unallo ed liabilie						28,702
<b>Total liabilities</b>						<u>5,110,393</u>

Segmen a e incl de all a e i h he e cep ion of inere in a oia e , inere in join enre and unallo ed a e . Segmen liabilie incl de all liabilie i h he e cep ion of emplo ee benefi obligion .

### 4. Seasonality of operations

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**5. Profit before taxation**

This is audited after charging:

	July to September 2015 (Unaudited) US\$'000	January to September 2015 (Unaudited) US\$'000	July to September 2014 (Unaudited) US\$'000	January to September 2014 (Unaudited) US\$'000
<b>Finance costs</b>				
Interest on bank and other borrowings on wholly repayable short-term finance	14,954	45,844	12,220	33,120
<b>Other items</b>				
Depreciation	133,720	391,725	121,380	370,668
Amortisation	3,938	12,802	2,090	6,173

**6. Taxation**

	July to September 2015 (Unaudited) US\$'000	January to September 2015 (Unaudited) US\$'000	July to September 2014 (Unaudited) US\$'000	January to September 2014 (Unaudited) US\$'000
<b>Current tax – The PRC enterprise income tax</b>				
Current period	65,120	180,271	65,313	174,321
<b>Deferred taxation</b>				
Origination and reversal of temporary differences, net	3,690	8,385	3,073	4,534
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	10,290	23,909	7,939	25,380
Total charge for the period	79,100	212,565	76,325	204,235

The Cayman Islands legislation does not tax the income of the Company and the Group.

Hong Kong Profits Tax has not been provided as the Group entities had no assessable profits subject to Hong Kong Profits Tax for the nine months ended September 2015 and 2014.

The applicable PRC enterprise income tax for the PRC subsidiaries is at the applicable rate of 25% (2014: 25%).

According to the Tax Relief Notice (Cai Shi [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 income earned and located in the western region of PRC 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% (2014: 15%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends distributed to foreign investors by the foreign income tax resident 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 treaty between PRC and jurisdiction of the foreign investor. For the Group's PRC subsidiaries, a local and joint venture, the applicable rate is 10%. Deferred tax liabilities provided on 50% of post-2007 net earnings of the Group's PRC subsidiaries have been provided to be distributed in the foreseeable future. The remaining 50% of post-2007 net earnings of the Group's PRC subsidiaries have not been provided to be distributed in the foreseeable future or will be subject to additional taxation when they are distributed. Undistributed earnings of the Group's PRC local and joint ventures are not subject to withholding tax as the companies are held by a PRC subsidiary.

**7. Earnings per share**

a) *Basic earning per share*

	<b>July to September 2015 (Unaudited)</b>	<b>January to September 2015 (Unaudited)</b>	<b>July to September 2014 (Unaudited)</b>	<b>January to September 2014 (Unaudited)</b>
Profit attributable to ordinary shareholder (US\$ '000)	<u>144,275</u>	<u>341,934</u>	<u>159,653</u>	<u>391,559</u>
Weighted average number of ordinary share ('000)	<u>5,603,352</u>	<u>5,603,804</u>	<u>5,601,583</u>	<u>5,598,633</u>
Basic earning per share (US cent)	<u>2.57</u>	<u>6.10</u>	<u>2.85</u>	<u>6.99</u>

b) *Diluted earning per share*

	<b>July to September 2015</b>	<b>January to September 2015</b>	<b>July to September 2014</b>	<b>January to September 2014</b>
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**10. Trade payables**

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

	<b>At 30 September 2015 (Unaudited) US\$'000</b>	<b>At 31 December 2014 (Audited) US\$'000</b>
0 - 90 days	1,124,329	863,205
Over 90 days	39,061	32,926
	<u>1,163,390</u>	<u>896,131</u>

**11. Approval of third quarterly financial statements**

The third quarterly financial statements of 2015 were approved by the board of directors on 16 November 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the third quarter of 2015, the momentum of global economic recovery remained weak. Faced with the pressure of overcapacity and financial leverage, the growth rate of the economy slowed down and in the low level of income, the first quarter of 2009, GDP only increased by 6.9% year-on-year (down). In the second half of the year, the illiquid property market and the decline in the business confidence of ironmen, which could be a negative impact on the operation of food and beverage industry.

