康師傅控股

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

康 師 傅 控 股 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0322)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

	RMB'000	2019	2018		Change
•	Revenue	**61,978,158**	60,685,645	↑	2.13%
•	Gross margin (%)	**31.88%**	30.86%	↑	1.02 ppt
•	Gross profit	**19,759,455**	18,727,216	↑	5.51%
•	EBITDA	**8,541,797**	7,376,135	↑	15.80%
•	Profit for the year	**3,718,222**	2,728,769	↑	36.26%
•	Profit attributable to owners of the Company	**3,330,981**	2,463,321	↑	35.22%
•	Earnings per share (RMB cents)				
	Basic	**59.25**	43.85	↑	15.40 cents
	Diluted	**59.20**	43.77	↑	15.43 cents

At 31 December 2019, cash and cash equivalents was RMB17,430.387 million, with an increase of RMB3,589.966 million when compared to 31 December 2018. Gearing ratio was -25.82%.

CHAIRMAN'S STATEMENT

In the past year, the Group has continued its business strategy of "Consolidate, Reform and Develop". With the joint efforts to all colleagues in the company, the Group was able to have a smooth transition of generation handover and orderly promote the corporate transformation and upgrading, laying a solid foundation for future development.

We are now in a rapidly changing environment. Social changing and technology advancing are gradually affecting and shaping the traditional form of food and beverage industry, and then evolved a new ecosystem. Master Kong also constantly thinking about its own position in the new era. Motivated by the original intention of "promoting Chinese food culture", we will continue to take consumer preferences as our ultimate purpose, and to meet public demand for a better life with delicious and innovative products. The "complying-industry-development-trend" innovation ensures that we maintain our advantages in fierce competition. The Group actively embraces new technologies, conducts digital transforms and builds agile management, and also accelerates internationalization. With the mission of "fulfill corporate social responsibility", we strive for excellence in the fields of environment, society and corporate governance and contribute to the society as much as we can.

We hope that together with all our customers, employees, partners and shareholders, we will, seize the day and live it to the full, became a leading food and beverage company with international influence and pass Master Kong as a Chinese ethical brand for years to come.

I would like to take this opportunity to express my sincere gratitude to all fellow members of the Board, the management, employees and customers for their support over the years.

Wei Hong-Ming
Chairman

Hong Kong
23 March 2020

RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	**2019** *RMB'000*	2018 *RMB'000*
Revenue	4	**61,978,158**	60,685,645
Cost of sales		**(42,218,703)**	(41,958,429)
Gross profit		**19,759,455**	18,727,216
Other revenue	5	**541,222**	348,388
Other net income	6	**1,544,223**	803,974
Distribution costs		**(13,258,980)**	(11,817,315)
Administrative expenses		**(2,375,436)**	(2,267,636)
Other operating expenses		**(619,395)**	(1,465,191)
Finance costs	7	**(413,652)**	(421,682)
Share of results of an associate and joint ventures		**234,159**	71,580
Profit before taxation	7	**5,411,596**	3,979,334
Taxation	8	**(1,693,374)**	(1,250,565)
Profit for the year		**3,718,222**	2,728,769
Profit attributable to:			
Owners of the Company		**3,330,981**	2,463,321
Non-controlling interests		**387,241**	265,448
Profit for the year		**3,718,222**	2,728,769
Earnings per share	10	***RMB***	*RMB*
Basic		**59.25 cents**	43.85 cents
Diluted		**59.20 cents**	43.77 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**3,718,222**	2,728,769
Other comprehensive (loss) income:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**(74,877)**	(40,003)
Fair value changes in equity instruments designated as at fair value through other comprehensive income	**3,199**	(16,265)
	(71,678)	(56,268)
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on consolidation	**(131,046)**	(379,686)
Other comprehensive loss for the year	**(202,724)**	(435,954)
Total comprehensive income for the year	**3,515,498**	2,292,815
Total comprehensive income attributable to:		
Owners of the Company	**3,135,740**	2,061,011
Non-controlling interests	**379,758**	231,804
	3,515,498	2,292,815

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Investment properties		**1,771,500**	1,119,000
Property, plant and equipment		**23,013,991**	24,927,630
Right-of-use assets		**4,025,124**	—
Prepaid lease payments		**—**	3,570,367
Intangible assets		**183,409**	186,458
Goodwill		**97,910**	97,910
Interest in an associate		**139,537**	127,725
Interest in joint ventures		**889,065**	698,743
Financial assets at fair value through profit or loss		**1,153,541**	448,121
Equity instruments designated as at fair value through other comprehensive income		**115,614**	114,018
Other non-current assets		**—**	375,964
Deferred tax assets		**407,171**	429,262
Long-term time deposits		**725,000**	—
		32,521,862	32,095,198
Current assets			
Inventories		**3,445,075**	2,651,740
Trade receivables	11	**1,669,525**	1,715,471
Tax recoverable		**40,349**	30,150
Prepayments and other receivables		**2,852,469**	2,669,689
Pledged bank deposits		**32,830**	32,458
Bank balances and cash		**17,397,557**	13,807,963
		25,437,805	20,907,471
Total assets		**57,959,667**	53,002,669

	Note	2019 RMB'000	2018 RMB'000
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		**235,401**	235,204
Share premium		**724,384**	664,400
Reserves		**18,618,789**	18,753,872
Total capital and reserves attributable to owners of the Company		**19,578,574**	19,653,476
Non-controlling interests		**3,467,533**	3,958,955
Total equity		**23,046,107**	23,612,431
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**9,674**	9,862
Long-term interest-bearing borrowings		**4,920,078**	4,372,723
Lease liabilities		**287,892**	—
Other non-current liabilities		**40,000**	40,000
Employee benefit obligations		**157,066**	115,436
Deferred tax liabilities		**1,191,422**	967,682
		6,606,132	5,505,703
Current liabilities			
Trade payables	12	**7,678,035**	6,953,961
Other payables and deposits received		**10,761,450**	8,522,996
Current portion of interest-bearing borrowings		**7,454,381**	6,461,785
Lease liabilities		**199,664**	—
Advance payments from customers		**1,809,935**	1,678,782
Taxation		**403,963**	267,011
		28,307,428	23,884,535
Total liabilities		**34,913,560**	29,390,238
Total equity and liabilities		**57,959,667**	53,002,669
Net current assets (liabilities)		**(2,869,623)**	(2,977,064)
Total assets less current liabilities		**29,652,239**	29,118,134

Notes:

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2018 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 3.

2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from owners of the Company, in the consolidated income statement and the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position.

3. ADOPTION OF NEW/REVISED HKFRSs

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

Annual Improvements Project – 2015-2017 Cycle

HKAS 12: Income tax consequences of payments on financial instruments classified as equity

The amendments clarify that (a) the income tax consequences of dividends are recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated the distributable profits were originally recognised and (b) these requirements apply to all income tax consequences of dividends as defined in HKFRS 9.

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

HKAS 23: Borrowing costs eligible for capitalisation

The amendments clarify that (a) if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of the funds an entity borrows generally and (b) funds borrowed specifically to obtain an asset other than a qualifying asset are included as part of general borrowings.

