

康師傅控股

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

康師傅控股有限公司*

Stock Code: 0322

2022

INTERIM REPORT

欢乐饮食 美好生活

Life + Delicacy



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Incorporated in Cayman Islands with Limited Liability

* For identification purposes only

SUMMARY

RMB'000	For the six months ended 30 June		
	2022	2021	Change
• Revenue	38,216,878	35,395,833	↑ 7.97%
• Gross margin	28.22%	31.05%	↓ 2.83 ppt.
• Gross profit of the Group	10,786,231	10,991,819	↓ 1.87%
• EBITDA	3,417,618	4,517,006	↓ 24.34%
• Profit for the period	1,494,574	2,406,388	↓ 37.89%
• Profit attributable to owners of the Company	1,253,367	2,035,214	↓ 38.42%
• Earnings per share (RMB cents)			
Basic	22.25	36.18	↓ 13.93 cents
Diluted	22.24	36.14	↓ 13.90 cents

As at 30 June 2022, cash and cash equivalents was RMB24,631.611 million, representing an increase of RMB2,670.473 million when compared to 31 December 2021. Gearing ratio was -46.27%.

2022 INTERIM RESULTS

The Board (the “Board”) of Directors (the “Directors”) of Tingyi (Cayman Islands) Holding Corp. (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022 together with the comparative figures for the corresponding period in 2021. These unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company (the “Audit Committee”).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30 June 2022

	<i>Note</i>	January to June 2022 (Unaudited) RMB'000	January to June 2021 (Unaudited) RMB'000
Revenue	2	38,216,878	35,395,833
Cost of sales		(27,430,647)	(24,404,014)
		<hr/>	<hr/>
Gross profit		10,786,231	10,991,819
Other revenue		331,281	364,516
Other net income		319,021	725,558
Distribution costs		(8,187,743)	(7,582,302)
Administrative expenses		(1,125,313)	(1,178,630)
Other operating expenses		(100,990)	(113,059)
Finance costs	4	(133,383)	(112,504)
Share of results of an associate and joint ventures		107,877	119,441
		<hr/>	<hr/>
Profit before taxation	4	1,996,981	3,214,839
Taxation	5	(502,407)	(808,451)
		<hr/>	<hr/>
Profit for the period		<u>1,494,574</u>	<u>2,406,388</u>
Profit attributable to:			
Owners of the Company		1,253,367	2,035,214
Non-controlling interests		241,207	371,174
		<hr/>	<hr/>
Profit for the period		<u>1,494,574</u>	<u>2,406,388</u>
Earnings per share	6	<i>RMB</i>	<i>RMB</i>
Basic		22.25 cents	36.18 cents
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Diluted		22.24 cents	36.14 cents
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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2022

	January to June 2022 (Unaudited) RMB'000	January to June 2021 (Unaudited) RMB'000
Profit for the period	1,494,574	2,406,388
Other comprehensive income (loss)		
<i>Items that are not reclassified to profit or loss:</i>		
Changes in the fair value of equity instruments designated as at fair value through other comprehensive income	421	—
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Exchange differences on consolidation	(802,672)	152,840
Cash flow hedges	19,582	—
Other comprehensive (loss) income for the period	(782,669)	152,840
Total comprehensive income for the period	711,905	2,559,228
Total comprehensive income attributable to:		
Owners of the Company	516,392	2,178,930
Non-controlling interests	195,513	380,298
	711,905	2,559,228

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Note</i>	At 30 June 2022 (Unaudited) RMB'000	At 31 December 2021 (Audited) RMB'000
ASSETS			
Non-current assets			
Investment properties		1,837,200	1,807,100
Property, plant and equipment		21,588,863	21,510,028
Right-of-use assets		3,655,544	3,691,741
Intangible assets		159,676	155,970
Goodwill		97,910	97,910
Interest in an associate		105,948	94,847
Interest in joint ventures		721,939	625,163
Financial assets at fair value through profit or loss		662,944	626,901
Equity instruments designated as at fair value through other comprehensive income		144,598	137,317
Deferred tax assets		505,047	518,605
Long-term time deposits		6,161,900	5,376,900
		35,641,569	34,642,482
Current assets			
Inventories		4,734,617	4,671,477
Trade receivables	8	2,295,664	2,043,744
Tax recoverable		19,899	14,729
Prepayments and other receivables		2,568,081	2,352,553
Current portion of long-term time deposits		1,350,000	725,000
Pledged bank deposits		11,256	20,746
Bank balances and cash		17,108,455	15,838,492
		28,087,972	25,666,741
Total assets		63,729,541	60,309,223