In the third quarter, the Group further expanded the execution of planned operational strategy and management focus, to achieve the target of cost saving, efficiency enhancement, innovation and safety. The effects included: providing comprehensive and more variety of comprehensive quality products through product upgrade; strengthening business execution and supply chain management, and effectively managing the inventory and the channel and capital expenditure; entering into alliance with international strategic partner in order to improve product and operational innovation; and enhancing fundraising in the area of organizational construction.

In the third quarter of 2015, the Group's turnover decreased by 6.45% to US\$2,763.470 million. Turnover of instant noodle and beverage decreased by 6.2% and 5.26% respectively. However, the decline rate of the Group's turnover during the third quarter has been slowed down compared to that of the first half. During the period, benefiting from the fall in the price of certain major raw material, optimization of production mix and rationalization in production operation, gross profit margin was improved. The Group's gross profit margin in the third quarter of the year increased by 1.23 pp. to 33.30%. As a more conservative trend in competition accelerated, the Group has been well controlled operation cost. During the period, distribution cost as a percentage of the total turnover was 18.92%, a decrease of 1.33 pp. The EBITDA of the Group for the third quarter of 2015 increased by 1.67% to US\$408.063 million, EBITDA margin increased by 1.18 pp. to 14.77%. Profit attributable to owner of the Company dropped by 9.63% to US\$144.275 million. The decline rate of the Group's net profit during the third quarter has been slowed down compared to that of the first half. Net profit margin was 5.22%, a decrease of 0.18 pp. Earnings per share decreased by 0.28 US cent to 2.57 US cent.

## FOOD BUSINESS

### Instant Noodle Business

According to AC Nielsen, the instant noodle industry in China enjoyed a recession for four consecutive quarters but had shown signs of revitalization. The sales volume of the market as a whole decreased by 2.8% , but the sales volume increased by 0.4% . During the third quarter, in terms of sales volume and sales amount, the market share of Ma'er Kong' in instant noodle was 46.3% and 55.0% respectively, maintained the leading position in the market.

In the third quarter of 2015, the turnover of the Group in instant noodle business was US\$1,061.913 million, a decrease of 6.2% on a YoY basis, and representing 38.43% of the Group's turnover. Benefited from the low level of palm oil price and other material price remained stable during the period, as a result, the gross profit margin of the instant noodle business increased by 1.95 pp. to 31.76%. During the period, the Group has effectively controlled marketing and promotion expense. Due to the sales decline, profit attributable to owner of the Company from the instant noodle business dropped by 5.48% to US\$112.645 million. Profit attributable to owner of the Company margin for the third quarter of 2015 slightly rose by 0.08 pp. to 10.61%.

In order to meet the demand for nutrition ingredients from comprehensive variety of the society, the Group will continue to adopt the planned upgrade strategy for raw materials in instant noodle business, to mainly maintain the momentum of sustainable growth:

1. To speed up the upgrade of main stream products in the market and accelerate the upgrading of industrial technology and standard.
2. To focus on the operation of brand equity, and to committedly provide convenient, delicious, affordable perfect consumption experience to consumer from different tier.
3. To finalize the racking system for food safety management and quality stability, which provided a guarantee on the product and service to the consumer.
4. To encourage proactive innovation by leveraging on the innovation on the value and packaging, the operation of modern channel, and technical mechanism of brand management and supply chain management, to have the need of consumer and the growth of the enterprise.

## High-End Noodle

The Group maintained its absolute leadership position in the high-end noodle market, and initiated product upgrade in addition to innovating product planning, to cater to consumer demand. We also focused on upgrading the brand image, which emphasized health, original and fashionable elements, and communicated through original content in form of entertainment. A wide array of activities and promotions were organized jointly. Through various sponsored events, the favorable branding influence of products and quality of consumer goods were enhanced, which also promoted the positioning of Perishing in Dream, Supporting You All the Way – of the Braised Brand, the recognition of the brand by the younger community was enhanced; the penetration in competitive market by the Pickled Mard Series – and the promotion of online demand for a healthy and balanced diet of the Grain Noodle Series – through the Equalizer fine operation – online platform.

Moreover, the Group introduced a range of new products to meet the development trend of niche noodle market. After the launch of Fresh Banquet – which is a premium noodle with appeal for health demand and Zhen Liao Duo – all purpose noodle with Precious – food material, we adopted innovative brand communication means to promote the creation of Fried Noodle Combo Fore and Afters, which did not only effectively provide consumer with a new mode of consumption (fried noodle + appetizer), but also on the Gold Award for the brand content and entertainment category in the 2015 Spike Asia Award. The innovative flavor and new products under the high-end category achieved remarkable financial performance during the period.