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

HK(IFRIC)-Int 23: Uncertainty over Income Tax Treatments

The Interpretation supports the requirements in HKAS 12 Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income taxes.

The adoption of the Interpretation does not have any significant impact on the consolidated financial statements.

Amendments to HKAS 19: Employee Benefits

The amendments require the use of updated assumptions to determine current service cost and net interest for the remainder of the reporting period after a change is made to a plan.

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

Amendments to HKFRS 9: Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income instead of at FVPL if specified conditions are met.

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

HKFRS 16: Leases

HKFRS 16 replaces HKAS 17 and related Interpretations for annual periods beginning on or after 1 January 2019. It significantly changes, among others, the lessee accounting by replacing the dual-model under HKAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. HKFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

In accordance with the transitional provisions, the Group has applied HKFRS 16 for the first time at 1 January 2019 (i.e. the date of initial application, the "DIA") using the modified retrospective approach in which comparative information has not been restated. Instead, the Group recognised the cumulative effect of initially applying HKFRS 16 as an adjustment to the balance of retained profits or other component of equity, where appropriate, at the DIA.

The Group also elected to use the transition practical expedient not to reassess whether a contract was, or contained, a lease at the DIA and the Group applied HKFRS 16 only to contracts that were previously identified as leases applying HKAS 17 and to contracts entered into or changed on or after the DIA that are identified as leases applying HKFRS 16.

As lessee

Before the adoption of HKFRS 16, lease contracts were classified as operating or finance lease in accordance with the Group's accounting policies applicable prior to the DIA.

Upon adoption of HKFRS 16, the Group accounted for the leases in accordance with the transition provisions of HKFRS 16 and the Group's accounting policies applicable from the DIA.

As lessee - leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for leases previously classified as operating leases at the DIA, except for leases for which the underlying asset is of low value, and the Group applied the following practical expedients on a lease-by-lease basis:

(a) Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

(b) Adjusted the right-of-use assets at the DIA by the provision for onerous leases recognised immediately before the DIA by applying HKAS 37, as an alternative to performing an impairment review at the DIA.

(c) Did not recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the DIA.

(d) Excluded initial direct costs from the measurement of the right-of-use assets at the DIA.

(e) Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

At the DIA, except for those that were previously or will be accounted for as investment property using the fair value model, right-of-use assets were, on a lease-by-lease basis, measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised immediately before the DIA.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the DIA. The weighted average incremental borrowing rate applied to the lease liabilities at the DIA is 4.82%.

Reconciliation of operating lease commitments disclosed applying HKAS 17 at 31 December 2018 and lease liabilities recognised at the DIA is as follows:

	RMB'000
Operating lease commitments at 31 December 2018	841,810
Less: Commitments exempt from capitalisation:	
Leases of low value assets, short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(289,473)
Value-added tax including in operating lease commitment at 31 December 2018	(74,137)
Add: Liabilities for lease contracts signed subsequently to DIA with the commencement date of the lease terms on or before the DIA which was not reflected in operating lease commitments at 31 December 2018	92,088
Gross lease liabilities at 1 January 2019	570,288
Less: Total future interest expenses	(61,697)
Lease liabilities recognised at 1 January 2019	508,591

At the DIA, all right-of-use assets were presented within the line item "right-of-use assets" on the consolidated statement of financial position. Besides, lease liabilities were shown separately on the consolidated statement of financial position.

As a result, transfer was made at the DIA to reflect the changes in presentation:

	Carrying amount on 31 December 2018 under HKAS 17	**Adjustments**	**Carrying amount on 1 January 2019 under HKFRS 16**
	RMB'000	*RMB'000*	*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
	6,240,056	508,591	6,748,647
Liabilities			
Lease liabilities	—	508,591	508,591

As lessor

The Group is not required to make any adjustments on transition for leases in which it is a lessor and those leases are accounted for by applying HKFRS 16 from the DIA.

4. **SEGMENT INFORMATION**

The Company's executive directors have been identified as the chief operating decision-maker of the Group. The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Company's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The Company's executive directors consider the business principally from a product perspective which forms a basis for business segment information as over 99% of the Group's sales and business are conducted in the The People's Republic of China ("PRC") from a geographical perspective. Business reportable operating segments identified are instant noodles, beverages, and others. The segment of others includes instant food, investment holding, properties investment for rental propose, logistics and supportive functions.

Starting from current year, 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 year's presentation.

For the purposes of assessing the performance of the operating segments and allocating resources between segments, the executive directors assess the performance of reportable segments based on profit for the year and profit before taxation, share of results of an associate and joint ventures and unallocated income (expenses), net.

Segment assets include all assets with the exception of interest in an associate and joint ventures and unallocated assets which include financial assets at fair value through profit or loss and equity instruments designated as at fair value through other comprehensive income. Segment liabilities include all liabilities with the exception of employee benefit obligations.

Inter-segment sales are priced at cost plus profit margin. The accounting policies of the reporting segments are the same as the Group's accounting policies.

The geographical location of the Group's customers is based on the location at which the goods are delivered. Over 99% of the revenues from external customers of the Group are attributable to customers located in the PRC, the place of domicile of the Group's operating entities. Meanwhile, all of the Group's non-current assets, other than certain financial assets at fair value through profit or loss and equity instruments designated as at fair value through other comprehensive income, are located in the PRC.

No revenue from a single external customer amounted to 10% or more of the Group's revenue.

Business segment analysis

	2019				
	Instant noodles *RMB'000*	Beverages *RMB'000*	Others *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Revenue					
Revenue from contracts with customers	25,295,434	35,580,490	1,016,062	—	61,891,986
Timing of revenue recognition:					
Recognised at a point in time	25,295,434	35,580,490	703,287	—	61,759,211
Recognised over time	—	—	312,775	—	312,775
	25,295,434	35,580,490	1,016,062	—	61,891,986
Revenue from other sources	—	—	86,172	—	86,172
Inter-segment revenue	4,988	19,131	1,515,469	(1,539,588)	—
Segment revenue	25,300,422	35,599,621	2,617,703	(1,539,588)	61,978,158
Segment result after finance costs	3,364,881	1,549,877	247,413	(6,202)	5,155,969
Share of results of an associate and joint ventures	483	242,752	(9,076)	—	234,159
Unallocated income, net	—	—	21,468	—	21,468
Profit before taxation	3,365,364	1,792,629	259,805	(6,202)	5,411,596
Taxation	(1,166,264)	(453,607)	(73,503)	—	(1,693,374)
Profit for the year	2,199,100	1,339,022	186,302	(6,202)	3,718,222