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Note</i>	At 30 June 2022 (Unaudited) RMB'000	At 31 December 2021 (Audited) RMB'000
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	9	235,687	235,633
Share premium		806,838	786,965
Reserves		14,347,008	17,637,378
Total capital and reserves attributable to owners of the Company		<u>15,389,533</u>	<u>18,659,976</u>
Non-controlling interests		<u>3,416,924</u>	<u>3,748,524</u>
Total equity		<u>18,806,457</u>	<u>22,408,500</u>
Non-current liabilities			
Long-term interest-bearing borrowings	10	7,477,678	6,350,369
Lease liabilities		173,773	195,519
Employee benefit obligations		76,995	79,920
Deferred tax liabilities		1,443,100	1,449,910
		<u>9,171,546</u>	<u>8,075,718</u>
Current liabilities			
Financial liabilities at fair value through profit or loss		9,959	9,959
Derivative financial instruments		60,225	—
Trade payables	11	9,984,650	9,046,518
Other payables and deposits received		13,650,130	9,593,331
Current portion of interest-bearing borrowings	10	10,033,086	7,311,444
Other current liabilities		40,000	40,000
Lease liabilities		157,268	159,520
Advance payments from customers		1,501,486	3,342,990
Taxation		314,734	321,243
		<u>35,751,538</u>	<u>29,825,005</u>
Total liabilities		<u>44,923,084</u>	<u>37,900,723</u>
Total equity and liabilities		<u>63,729,541</u>	<u>60,309,223</u>
Net current liabilities		<u>(7,663,566)</u>	<u>(4,158,264)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2022

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2022

	Attributable to owners of the Company					
	Issued capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Reserves (Unaudited) RMB'000	Total capital and reserves (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total Equity (Unaudited) RMB'000
At 1 January 2022	235,633	786,965	17,637,378	18,659,976	3,748,524	22,408,500
Profit for the period	—	—	1,253,367	1,253,367	241,207	1,494,574
Other comprehensive (loss) income						
Exchange differences on consolidation	—	—	(756,978)	(756,978)	(45,694)	(802,672)
Changes in fair value of equity instruments designated as at fair value through other comprehensive income	—	—	421	421	—	421
Cash flow hedges	—	—	19,582	19,582	—	19,582
Total other comprehensive loss	—	—	(736,975)	(736,975)	(45,694)	(782,669)
Total comprehensive income for the period	—	—	516,392	516,392	195,513	711,905
Transactions with owners of the Company						
<i>Contributions and distribution</i>						
Equity settled share-based transactions	—	—	522	522	—	522
Shares issued under share option scheme	54	19,873	(4,802)	15,125	—	15,125
2021 final and special final dividend approved	—	—	(3,802,482)	(3,802,482)	(527,113)	(4,329,595)
Total transactions with owners of the Company	54	19,873	(3,806,762)	(3,786,835)	(527,113)	(4,313,948)
At 30 June 2022	<u>235,687</u>	<u>806,838</u>	<u>14,347,008</u>	<u>15,389,533</u>	<u>3,416,924</u>	<u>18,806,457</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2022