## Mid-end Noodle/Snack Noodle

According to AC Nielsen, in terms of sales amount, the market share of the Group's mid-end noodle products for the third quarter was 40.5%, which steadily maintained the leading position in the market. We maintained our focus on meeting consumer demand for affordable products. In addition to strengthening channel innovation and development, we also placed emphasis on enhancing the penetration rate of products, with an aim to effectively refine supply chain and optimize warehousing management, in order to provide more comprehensive service. During the third quarter, the RMB1.00 Xiang Bao Gao – snack noodle was launched with a promotion campaign that combined online and offline marketing in an integrated manner. High sales were recorded. At the same time, the products were upgraded to a higher level of catering for innovation. Gao Xian Feng + Spring Bean – was well received in terms of sales. Positive feedback were received, which offered consumer with more abundant and diversified choice of products. Our key objective is to fully capitalize on the market share by capitalizing from upgrade and innovation.

## Instant Food Business

According to AC Nielsen, as a result of the prolonged downturn of traditional biscuit market in the third quarter of 2015, the sales volume and the sales amount of biscuit market as a whole declined by 3.4% and 1.4% respectively. The business environment ironmen will face a relatively significant challenge. In response to the change in market and environment, the Group adjusted its range of investment in certain items, re-designed the management of network and channel in order to effectively enhance overall efficiency. The Group will continue to actively strengthen its operation with emphasis on developing its momentum of growth. During the third quarter, in terms of sales amount, Ma'er Kong Egg Roll accounted for 19.3% of the market share, which ranked first in the market, while the rich cracker accounted for 13.1% of the market share, and ranked second in the market.

In the third quarter of 2015, the sales of the Group's instant food business was US\$36.235 million, dropped by 23.44% when compared to same period last year, representing 1.31% of the Group's total turnover. During the period, although we have effectively controlled the selling and administrative expenses, the instant food business still recorded a loss of US\$5.651 million as a result of the reduction in the sales volume of the core baker business and the recognition of the loss from the new instant food business.

In view of the above business environment, the Group will focus in the following core strategies:

1. To focus on key products such as rich cracker, muffin and egg roll. By capitalizing on product upgrade and innovation such as diversified packaging specification and high-end positioning, the market share and consolidated profitability were enhanced.
2. To enhance product efficiency and reduce cost through optimizing the layout of the supply chain, as well as introducing automation equipment and equipment has reduced the headcount, thereby enhancing competitiveness.

Apart from improving the soda and iced product, new specification for products were developed for electric appliance vendor and for the 3 + 2 sharing package and display boosting convenience store. Initial planned high gift box pack will be launched for Chinese New Year. To cater for the demand of consumer for high-end quality ice cream, the upgraded premium iced cream flavor will be launched. As for other new brands, emphasis will continue to be placed on accommodation and learning of industry experience, high-end iced product and consumer awareness. By leveraging on optimizing supply chain and refining product portfolio, and combining the characteristic of diversified choice and small volume of instant food, a light and flexible brand model for development will be established.

The Group proposed an announcement regarding the termination of the joint venture relationship in Calbee (HangZhou) Food Co., Ltd. on 4 November 2015. After amicable negotiation with the Japanese side, the Group will acquire all equity interest of Calbee (HangZhou) Food Co., Ltd. held by Calbee and Iochi Corporation, and the joint-venture relationship will terminate. And the Group will undertake and continue to operate the existing brand of the joint venture.

## BEVERAGE BUSINESS

According to AC Nielsen, the sales volume and sales amount of the China beverage industry increased by 0.3% and 2.5% respectively in the third quarter of 2015. The beverage industry was affected by the change of consumer behavior, and the growth market opportunities from urban area, the Group will upgrade or product and enhance or channel coverage, with an aim to serve more consumer and bring more quality to the beverage market.