	2018				
	Instant noodles	**Beverages**	**Others**	**Inter-segment elimination**	**Total**
			(Restated)		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue					
Revenue from contracts with customers	23,915,946	35,311,108	1,380,136	—	60,607,190
Timing of revenue recognition:					
Recognised at a point in time	23,915,946	35,311,108	779,457	—	60,006,511
Recognised over time	—	—	600,679	—	600,679
	23,915,946	35,311,108	1,380,136	—	60,607,190
Revenue from other sources	—	—	78,455	—	78,455
Inter-segment revenue	728	1,823	1,495,680	(1,498,231)	—
Segment revenue	23,916,674	35,312,931	2,954,271	(1,498,231)	60,685,645
Segment result after finance costs	2,505,302	1,124,905	326,919	1,497	3,958,623
Share of results of associates and joint ventures	212	71,021	347	—	71,580
Unallocated expenses, net	—	—	(50,869)	—	(50,869)
Profit before taxation	2,505,514	1,195,926	276,397	1,497	3,979,334
Taxation	(800,387)	(398,051)	(52,127)	—	(1,250,565)
Profit for the year	1,705,127	797,875	224,270	1,497	2,728,769

Segment assets and liabilities

	2019				
	Instant noodles *RMB'000*	Beverages *RMB'000*	Others *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Assets					
Segment assets	22,790,688	29,095,483	4,010,878	(235,139)	55,661,910
Interest in associates	—	139,537	—	—	139,537
Interest in joint ventures	882	849,424	38,759	—	889,065
Unallocated assets					1,269,155
Total assets					57,959,667
Liabilities					
Segment liabilities	9,294,961	15,805,462	10,482,964	(826,893)	34,756,494
Unallocated liabilities					157,066
Total liabilities					34,913,560
Other information					
Depreciation and amortisation	777,990	2,324,077	211,848	(56,144)	3,257,771
Capital expenditures	440,974	1,355,033	278,984	—	2,074,991
Interest income	326,958	228,758	18,854	(33,348)	541,222
Interest expenses	3,967	136,873	310,551	(37,739)	413,652
Impairment loss of property, plant and equipment	35,097	112,555	4,398	—	152,050
Net gain on disposal of subsidiaries	372,208	94,537	162,144	—	628,889
Gain on disposal of a joint venture	—	—	223,150	—	223,150
Gain on disposal of an associate	119,593	11,460	—	—	131,053

	2018				
	Instant noodles	Beverages	Others	Inter-segment elimination	Total
			(Restated)		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
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
Liabilities					
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
Other information					
Depreciation and amortisation	716,954	2,465,003	141,550	—	3,323,507
Capital expenditures	370,086	978,848	96,858	—	1,445,792
Interest income	201,172	158,004	19,590	(30,378)	348,388
Interest expenses	—	180,131	271,929	(30,378)	421,682
Impairment loss of property, plant and equipment	280,274	340,672	4,900	—	625,846
Net gain on disposal of subsidiaries	—	(3,225)	391,069	—	387,844

5. OTHER REVENUE

	2019	2018
	RMB'000	*RMB'000*
Interest income	**541,222**	348,388

6. OTHER NET INCOME

	2019	2018
	RMB'000	*RMB'000*
Income (Expenses):		
Gain on sales of scrapped materials	**160,451**	154,535
Change in fair value of financial assets at fair value through profit or loss, net	**20,774**	(49,675)
Change in fair value of investment properties	**3,674**	13,000
Change in fair value of financial liabilities at fair value through profit or loss, net	**188**	40,115
Dividend income from financial assets at fair value through profit or loss	**3,253**	6,500
Net gain on disposal of subsidiaries	**628,889**	387,844
Net gain on disposal of an associate	**131,053**	—
Net gain on disposal of a joint venture	**223,150**	—
Government grants	**314,116**	166,140
Loss on disposal of property, plant and equipment and right-of-use assets	**(92,900)**	(86,607)
Exchange gain (loss), net	**15,511**	(46,922)
Others	**136,064**	219,044
	1,544,223	803,974

7. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

	2019	2018
	RMB'000	*RMB'000*
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	**363,850**	392,570
Interest on bank and other borrowings wholly repayable over five years	**27,944**	33,049
Finance costs on lease liabilities	**24,625**	—
	416,419	425,619
Less: Borrowing costs capitalised into property, plant and equipment at weighted average capitalisation rate of 3.71% (2018: 3.89%)	**(2,767)**	(3,937)
	413,652	421,682
Other items		
Depreciation:		
Property, plant and equipment	**2,952,224**	3,210,324
Right-of-use assets	**299,141**	—
Amortisation of intangible assets	**6,406**	9,490
Amortisation of prepaid lease payments	**—**	103,693
Impairment loss of property, plant and equipment (including in other operating expenses)	**152,050**	625,846

8. TAXATION

	2019	2018
	RMB'000	*RMB'000*
Current tax – PRC Enterprise income tax		
Current year	**1,245,211**	1,196,356
Over provision in prior year	**(17,587)**	(74)
	1,227,624	1,196,282
Deferred taxation		
Origination and reversal of temporary differences, net	**(18,286)**	(92,656)
Effect of withholding tax on the net distributable earnings of the Group's PRC subsidiaries	**484,036**	146,939
	465,750	54,283
Total tax charge for the year	**1,693,374**	1,250,565

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

Hong Kong Profits Tax has not been provided as the Group's entities had no assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2019 and 2018.

The applicable PRC Enterprise income tax for the PRC subsidiaries is 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 the PRC (the "Western Region") with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in the Western Region are entitled to an income tax rate of 15% (2018: 15%).

9. DIVIDENDS

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

	2019	2018
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of US4.24 cents *(2018: US3.20 cents)* per ordinary share	**1,665,491**	1,231,661
Special dividend proposed after the end of the reporting period of US4.24 cents *(2018: US3.20 cents)* per ordinary share	**1,665,490**	1,231,660
	3,330,981	2,463,321

At meeting held on 23 March 2020, the directors recommended the payment of a special dividend and a final dividend of US4.24 cents and US4.24 cents per ordinary share respectively. The proposed special dividend and final dividend have not been recognised as dividend payables in the consolidated statement of financial position.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is as follows:

(a) Basic earnings per share

	2019	2018
Profit attributable to ordinary equity shareholders (RMB'000)	**3,330,981**	2,463,321
Weighted average number of ordinary shares ('000)	**5,622,019**	5,617,202
Basic earnings per share (RMB cents)	**59.25**	43.85

(b) Diluted earnings per share

	2019	2018
Profit attributable to ordinary equity shareholders (RMB'000)	**3,330,981**	2,463,321
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	**5,622,019**	5,617,202
Effect of the Company's share option scheme	**4,831**	10,129
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**5,626,850**	5,627,331
Diluted earnings per share (RMB cents)	**59.20**	43.77

11. TRADE RECEIVABLES

The majority of the Group's sales are cash-on-delivery. The remaining balances of sales are mainly at credit term ranging from 30 to 90 days. The ageing analysis of trade receivables (net of loss allowance), based on invoice date, at the end of the reporting period is as follows:

	2019	2018
	RMB'000	*RMB'000*
0 – 90 days	**1,568,425**	1,584,771
Over 90 days	**101,100**	130,700
	1,669,525	1,715,471

12. TRADE PAYABLES

The trade payables to third parties, related parties and joint ventures are unsecured, interest-free and with credit period of 30 to 90 days. The ageing analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	2019	2018
	RMB'000	*RMB'000*
0 – 90 days	**6,789,795**	6,075,099
Over 90 days	**888,240**	878,862
	7,678,035	6,953,961