	January to June 2022 (Unaudited) RMB'000	January to June 2021 (Unaudited) RMB'000
OPERATING ACTIVITIES		
Cash generated from operations	1,917,870	3,539,355
The People's Republic of China ("PRC") enterprise income tax paid	(508,992)	(738,549)
Interest paid	(130,050)	(109,252)
Net cash from operating activities	1,278,828	2,691,554
INVESTING ACTIVITIES		
Interest received	331,281	364,516
Increase in long-term time deposits	(1,410,000)	(2,736,900)
Proceeds from disposal of financial assets at fair value through profit or loss	—	859,263
Purchase of property, plant and equipment	(1,654,886)	(1,177,816)
Net cash inflow on disposal of subsidiaries	79,897	87,875
Others	32,514	365,861
Net cash used in investing activities	(2,621,194)	(2,237,201)
FINANCING ACTIVITIES		
Dividends paid to non-controlling interests	(527,113)	(452,320)
Payments of lease liabilities	(115,442)	(92,984)
Proceeds from bank borrowings	8,391,744	6,482,376
Repayments of bank borrowings	(5,204,735)	(4,739,021)
Others	15,125	17,829
Net cash from financing activities	2,559,579	1,215,880
Net increase in cash and cash equivalents	1,217,213	1,670,233
Cash and cash equivalents at 1 January	15,859,238	21,431,153
Effect on exchange rate changes	43,260	(4,625)
Cash and cash equivalents at 30 June	17,119,711	23,096,761
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	17,108,455	23,065,482
Pledged bank deposits	11,256	31,279
	17,119,711	23,096,761

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed consolidated interim financial statements should be read in conjunction with the 2021 annual financial statements (the "2021 Annual Report"). The accounting policies in relation to derivatives and hedging activities during the period that were not applied in the 2021 Annual Report are presented as below. The accounting policies adopted in preparing the condensed consolidated interim financial statements for the six months ended 30 June 2022 are consistent with those in the preparation of the Group's 2021 Annual Report, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2022 as described below.

Derivatives and hedging activities

During the period, the Group entered into several foreign currency forward contracts to hedge its foreign currency risks. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain foreign currency forward contracts as hedges of foreign currency risk associated with the cash flows of foreign currency-denominated borrowings.

The Group documents at the inception of the hedge the intended relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking its hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging relationship meets the hedge effectiveness requirements.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other net income/(expenses).

When foreign currency forward contracts are used to hedge foreign currency borrowings, the Group designates only the change in the fair value of the forward contracts related to the spot component as the hedging instruments. Forward element and foreign currency basis spread may be separated and excluded from the designated hedging instruments and the Group treats these excluded elements as costs of hedging. The fair value changes of these elements that relates to the hedged item is recognised in the cash flow hedge reserve within equity. These elements at the date of designation (to the extent that it relates to the hedged item) are amortised on a systematic and rational basis to profit or loss over the period.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss. The movement in spot rate is recycled from equity to profit or loss to offset the foreign exchange gain or loss arising from translation of the hedged foreign currency borrowings. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Any cumulative gain or loss on the hedging instrument that remains in equity at that time remains recognised in equity and is reclassified to profit or loss when the hedged item affects profit or loss.

Adoption of new/revised HKFRSs

Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Proceeds before Intended Use
Amendments to HKAS 37	Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements to HKFRSs	2018–2020 Cycle

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

2. Segment information

Segment results

	For the Six Months ended 30 June 2022				
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	Total (Unaudited) RMB'000
Revenue					
Revenue from contract with customers	13,521,336	24,295,072	360,311	—	38,176,719
Timing of revenue recognition:					
Recognised at a point in time	13,521,336	24,295,072	360,311	—	38,176,719
Revenue from other sources:					
Rental income from investment properties	—	—	40,159	—	40,159
Inter-segment revenue	26,256	2,495	338,474	(367,225)	—
Segment revenue	<u>13,547,592</u>	<u>24,297,567</u>	<u>738,944</u>	<u>(367,225)</u>	<u>38,216,878</u>
Segment results after finance costs	717,877	1,188,958	(24,771)	7,058	1,889,122
Share of results of an associate and joint ventures	(71)	108,531	(583)	—	107,877
Unallocated expenses, net	—	—	(18)	—	(18)
Profit (loss) before taxation	717,806	1,297,489	(25,372)	7,058	1,996,981
Taxation	(173,510)	(312,048)	(16,849)	—	(502,407)
Profit (loss) for the period	<u>544,296</u>	<u>985,441</u>	<u>(42,221)</u>	<u>7,058</u>	<u>1,494,574</u>

2. Segment information (Continued)

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

Segment information is prepared based on the regular internal financial information reported to the Company's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The Company's executive directors assess the performance of reportable segments and resources allocation based on the net profit for the period and the profit (loss) before taxation, share of results of an associate and joint ventures and unallocated income (expenses), net.