In the third quarter of 2015, the volume of the beverage brand of the Group was US\$1,638.143 million, dropped by 5.26% year-on-year, representing 59.28% of the Group's total volume. The sales decline mainly due to the notable e-commerce and the corresponding price competition. During the period, benefited from the decline in the price of major raw material such as PET resin, together with rationalization in production process, the gross profit margin increased by 1.06 percentage points to 34.47%. The amount of profit from the beverage brand attributable to owner of the Company for the third quarter of 2015 was US\$35.775 million, a decrease of 4.42% year-on-year. Confronted with the e-commerce market environment, we improved or control over distribution cost. Meanwhile the inflation cost has been declined when compared to same period last year. Due to the depreciation in Renminbi and other reasons in the third quarter, the profit of the beverage brand was a decline.

Taking into account the structural change in the consumption demand, the beverage brand will consolidate its product category to become more comprehensive. Operation initiatives were proactively adopted to seize market share, expand the scale of operation and effect the utilization of production capacity. The following strategies were applied to meet the requirement of consumer:

1. To focus on the operation of key products such as RTD tea, bottled water and carbonated drink, consolidate the leading position of RTD tea, strengthen the brand of bottled water, to expand market share from an increased sales volume.
2. To create the brand quality and the accuracy in consumer by cooperating with DiNe and NBA.
3. To reasonably reconcile the channel in online through a standard model and the operation network been production and sales, and to achieve the objective of optimizing the product age and the terminal by responding rapidly to the change in consumer demand with the priority of S&OP.
4. To have consumer, refrigerator, supply chain and sales platform through the cooperation of beverage brand of Ma'er Kong with the beverage brand of Pepsi, which rapidly enhanced the marketing capabilities of the consumer.

## RTD Tea

According to AC Nielsen, the sales volume of the Group's RTD tea (including milk tea) accounted for 56.0% of market share, an increase of 0.1 percentage points in the third quarter of 2015, and ranked first in the market. Ma'er Kong's Iced Tea, a flagship product, entered into an official partnership agreement in the China market with NBA, an international basketball association. Not only mainly in the absolute market share, but also continue to focus on the quality and fresh feeling of the brand, in order to maintain the absolute leading position in the market.

## Bottled Water

The sale volume of the Gāop' bottled water for the third quarter accounted for 18.6% of the market share, and ranked second in the market. In response to the new State Labeling Law, Ma'er Kong' bottled water received a label from Mineral Water of Yantai, and a listed brand are through the acquisition of Yantai people's hearing. Acquisition of superior quality were kicked off in the third quarter, and 59 plants across the country obtained the certification of international standard ISO22000. This enhanced the Gāop' and the brand's image as a producer of quality and high reliability. Moreover, the Gāop' became the official designated partner in China's NBA, which will jointly build a more superior, healthier and safer living in China.

## Carbonated Drinks

According to Canadean, Pepsi-Cola led in the leading position in the cola type carbonated drink market. In the third quarter of 2015, its sale volume accounted for 45.9% of market share. Mirinda accounted for 36.4% of market share in the first type carbonated drink. Apart from the promotion activities of ariō brand, which enhanced the interaction experience and participation of consumers, such as Pepsi Challenge and Pepsi Challenger Union, the effect of Miing FUN in Happy Water organized under Mirinda, the alliance formed by Ma'er Kong-Pepsi demonstrated effective in the marketing of re-orientation in the supply chain, them and the operation them.

## Juice Drinks

The sale volume of the first juice brand under Ma'er Kong and the Tropicana brand under Pepsi during the third quarter accounted 21.3% of the market share in total, ranking second in the market. With a more sophisticated packaging and enhanced flavor, the sale for the Chinese juice drink of Ma'er Kong recorded positive growth. Also, the innovative products, such as emphasis on health and wellness, the high juice drink such as Honeysuckle and Haijing lemon from the Light Fruit Mixture became one of the popular brands for the younger generation.

## Vitamin Drinks

For the past year, the functional beverage category had maintained an average annual growth rate of 30%, with the performance of vitamin drink more outstanding. Benefiting on the resource of international partner, the Gāop' launched the Vitamin Power with three flavor filling covering all channel. The brand engaged Lee Minho, a Korean pop star as the spokesperson, which facilitated the awareness of the brand, the sales, and a well received by the consumer. Natural Vitamin, the Gāop' health vitamin beverage with natural lemon. The 550 ml Natural Vitamin will be launched in the fourth quarter, through the package differentiation to meet the need of consumer at different time of drinking.