13. COMMITMENTS

	2019	2018
	RMB'000	*RMB'000*
Capital expenditure commitments		
Contracted but not provided for:		
Expenditures on properties, plant and equipment	**650,104**	1,052,032
Investment funds	**12,296**	30,212
	662,400	1,082,244

Macro and Industry environment

In 2019, the overall economic situation in China was deemed stable, with GDP growth of 6.1% and CPI increase of 2.9%, with higher CPI in the second half of the year. Urbanisation rate continued to climb, residents' income and consumption maintained high growth rate with upward pattern. The instant noodle industry we operate has showed steady and encouraging development; and packaged beverage industry delighted with signs of growth. Amid such backdrop, new generation of urban consumers, middle-class groups, and consumption demand for high performance-price ratio products have evolved into pivotal potential markets. While changes in consumer habits have resulted rapid growth in online retail platforms, catering channels, and convenience stores, such changes also brought along mixed blessing of both opportunities and challenges in the Group's business development.

Business Review

In 2019, guided by the strategic directive theme, "Consolidate, Reform and Develop", the Group planned to develop high-end markets, while continued to focus on mass consumer markets. The Group continued to refine and improve on its product-mix, and to such end, to optimise production layout footprint, to develop diversified market channels, as well as to reduce organizational layers, and to introduce digital transformation. During the year, the instant noodle segment experienced steady growth. Due to the structural change introduced earlier, the performance of beverage segment was lifted with encouraging growth momentum in the second half of the year.

In 2019, the Group's revenue increased by 2.13% to RMB 61.978 billion, year-on-year. Revenue from instant noodle and beverage segment increased by 5.79% and 0.81%, year-on-year, respectively. The gross profit margin for the year increased by 1.02 percentage points to 31.88%. The ratio of distribution costs to revenues increased by 1.92 percentage points to 21.39%, year-on-year. EBITDA increased by 15.80% to RMB8.542 billion, year-on-year; benefited by growth in gross profit margin, increase of other revenue and other net income, plus other operating expenses decrease, the profit attributable to shareholders of the Company increased by 35.22% to RMB3.331 billion and basic earnings per share increased by RMB15.40 cents to RMB59.25 cents.

During the year, in order to best meet the needs of different demand spaces, the Group applied the strategy of multi serving sizes and multi-flavour products. The Group continued to focus on its core products and apply multi serving sizes and multi-flavour products to appeal to general consumers. The Group actively developed potential new categories and launched multi price-tier products that allowed the flexibility to attract new generation in lower tier cities, working and middle-class income groups. Besides, the Group carefully planned and step by step to increase brand investment and strengthen brand building. To boost brand positioning and product category image, the Group entered into cooperative partnership with the China Space Foundation and the Winter Training Center for the General Administration of Sport. In order to draw attention of young consumers and young households, the Group invested in sports marketing, omni-media marketing and IP collaboration to enhance brand exposure.

To respond to the overall trend of channel fragmentation, the Group continues to conduct channel optimization initiative in its pursuit of an optimised allocation of distributor and retailor profitability, along with seeking win-win solution with channel partners. Besides leveraging the competitive strength in traditional channels, the Group pushes forward to seek for diversified sales channels, to strengthen the collaboration with new retail format and e-commerce operators. The Group has completed the changeover from three-tier distribution to direct management of second-tier distributors in most core cities, as well as to upgrade our services to retail outlets. In lower tier cities, the Group continues to engage with excellent third tier distributors, as well as to opt for a collaborative partnership with channel partners. Meanwhile, the Group steps up investment on high growth channels, founded new divisions in e-commerce and vending machines, intensively cooperated with new retail format operators. With all such endeavors, the Group intends to increase its product penetration ratio at retail outlets.

To facilitate modification in product-mix, along with optimised capital expenditure, the Group maintains its rationalization initiative in supply-chain, applies OEM and idle asset disposals, optimizes production footprint, and adopts smart manufacturing process.

To aid the recent efforts in channels, the Group proceeds to optimise its organisational structure, via various initiatives that serve to reduce members of management-level, enable direct contact with markets, and ramp up customer service staff at retail level. All such exercises ultimately serve to provide channel customers and partners with better services.

In its effort to improve overall operation efficiency, the Group applies digital solutions to innovate every aspect in its production and operation workflow. The Group continues to promote the construction of shared service centre, where digital technology is adopted to facilitate process optimization, system simplification, and information enhancement, while digital tools are used to digitize production, channel operations and decision-making process.

Instant Noodle Business

According to statistics from Nielsen, in 2019, the overall sales volume of the instant noodle market grew by 1.5% year-on-year, while sales value increased by 7.2% year-on-year. During the year, market shares of Master Kong in terms of sales volume and value were 43.3% and 46.6%, respectively, and ranked first in the market.

In 2019, the Group's revenue from the instant noodle segment recorded RMB25.30 billion, grew by 5.79%, year-on-year, accounting for 40.82% of the Group's total revenue. During the year, due to price surge for some raw materials, gross profit margin of instant noodles segment decreased by 1.22 percentage points to 29.01%, year-on-year. In 2019, backed by gain in revenue, increase in other revenue and other net income, and cut-down on other operation expenses, profit attributable to shareholders of the Company in the instant noodle segment as a whole increased by 28.74% to RMB2.20 billion.

The instant noodle business focuses on high-price and premium markets, and at the same time, develops into super-premium markets, with prime concern to achieve sales growth. The segment applies multi serving sizes and multi-flavor products strategy to fit in with different consumption scenarios and provide for diversified consumer needs, and by initiating multimedia marketing and IP cooperation, the segment aims to gain young consumers and young families. During the year, the segment entered into cooperative partnership with the Winter Sports Center of the State General Administration of Sport and the China Space Foundation to promote food safety awareness, strictly control food safety standards, and improved product-mix and brand image. By all such exercises, instant noodle business has assumed a leading role in the overall development in the industry. During the year, the segment continued sports promotion, working with Jane Lang and Zhu Ting to promote women's volleyball, marathon race, with the prime aim to boost the healthy image associated with our brand.

To cope with changes brought about by the ongoing urbanisation and channel fragmentation, the segment extends the network coverage of its retail services in core cities, and joined-in a win-win partnership with distributors in lower tier regions. Moreover, the Group strikes to reinforce operation efficiency via modern channels and e-commerce channels to generate double-digit growth in sales.

In 2019, the Group continued to roll out supply chain reforms, with the ultimate aim to improve operation efficiency along the supply chain, via measures such as optimizing allocation plan for production facilities, rejuvenation of phase-out factories, and upgrade to automation technologies. To support national policies, Instant Noodle Business adheres to energy conservation and emission reduction measures, so as to boost production profitability.

High-priced and Premium Noodles

The high-priced and premium noodles are Master Kong's targeted core markets. The segment calls on consumers with multi serving sizes and multi-flavour products that promote sales growth. To tap into the trend of bulk-packaging in the market, the segment introduces bulk-packaging products and vigorously promoted it, which has contributed to the growth in market share. To feed the needs of diversified consumption scenarios, the segment introduced "twin-taste in one", "mini-cup", "stirred dry-noodle" and other serving sizes to meet the calls from diversified consumption scenarios. To add to varieties of taste, fresh-new seasonings, "Shallots Rib" and "millet pepper and pickled pepper mix" were brought to satisfy consumers' appetite for new flavours.

In addition, to win over young households, working and middle-class groups, the segment joined hands with China Space Foundation to undertake collaborative projects, carried forth sports marketing, IP collaboration, multi-media marketing to lift brand image. During the year, the segment continued to partner with China Space Foundation to undertake collaborative projects, and through such endeavours, the Group aims to create a outstanding brand image of safe and high-quality. The segment continues to work with Jane Lang and Zhu Ting to promote women's volleyball, marathon and other sports marketing, as well as to create a healthy brand image. The segment is enabled to rejuvenate its brand image with the aid of IP cooperation, including "Kung Fu Panda", "Douro Mainland", and "Game for Peace", whereas, via social media channels such as Douyin and Weibo, the segment has enticed young customers.

Super-premium Noodles

To capitalize on the tidal trend of consumption upgrade, the Group launched the "Express Chef's Noodle" series into the market. Over the past year, Master Kong prioritised on modern channels, including e-commerce platforms, convenience stores, and special channels such as long-distance passenger travel, which has contributed to the rapid growth in sales. Based on such fundamentals, Master Kong launched "Express cooked noodles" and "Express self-heating Noodles" in the second half of the year to satisfy the demand from various consumption scenarios. The signature "Express Chef's Noodle" series anchors at online marketing, with online exposure added up to 200 million hit rate on Double Eleven Shopping Festival. Through sports marketing, the segment popularised its brand image. The Group seized the unique occasion offered by Winter Olympics, partnered with Winter Sports Management Centre of the General Administration of Sport of China and acted as its sole instant nutrient food provider, to serve with its customized "Express Chef's Noodle Specialty for Chinese Winter Sports Athletes".

Mid-priced Noodles/Snack Noodles

The segment is convinced of the pre-dominant trend of consumption segmentation and adapts to the cost-effective consumption pattern among consumers in lower tier cities and rural areas with mid-priced noodles. During the year, the segment promoted size-up noodle-block sales, "50% plus Hunger-feed", that strategically seized the stratified markets with large portion needs, and, ultimately, achieve sales growth. Due to IP cooperation includes "Kung Fu Panda", as well as the debut addition of new flavours, "cheese corn" and "spicy crayfish", the snack noodle "flavoured and crunchy" has conjured up a unique brand image of "yummy" plus "fun", that charms young consumer groups.

Beverage Business

According to the data from Nielsen, in 2019, the sales volume and value in the beverage industry grew by 3.9% and 5.1%, respectively. During the year, the ready-to-drink (RTD) tea segment (including milk tea) accounted for 45.7% of the market share in terms of sales volume and maintained a firm hold onto top position in the market; sales volume of the Group's juice section accounted for 15.9% of the market, ranked second in the market; bottled water represented 5.4% in the market. Sales value of RTD coffee accounted for 17.6% in the market, ranked second in the market. According to the monitoring data provided by third-party research firms, the overall market share of Pepsi carbonated soft drinks, in terms of sales volume, was 32.9% in 2019, ranked second in the market.

In 2019, the overall revenue of the beverage business recorded RMB35.60 billion, increased by 0.81%, year-on-year, representing 57.44% of the Group's total revenue. During the year, gross margin of the beverage business increased by 2.43 percentage points to 33.69%, mainly due to improvement in product-mix, product upgrade, along with price drop in some raw materials. Due to improvement in gross margin and cut-down of other operation expenses, profit attributable to shareholders of the Company for beverage business in 2019 amounted to RMB0.946 billion, climbed by 72.39%, year-on-year.

For beverage business, benefited from the continued improvement in product mix during the year, sales resumed to positive growth in the second half of the year. The segment took steps to launch high-end products to reap benefits from the trend of consumption upgrade, while still focusing on core product-mix to meet mass consumption demands. The segment endeavours to reinforce brand-building by increasing advertisement investment, IP collaboration, sports marketing and scenario marketing with the ultimate aim to gain young households and young consumers. The segment also actively promoted multi-channel development, to explore both indoor and outdoor channels, and establish e-commerce and new retailing platforms. On the other hand, the segment expands the retail-shop network in core cities, improve channel profitability via reinforced services, and seeks for win-win partnerships with distributors. The segment continues to press for asset-activation, opt for asset-light, optimise capacity allocation, fittingly introduce new products and to scale up capital expenditures for refrigerators and heating cabinets; the segment is poised to apply the latest smart manufacturing and logistics system, so as to achieve an overall improvement in supply chain efficiency.

RTD Tea

RTD tea segment gains popularity in the mass market via its core products. Based on its unique multi serving sizes, multi-flavours products strategies, the segment is well poised to meet diversed consumption scenarios; along the way, the segment launched "Master Kong Chacanting", the high-end products, to seize its high-end market share, and, thereby, succeeds to at the helm of the RTD tea market. During the year, the Group keeps up with investment in brand, as well as to draw young consumer groups and household consumption groups with the aid of IP collaboration, sports marketing, and scenario marketing. "Master Kong Ice Tea" selection joined hands with "Sina 3X3 Golden League" and " Tencent I Want Play Basketball" to clone a sports scenario; collaborated with "Tencent Produce 2019" for re-making musical scenarios, while Tencent Smart Retail adopted to link up online and offline sales channels to bolster sales growth. "Jasmine Tea" selection has an alluringly fresh jasmine-scented flavours as hailed in its brand image and young consumers are invited through IP cooperation. "Green Tea" selection continues to strenghen its brand image of freshness and vitality, and attracts young consumer groups through its popular IP. "Master Kong Milk Tea" selection worked with "Rocket Girls 101" on IP cooperation to unlock the purchasing power and propaganda influence of fans, and use new serving size and new packaging design to attract consumers. During the year, the newly launched products, "Oolong" selection fittingly fed the thirst for refreshing fruit tea discerned in the new generation of urban consumers. The high-end lemon tea selection, "Master Kong Chacanting" painstakingly exploited the surge in demand brought by consumption upgrades, and to this end, seized market share in core cities via expanded package options, with rapid growth in sales.