## Milk Drinks / Lactic Acid Bacteria Drinks

Under the milk drink category of the Gāop', in addition to the classical milk tea, we launched a new product Fresh Milk Tea under the Quick Cafe brand according to the change in the taste of consumer. The packaging adopted a cartoon style, which is loved by children and young professional. The product received a positive evaluation once it was launched. Besides, we introduced a new Lactic Acid Bacteria beverage a room temperature joint with Weichuan, in order to satisfy the demand of consumer for health. This product became a new growth point for the beverage business.

## FINANCING

The Gāop' continued to maintain a stable and healthy financial structure through effective control of trade receivable, trade payable, bank balance and cash and in the third quarter of 2015. As at 30 September 2015, the Gāop' cash and bank deposits totaled US\$1,666.044 million, an increase of US\$482.941 million from 31 December 2014. An efficient amount of cash holding was still maintained. As at 30 September 2015, the Gāop' total equity and total liability amounted to approximately US\$9,456.871 million and US\$5,260.282 million respectively. This showed increase in US\$250.814 million and US\$149.889 million respectively compared to 31 December 2014. The debt ratio increased by 0.11 points to 55.62% compared to 31 December 2014.

As at 30 September 2015, the Group's total interest bearing borrowing decreased by US\$85.772 million to US\$2,542.982 million. The borrowing is primarily used for capital expenditure on production facilities and general working capital. During the period, the Group's proportion of the total borrowing denominated in foreign currencies and Renminbi were 87% and 13% respectively, as compared to 82% and 18% respectively as at 31 December 2014. The proportion between the Group's long-term borrowing and short-term borrowing was 54% and 46% respectively, as compared to 47% and 53% respectively as at 31 December 2014. Since August 11, 2015, the devaluation of the Renminbi and the decline of the GDP to below its early stage of 7.0, the domestic economy has remained in doldrums. The depreciation on the depreciation in Renminbi is rising gradually. Combined with the divergent trend of the interest rate between Renminbi and the US dollar and the Group itself, the Group has adjusted its financing strategy since September to increase its proportion of onshore financing and to reduce its foreign currency financing. The Group's proportion of Renminbi borrowing, and the proportion of Renminbi borrowing of the Group's total borrowing will be increased gradually.

On 6 August 2015, the Company issued notes with an aggregate principal amount of RMB1 billion (Note-). The issue price of the Note was 99.656% of the principal amount of the Note. The Note shall bear interest of 4.375% per annum from 6 August 2015, which will be paid once a year on 6 August. The Note shall mature on 6 August 2018. The Note is an unsecured debt of the Company. The primary objective for the Group to issue Renminbi debt is to diversify its capital structure and to reduce its foreign currency financing. The Group's overall capital structure on the good credit rating to enhance the efficiency of direct financing or a more favorable source of financing.

During the period, the depreciation in Renminbi against US dollar by 2.36%, together with the fluctuation of exchange rate in Euro against USD, brought real/realized loss of US\$49.479 million in the Group's income statement.

In 2014, the Group announced a voluntary retirement plan (the Plan-) for its employees as a result of an integration programme of its Pepsi beverage business. The Group has made an offer of the Plan to the affected employees who can decide to accept the offer of benefits in exchange for the termination of their employment. The termination benefits of US\$37 million have been recognized as a provision during the nine-month period ended 30 September 2015. As at 30 September 2015, the estimated probable obligation of termination benefits is amounting to approximately US\$37 million (31 December 2014: US\$70 million) which is expected to be settled between 2015 and 2016 if all the offer are accepted by qualified employees and disclosed accordingly in the liability.

The joint venture and associate in the Pepsi beverage business of the Group (the Joint Venture and Associate-) have, based on their own operation requirements, all implemented a compensation plan (the Compensation Plan-) which is similar to the Plan. During the nine-month period ended 30 September 2015, the Group has committed for the payment of US\$22 million arising from the Compensation Plan and such payment has been recognized as a provision by the Group. As at 30 September 2015, the probable amount of liability which arising from the Compensation Plan but not yet committed by the Group is amounting to approximately US\$19 million.

## Financial Ratio

	As at 30 September 2015	As at 31 December 2014
Financed good working capital	9.71 Da	11.73 Da
Trade receivable working capital	9.81 Da	8.89 Da
Current ratio	0.77 Time	0.64 Time
Debt ratio (Total liability to total assets)	55.62%	55.51%
Gearing ratio (Net debt to equity attributable to owner of the Company)	0.28 Time	0.48 Time

## HUMAN RESOURCES

As at 30 September 2015, the Group had 72,474 employees (73,556 employees as at 30 June 2015). The Group also considers the fostering and development of talent as one of its major tasks, and cooperates with the general domestic and overseas renowned academic institutions in cultivating senior management talent in international level.



## CORPORATE SOCIAL RESPONSIBILITY

During the quarter, the Group offered help to the victims being affected by the level 6.5 earthquake occurred in Pishan County, Heilongjiang Province, Xinjiang, which was affected by the 7.0 magnitude earthquake of Xiaogan Zhen District, Shanghai District, Shaoying County, Zhejiang Province, which was affected by the 7.0 magnitude earthquake of Pingyang County, Zhejiang Province, and which was affected by the earthquake of Binhai New District, Tianjin. The company has provided help to address their urgent needs.

On 15 September, the Ma'er Kong Ankang Library - in Fulin Town Third Primary School, Han County - was completed. This marked the completion of all the Ma'er Kong Ankang Library - donated by Ma'er Kong Charity Foundation earthquake disaster relief areas in Ya'an. The earthquake libraries are free for everyone, including all the earthquake and primary school.

The completion of Keen on the New Generation - New Cuisine from Scientific Method - is a food and safety competition based on general science, targeting children. It is one of the activities during the Food Safety Week under Food Safety on Campus. The event allowed children, parents and food safety in a more interactive and practical way. Ma'er Kong participated in the event with nearly 400 children, parents from more than 30 colleges and universities in Chengde, Xi'an and Hangzhou, and all more than 150 staff and their families from the three cities. The event will combine the most popular Rongming Man game perfectly with food safety knowledge and general science, which is educational and entertaining. The college students and families of staff were also arranged to visit local in a noodle and beverage factory, which provided comprehensive knowledge rationally on modern food processing and safety management. The participants then had a pre-competition food safety knowledge from creative graffiti work. In addition, the Ma'er Kong Food Safety and General Science Innovation Contest - a linked to the activities platform of 'Food and Drug Safety on Campus' - held by Food Safety Week of Food Safety Office under the State Economic Information Network. Since the application notice was published in July, more than 100 colleges and universities in China, more than 2,000 pieces of work were received from September to December, Ma'er Kong will conduct pre-competition by professional judges, the holding parties will be held from September and December at 10 colleges and universities. Selected works will be exhibited at 30 colleges and universities. This will gradually promote the boom in food safety and general science in the colleges and universities in China.

## AWARDS AND HONORS

In the third quarter, the Group has received awards and honors as follows:

1. The World's Most Innovative Enterprise 2015 - by Forbe
2. The Best Advertising Award by MMA Chinese Mobile Marketing Alliance
3. The China Food Enterprise Benchmarking Golden Chopstick Award - from the Sixth China Food Safety Senior Management Dialogue 2015
4. The Top Ten Women Friendly Enterprise - at the Charity of Chinese Female Model Ceremony

## PROSPECTS

Looking ahead in the fourth quarter of 2015, despite of the relatively significant downward momentum of the economy in China, the food and beverage industry is expected to maintain a low growth trend, in particular, the high end, health and personalized products have apparently become the dominant element in the consumption trend. The purchase locations are shifting to emerging channels such as convenience stores and electric appliance vendors, highlighting the consumption time and place are also shifting to indoor-based.

In the forthcoming year, a joint development, the Group will adhere to the principle of cooperation, efficiency enhancement, innovation and safety, and focus on the optimization of supply chain information and inventory management, in order to mitigate the low demand in the market as a whole during the forthcoming year. Additional efforts will be devoted to seek cooperation in e-commerce, and to expand the exploration and control over modern channels. Production lines will be optimized to allocate resources, the production of products with high end specification and high value can maximize the production capacity under the supply chain strategy in future. In the meantime, afforestation will be conducted during the beverage location. Channel partners will continue to optimize and inventory control will enhance. The alliance between Maotai-Kong-Pepsi will be further integrated in terms of manpower, which will increase the planning ability of the organization. A joint development, new business will be further explored, which will bring innovative products to the market, which can satisfy the diversified demand of the consumer. Meanwhile, new product innovation are also under negotiation with international strategic partner, which is expected to enrich the product line of the Group as a whole.

## CORPORATE GOVERNANCE

We have throughout the period ended 30 September 2015, complied with the code provision of the Corporate Governance Code (the CG Code) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules), except for the deviation from code A.4.1. The reason for the deviation is explained below.