Carbonated Soft Drinks

Pepsi carbonated bottled beverage segment trades on consumption upgrade trend via multi-flavour, multi-serving sizes, boutique packaging design, and reduced sugar content, to fit in with consumers' needs in diversed consumption scenarios. The segment continues to pursue a duel-pronged approach, "brand promotion plus marketing activities", to reinforce brand communication and spur consumption impulse. "Pepsi Cola" continues to roll out new flavors, the first in the country to release its debut limited edition of "Pepsi Cola Salted Caramel" nationwide, followed by the launch of Pepsi zero-sugar series with added raspberry flavour in key regions, with the latter promptly covers a nationwide sales network. It becomes more evident that brand exposure volume is boosted. Besides, prompted by the themed marketing event, "Pepsi Concept Store" young consumer groups are drawn to the products, leading to a steady growth in sales. The classic "Pepsi zero-sugar" is succeeded by a variety of serving sizes. As the overall product line is optimised, sales growth sustains. "Mirinda", marked by its high-dose fruit flavor hallmark, has answered the the distinctive brand's call for "Explosive Fruity Fun". Due to further endeavor to optimize and upgrade the medium-sized packaging bottles, the novel fruit bottles hit the shelves. Focused on flavor varieties and choices, the debut banana flavour was released, and, thereby, product-mix improved. Meanwhile, the segment undertook title sponsorship for online variety show, "Our Family Concert" and closely collaborated with animation IP "The King's Avatar", together with the aid of co-branded products, added animation elements, to enhance brand awareness and popularity, with high-quality contents such as co-branded products and animation implantation. "7 up" launches the themed, "Feels good to be you", annual marketing product campaign, to give publicity for the first appearance of FIDO DIDO, new packaging design and new flavors, "7 up Low Sugar" and "7up Moji7o Grapefruit Flavor", all served for product differentiation and seeking after young consumers.

Fruit Juice Drinks

The segment continued to carry out with product upgrade and brand investment, along with optimization of channel profitability, and highlighted the leading position of Chinese juice drinks, as well as to facilitate the sale of Western fruit juice drinks, and ultimately, to achieve the overall growth in both products. Backed by IP collaboration and media marketing, the segment managed to acquire young consumer groups, through the marketing strategy of multi serving sizes and multi-flavours, the segment succeeds to expand into catering and festive consumption scenarios. For instance, in tune with traditional Chinese diet culture, "Rock Candy Pear", highlighted the therapeutic brand image of the pear juice to moisturise, and curb dehydration during autumn and winter seasons; and, through collaborative effort with well-liked variety show series, the segment has reinforced its brand image.

"Traditional Drink Sweet-Sour Plum Juice" joined hands with hot seller IP, "Going Fighting!" to meet the consumption needs in catering channels via propaganda promotion of Chinese classic drinks to go along with hot pot dinning; with such initiatives, sales growth achieved. In the second half of the year, Western-style juice "Master Kong Juices" sustained sales growth as the product stepped-up brand marketing and increased sales of multi serving sizes, through leveraging on festive gathering scenarios. "NutriLight Fruits", still focuses on "honey and citron" as its main flavour, collaborates with new media channels to draw young consumer groups. Tropicana and Tropicana 100% continue to roll out new flavours, and new sizes, and are well poised to meet the diverse scenario demands.

Bottled Water

In 2019, the bottled water segment continued to meet diversed consumer needs through "multi-sizing plus multi-pricing" marketing strategy, and it was set to expand into low and high-priced markets. With the prime aim to boost sales, the segment actively promotes brand building and IP cooperation to acquire urban and middle-class consumers as well as young households. The economical product, "Master Kong Bottled Drinking Water" commenced IP collaboration with "The Inn Season 3", which aimed to popularise and convince the overall brand image as the "Trusted Choice for the Whole Family". The product cloned the sports scenarios through offline marketing activities for marathon race and launch of new serving size, 1 liter-bottle. On account of high price-performance ratio and multi-sizing, the segment targets to be a national brand, offered at an affordable budget-friendly price. The mid-priced Aquafina is enabled to establish brand popularity through online and offline interactive sales activities. The high-end water "Han Yang Quan", not only fulfils the middle class's demand for natural mineral water, but also be purposely selected as a social and functional drinking water, served in the Xinhua News Agency's National China's Annual "Two Sessions" meeting and the World Internet Summit. The product focuses on market penetration into core business districts and scenic spots, amusement parks, and vending machines, as well as to spawn a high-end brand image.

Coffee Drinks/Functional Drinks/Probiotics

In the RTD coffee market, the Group, well-established in the medium to high-priced sector, joined hands with international strategic partner "Starbucks" to develop into the high-end market, and promoted its "Bernachon coffee" into the stable medium to high-priced segment with sustainable sales growth achieved. "Bernachon Coffee" focuses on the market development at Yangtze River Delta/Pearl River Delta/Beijing and other core cities. Due to increased investment on online and offline activities, the product rapidly establishes its brand popularity and high-speed sales growth was achieved.

The functional drink “Gatorade”, established as a leading sports drink brand, focuses on market development into key sports scenarios, including football, basketball, track running, gymnasium exercise, etc. The product’s online sales involves themed marketing events with the aid of vertical media, delivered to the China’s sports sectors; its offline sales involves exposure associated with relevant sports events, with prime focus on creating sports events for grass-root sectors, and oriented to “sweat-spot” market coverage. This sector has worked with KOL in sports, to step-up product education, enhance brand influence, actively build the brand image as the first-tier sports drink, and steadily grew in sales.

“Wei Chuan Ambient Probiotics Drink” consolidates its market footprint in the Yangtze River Deltra. The product addresses to the consumers’ call for nutrition and healthy lifestyle. With the aid of packaging upgrade, IP collaboration with “LINE FRIENDS”, a mirror reflection of young and vibrant public image, the product has appealed to young consumers, with its boosted brand popularity and sales growth.

Financing

The Group duly commited to the overall strategy of “Cash Is King”, applied sound control on capital expenditures and effectively promoted asset-light and asset activation. All these measures are expected to generate stable cash inflows. During the year, the Group’s net cash inflow from operating activities amounted to RMB7.831 billion, and net cash outflow in investment activities amounted to RMB1.405 billion. During the year, the Group disposed entire or partial equity interests of six subsidiaries to three independent third parties, with net cash inflow of RMB0.837 billion; acquired approximately 5% of KSF Beverage’s shares from Ting Hsin (頂新) for a consideration of USD 203 million. In the future, the Group will continue to gradually reduce the level of interest-bearing borrowings with internal resource so as to achieve a more flexible and healthier financial structure and further improve operating basis.

The Group continued to maintain a stable and healthy financial structure through effective controls on the balances of trade receivables, trade payables, bank balances and cash, as well as inventories. As at 31 December 2019, the Group’s cash and bank balances totaled RMB17.43 billion, increased by RMB3.590 billion, compared with 31 December 2018. Sufficient amount of cash in hand was still maintained. As at 31 December 2019, the Group’s interest-bearing borrowings amounted to RMB 12.374 billion, increased by RMB 1.540 billion, compared with 31 December 2018. Net borrowings amounted to RMB -5.056 billion, decreased by RMB 2.050 billion, compared with 31 December 2018. At the end of the reporting period, the Group’s proportion of the total borrowings denominated in foreign currencies and Renminbi were 76% and 24% respectively, compared with 72% and 28%, as at the end of the previous year. The proportion between the Group’s long-term borrowings and short-term borrowings was 40% and 60%, respectively, compared with 40% and 60% as at the end of previous year.