### Code provision A.2.1

Code provision A.2.1 provides that the role of chairman and chief executive officer should be separate and should not be performed by the same person. On 1 January 2015, the Group has appointed Mr. James Chen-Hien Wei as the Chief Executive Officer of the Group. Mr. James Wei as the former Chief Executive Officer of the Food Beverage Division of the Group. With the appointment of Mr. James Wei as the Chief Executive Officer, the Company has fully complied with code provision A.2.1.

### Code provision A.4.1

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

We will periodically review and improve our corporate governance practice with reference to the latest corporate governance development.

### Directors' responsibility for the financial statements

The Director 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 Director ensure that the preparation of the financial statements of the Group is in accordance with applicable requirements and applicable accounting standards. The Director also ensure that the publication of the financial statements of the Group is in a timely manner.

### Audit Committee

The Audit Committee consists of three Independent Non-executive Director, Mr. Lee Tiong-Hock, Mr. Hui Shin-Chun and Mr. Hiromi Fukuda. Mr. Lee Tiong-Hock is the chairman of the Committee. The latest meeting of the Committee was held on the relevant date of the Group for this period.

### Remuneration and Nomination Committee

The Remuneration and Nomination Committee now comprises three Independent Non-executive Director, Mr. Hui Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromi Fukuda. Mr. Hui Shin-Chun is the chairman of the Committee. The Committee is responsible to consider and approve the remuneration package of the senior employees of the Group, including the terms of salary and bonus scheme and other long-term incentive scheme. The Committee also review the remuneration and composition of the Board from time to time and recommend to the Board on appointment of Director and the succession plan for Director.

## Internal Control

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, to safeguard assets against loss, authorized expenditure, to ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislation and regulation.

## Compliance with the Model Code

The Company has adopted the Model Code for Securities Transaction by Director of Listed Issuer (the Model Code) as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the reporting period.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Other than the Company's repurchase of 1,238,000 shares during the period for approximately US\$2.219 million, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period. All share repurchase has been cancelled and will not be reinstituted or reissued.

## SHARE OPTION SCHEME

At the extraordinary general meeting held on 20 March 2008, the shareholder approved the adoption of the Share Option Scheme. Details of arrangements for the share option scheme are set out below (Table A).

Date of grant	Number of share options granted	Exercisable period	Exercise price (HK\$)	Number of share granted to	
				Wei Ing-Chou	James Chun-Hsien Wei
20 March 2008	11,760,000	21 March 2013 to 20 March 2018	\$9.28	2,000,000	
22 April 2009	26,688,000	23 April 2014 to 22 April 2019	\$9.38	2,816,000	
1 April 2010	15,044,000	1 April 2015 to 31 March 2020	\$18.57	2,200,000	
12 April 2011	17,702,000	12 April 2016 to 11 April 2021	\$19.96	2,264,000	
26 April 2012	9,700,000	26 April 2017 to 25 April 2022	\$20.54	1,368,000	
27 Ma 2013	11,492,000	27 Ma 2018 to 26 Ma 2023	\$20.16	1,390,000	904,000
17 April 2014	12,718,500	17 April 2019 to 16 April 2024	\$22.38	1,486,000	1,148,000
5 June 2015	17,054,000	5 June 2020 to 4 June 2025	\$16.22	1,726,000	2,006,000

For the period of nine months ended 30 September 2015, 350,000 options had been exercised under the Share Option Scheme. Weighted average exercise price is HK\$9.38 and the weighted average market closing price before the date of exercise is HK\$17.49.

## BOARD OF DIRECTORS

At the date of this announcement, Mr. Wei Ing-Chou, Mr. Junichiro Ida, Mr. Wing-Ching-Yi, Mr. Ten'o Nagano, Mr. Wei Hong-Ming and Mr. Koji Shinohara are Executive Directors of the Company. Mr. Hiroshi Shinohara, Mr. Lee Tiong-Hock and Mr. Hiromasa Fukuda are Independent Non-Executive Directors of the Company.

B Order of the Board  
**Wei Ing-Chou**  
Chairman

Shanghai, the PRC, 16 November 2015

Web site: <http://www.maerkong.com.cn>  
[http://www.hiraia.com/li\\_co/hk/ing\\_i](http://www.hiraia.com/li_co/hk/ing_i)

\* For identification purpose only