As at 31 December 2019, the Group's total assets and total liabilities amounted to RMB57.960 billion and RMB34.914 billion respectively, representing an increase of RMB4.957 billion and an increase of RMB5.523 billion, when compared with 31 December 2018. The Group's debt ratio increased by 4.79 percentage points to 60.24%, compared with 31 December 2018. The gearing ratio decreased from -15.29% as at 31 December 2018 to -25.82% in the current period.

During the year, US dollars appreciated against Renminbi by 1.75%. Due to the fluctuation of exchange rate, realized and unrealized exchange gain in aggregate of RMB15.511 million has been recognized in the Group's income statement.

Financial Ratio

	As at 31 December 2019	As at 31 December 2018
Finished goods turnover	**16.61 Days**	12.42 Days
Trade receivables turnover	**9.97 Days**	10.08 Days
Current ratio	**0.90 Times**	0.88 Times
Debt ratio (Total liabilities to total assets)	**60.24%**	55.45%
Gearing ratio (Net debt to equity attributable to owners of the Company)	**-25.82%**	-15.29%

Human Resources

As of 31 December 2019, the Group had 58,182 employees. In 2019, guided by the directive, "down-sized headquarters and bigger operating units" the Group continued to improve the organization, optimize the labor structure, speed up the process of recruitment of local talents, taking steps to materialise the rejuvenation of management team, and steadily promote diversity on talent recruitment. Meanwhile, a "Career Planning and Talent Management" system was introduced to maximize the effectiveness of talent allocation and management at work.

The Group continues to optimise the echelon construction of talents and reserves and delivers talents of all levels, so as to enable the Group to materialize strategic plans and sustainable development. The Group continues to recruit and reserve outstanding talents via YMP (Young Master Program), and grassroots talents through the joint initiative of "integration of enterprises with educations" with 36 colleges and 42 vocational schools nationwide.

The Group actively implies strategic cooperation with top universities domestically and abroad, reinforces the joint industry-university-research collaborative initiative, and undertakes research in leading sectors, including big data in healthcare, emerging new retail society, and urbanization development, which can duly contribute to high-quality development of the Group and future talent recruitment.

Corporate culture is the soul of the enterprise's development. During the year, the Group encourages the combination of corporate culture to corporate management, so as to facilitate the effective landing of corporate culture. Adhered to the guiding culture, "to serve the front-line", we set up corporate CIS (Corporate Identity System) promotion committee in the headquarters; selected cultural ambassadors in each business sectors, set up CIS commissioners in local sales companies and factories, and created a top down atmosphere of "All employees to know the strategy, to participate in performance competition and skill improvement".

Corporate Social Responsibility

Guided by the concept of "sustainable operation and giving back to the society", the Group shoulders for corporate social responsibility management around food safety construction, energy conservation and environmental protection, and community investment. In 2019, the Group's contribution in the field of social responsibility have been highly recognized by the industry and won the "2019 China Food Enterprises Social Responsibility Golden Tripod Award", "2019 China Food Enterprises Environmental Protection Award", "2019 Outstanding Chinese Enterprise in Corporate Social Responsibilities (CSR)" and "2019 The List of Responsible Practice 2019 · Annual Corporate Responsibility Practice Award".

The Group regards food safety as its foundation. During the year, the Group continued to strengthen food safety management system construction and traceability management in food safety study and research. In terms of food safety education, themed activities such as "Be Virtuous and Law-Abiding, Build up Food Safety Together" and public welfare projects such as "A Tour across China for Space Exploration Sprit Promotion - Master Kong Food Safety Science Exhibition" were also organized. We also organized number of food safety training and knowledge contests, carried out food safety self-examination, supplier inspection and retroactive practices, and promoted food safety concepts in schools and communities.

The Group actively responds to national energy conservation and environmental protection initiatives, and continues to carry out a number of energy conservation and emission reduction projects. The energy conservation projects undertaken in 2019 include the elimination of low-energy-efficiency facilities, the installation of smart water and electricity control systems, the implementation of water and reuse measures, the installation of advanced waste gas treatment systems, and the low-nitrogen retrofit of boilers, the introduction of external steam, product plastic reduction, and building of green supply chains. In terms of environmental education, the Group has jointly organized the "Water Education" events with the China Beverage Industry Association for the fifth consecutive year, and launched a number of environmental public charity activities, including "Qing Love the Earth", "Small Actions, Great Power".

The Group actively gives back to the society and is committed to achieving the coordinated development of the enterprise and society. The Group responded to the government's call to provide employment opportunities for people with disabilities through the "Internet + Work-from-home" model. In the event of a natural disaster, the Group provides immediate assistance to the disaster-stricken areas by sending relief supplies; it also conducted condolences in nursing homes, kindergartens, schools, police stations, People's Liberation Army (PLA) troops and remote areas. The Group actively responded to the state's targeted poverty alleviation policy, launched bulk agricultural product procurement, and helped farmers to increase their earnings.

The Group has always focused on giving back to education and co-organized the "Master Kong Dream Scholarship Project" with Waseda University to sponsor exchange students from five top domestic universities to study in Japan. So far, 115 students have been sponsored in 7 sessions. During the period, the Group supported Peking University's "Asia Campus Plan", sponsored a series of activities for the 70th anniversary of the establishment of Shanghai International Studies University, and participated in the "Site-visit, Implementation Plus Research" summer visit practice project. In addition, the Group continued to collaborate with Stanford University, Schwarzman Scholars at Tsinghua University, and other top universities to provide internship projects.

Prospect

Macroeconomic uncertainties will increase in 2020. The sudden outbreak of novel coronavirus at the beginning of the year is expected to have an impact on both GDP and consumption in the first quarter of 2020. In particular, tourism, catering, retail industries will be under large impact in short-term. The subsequent impact could be limited as the epidemic gets controlled in China. The Chinese government is implementing strong measures to control the epidemic and resume work. The epidemic crisis is expected to ease quickly. At the same time, considering the scale, resilience and potential, Chinese economy is expected to recover quickly after the epidemic.

The instant noodle and beverage business of the Group will also be affected by the epidemic situation due to the characteristics of different categories. Instant noodles, served as a strategic article for the people's daily lives, that symbolizes the stability of livelihood, will do its best to fulfill corporate social responsibility and try to meet the surging demand during the epidemic. Although beverage sales are affected due to the decline in number of retail stores during the epidemic, it is expected to resume for a rebound consumption. Overall, the instant noodle business is expected to grow well in 2020, and the beverage business is expected to have a short-term pressure on revenue and shipments due to the epidemic, but it is expected to rebound at a high speed in the second half of the year.

During the epidemic: The Group actively safeguarded normal production and operation activities in special periods, and adopted measures such as "stabilizing production, stabilizing prevention and control and stabilizing supply" to facilitate the early resumption of the supply chain and the safe and orderly launch of sales. At the same time, in response to the state's call for "controlled price, quality and supply", we will fully ensure the supply of materials and provide reliable logistical support for all "anti-epidemic" initiatives.

After the epidemic: The Group will continue to adhere to the concept of "focusing on the mass consumer market and steadily expand to high-end market". On the basis of consolidating the mass consumer market and ensuring a consolidate fundamentals for sales growth, the Group will continue to promote the upgrading of its product-mix and layout into high-end and potential markets, based on consolidating the mass consumer market. In terms of brand building, the Group will continue brand investment and brand building, and create consumption scenarios, implement all-media marketing to enhance brand image through aerospace collaborative endeavours, sports marketing, and IP cooperation through variety of channels, including culture, science, and public welfare. The Group will also cooperate with professional institutions to apply big data technology to accurately understand customers and their needs via accurate consumer profiles, and conduct targeted marketing. In response to the trend of channel fragmentation and channel sinking, the Group will continue to adhere to the channel delayering strategy and actively develop diversified channels. In the core area of cities, we will implement full direct coverage, and use data tools to strengthen the management and service of retail stores; in other regions, we will work with business partners to achieve a win-win situation, and further develop the market; at the same time, we will increase investment in e-commerce, vending machines and other high growth channels, and closely cooperate with new retail operators such as Ali, JD.com, and Eleme to comprehensively increase the terminal penetration coverage of the Group's products.

The Group will continue to advance its supply chain rationalization strategy, further promote asset-light and asset activation, and promote smart manufacturing. At the same time, increase environmental protection investment for energy conservation and emission reduction, and achieve both economic and environmental benefits.

In addition, the Group will firmly promote its "digital transformation", increase investment in digital infrastructure, and continue to build shared service center, initiate production process digitizing and channel digitizing. At the same time, we will continue to integrate and connect data, and build a closed data loop. In the future, we also hope to explore for emerging business opportunities, flexible production technology, and empowered operations through the application of big data and AI technologies.

The Group plans ahead to adequately prepare for future consumer trends, established a Food Service Division, and actively explore the B2B market.

The Group also responds to the country's call for the "Belt and Road" initiative, launches various forms of cooperation with international partners in areas such as raw materials and marketing, and establishes an "Overseas Division" to actively explore and study overseas markets.

The Group aims to anchor in Chinese food and beverage market. Food safety has always been top concern of the Group. Today, the Group has established a complete product traceability system and a domestic first-class technology research and development center. In the future, the Group will continue to invest in food safety field to maintain its leading edge; meanwhile, the Group has always maintained a stable operation and will continue to adhere to the concept of "Cash Is King". Wish to improve people's life is our mission, to serving the middle-class consumer demands is our long-term development goal, and building a win-win relationship with business partners and serving our customers are our values, the Group will continue to push forward on the current success, continue to lead the industry healthy development and make the company a "Chinese Ethical Brand" of food and beverage.

James Chun-Hsien Wei
Chief Executive Officer
23 March 2020

CORPORATE GOVERNANCE

We have, throughout the year ended 31 December 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.

Scope of Work of Mazars CPA Limited

The figures contained in the preliminary announcement of our Group's results for the year have been agreed by our Group's auditor, Mazars CPA Limited, to the amounts set out in our Group's consolidated financial statements for the year ended 31 December 2019. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Mazars CPA Limited on the preliminary announcement.

Audit Committee

The Audit Committee currently has three Independent Non-executive Directors, Mr. Lee Tiong-Hock, Mr. Hsu Shin-Chun and Mr. Hiromu Fukada. Mr. Lee Tiong-Hock is the chairman of the Committee. The latest meeting of the Committee was held to review the results of the Group for the year ended 31 December 2019.

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 31 December 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. 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 review period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

SHARE OPTION SCHEME

At the extraordinary general meeting (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 twelve months ended 31 December 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 twelve months ended 31 December 2019 pursuant to the 2008 Share Option Scheme: (Table B)

Name	Date of grant	Exercise price HK$	Closing price of the shares on the date of grant HK$	Balance as at 1 January 2019	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Balance as at 31 December 2019	Weighted average closing price immediately before exercise HK$	Note
Executive Director										
Tseng Chien	1 April 2010	18.57	18.42	176,000	—	—	—	176,000	—	Table A (3)
	12 April 2011	19.96	19.96	206,000	—	—	—	206,000	—	Table A (4)
	26 April 2012	20.54	19.88	112,000	—	—	—	112,000	—	Table A (5)
	27 May 2013	20.16	20.05	140,000	—	—	—	140,000	—	Table A (6)
	17 April 2014	22.38	22.35	164,000	—	—	—	164,000	—	Table A (7)
	5 June 2015	16.22	15.92	232,000	—	—	—	232,000	—	Table A (8)
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)
Chief Executive Officer										
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	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	6,952,000	—	—	691,000	6,261,000	—	Table A (3)
	12 April 2011	19.96	19.96	8,958,000	—	—	1,136,000	7,822,000	—	Table A (4)
	26 April 2012	20.54	19.88	5,756,000	—	—	570,000	5,186,000	—	Table A (5)
	27 May 2013	20.16	20.05	6,368,000	—	—	612,000	5,756,000	—	Table A (6)
	21 April 2017	22.38	22.35	8,190,000	—	—	1,533,000	6,657,000	—	Table A (7)
	21 April 2017	16.22	15.92	10,683,000	—	—	289,000	10,394,000	—	Table A (8)
	4 July 2016	7.54	7.54	4,723,000	—	550,000	81,000	4,092,000	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**	**—**	**5,818,000**	**5,112,000**	**77,094,000**		

For the period of twelve months ended 31 December 2019, 5,818,000 options had been exercised under the 2008 Share Option Scheme. Weighted average exercise price was HK$9.21 and the weighted average market closing price before the date of exercise was HK$12.20.

(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 twelve months ended 31 December 2019 pursuant to the 2018 Share Option Scheme: (Table D)

				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 31 December 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 Wei	27 April 2018	16.18	15.02	1,708,000	–	–	–	1,708,000	–	Table C (1a)
	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 twelve months ended 31 December 2019, no share options were exercised under the terms of the 2018 Share Option Scheme.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 8 June 2020. The notice of the Annual General Meeting will be published on the Company's website and sent to the shareholders of the Company in due course.

PROPOSED FINAL DIVIDENDS, SPECIAL DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has recommended the payment of a final dividend of US$4.24 cents per ordinary share of the Company and the payment of a special dividend of US$4.24 cents per ordinary share of the Company in respect of the year ended 31 December 2019. Subject to the approval of shareholders at the Annual General Meeting, the final dividends and the special dividends will be paid on or about 15 July 2020.

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

The register of members of the Company will be closed from 3 June 2020 to 8 June 2020 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Tuesday, 2 June 2020.

(2) To qualify for the final dividends and the special dividends

The register of members of the Company will be closed from 12 June 2020 to 16 June 2020 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to qualify for the final dividends and the special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Thursday, 11 June 2020.

BOARD OF DIRECTORS

As at the date of this announcement, Mr. Wei Hong-Ming, Mr. Junichiro Ida, Mr. Wei Hong-Chen, Mr. Koji Shinohara, Mr. Yuko Takahashi and Ms. Tseng Chien are Executive Directors of the Company. Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada are Independent Non-executive Directors of the Company.

By Order of the Board
Wei Hong-Ming
Chairman

Hong Kong, 23 March 2020

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

* *For identification purpose only*