2. Segment information (Continued)

Segment assets and liabilities

	At 30 June 2022				
	Instant noodles	Beverages	Others	Inter-segment	Total
	(Unaudited)	(Unaudited)	(Unaudited)	elimination	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets	18,864,075	36,558,524	8,379,113	(1,628,246)	62,173,466
Interest in an associate	—	105,948	—	—	105,948
Interest in joint ventures	732	717,000	4,207	—	721,939
Unallocated assets					728,188
Total assets					<u>63,729,541</u>
Segment liabilities	8,373,227	23,416,057	14,452,360	(1,395,555)	44,846,089
Unallocated liabilities					76,995
Total liabilities					<u>44,923,084</u>
	At 31 December 2021				
	Instant noodles	Beverages	Others	Inter-segment	Total
	(Audited)	(Audited)	(Audited)	elimination	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets	19,917,991	35,239,108	5,020,610	(1,278,657)	58,899,052
Interest in an associate	—	94,847	—	—	94,847
Interest in joint ventures	803	619,571	4,789	—	625,163
Unallocated assets					690,161
Total assets					<u>60,309,223</u>
Segment liabilities	9,018,715	20,305,649	9,531,235	(1,034,796)	37,820,803
Unallocated liabilities					79,920
Total liabilities					<u>37,900,723</u>

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

3. Seasonality of operations

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

4. Profit before taxation

This is stated after charging:

	January to June 2022 (Unaudited) RMB'000	January to June 2021 (Unaudited) RMB'000
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	124,991	101,196
Interest on bank and other borrowings wholly repayable over five years	—	2,867
Finance costs on lease liabilities	8,392	8,441
	133,383	112,504
Other items		
Depreciation	1,615,294	1,550,359
Amortisation	3,241	3,820
	3,241	3,820

5. Taxation

	January to June 2022 (Unaudited) RMB'000	January to June 2021 (Unaudited) RMB'000
Current tax		
Current period	434,053	634,835
Deferred taxation		
Origination and reversal of temporary differences, net	(8,092)	45,256
Effect of withholding tax on the distributable earnings of the Group's PRC subsidiaries	76,446	128,360
	76,446	128,360
Total tax charge for the period	502,407	808,451

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

For the six months ended 30 June 2022, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax regime. Under the two-tiered profits tax regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

The statutory PRC Enterprise Income Tax for the PRC subsidiaries is 25% (2021: 25%). According to the Tax Relief Notice (Cai Shui [2020] no.23) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Taxation Administration and National Development and Reform Commission, foreign investment enterprises located in the western region of the PRC (the "Western Region") with over 60% (2021: 60%) of principal revenue generated from the encouraged business activities are entitled to a preferential income tax rate of 15% from 1 January 2021 to 31 December 2030. Accordingly, certain subsidiaries located in the Western Region are entitled to an income tax rate of 15% (2021: 15%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends distributed to foreign investors by the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings accumulated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and jurisdiction of the foreign investors. For the Group's PRC subsidiaries, the applicable rate is 5% (2021: 5%). Deferred tax liability is provided on the basis that the undistributed earnings of the Group's entities are expected to be distributed in the foreseeable future. The remaining net earnings of the Group's PRC subsidiaries that are not expected to be distributed in the foreseeable future would be subject to additional taxation when they are distributed.

6. Earnings per share

a) Basic earnings per share

	January to June 2022 (Unaudited)	January to June 2021 (Unaudited)
Profit attributable to ordinary equity shareholders (RMB'000)	1,253,367	2,035,214
Weighted average number of ordinary shares ('000)	5,631,997	5,625,354
Basic earnings per share (RMB cents)	22.25	36.18

b) Diluted earnings per share

	January to June 2022 (Unaudited)	January to June 2021 (Unaudited)
Profit attributable to ordinary equity shareholders (RMB'000)	1,253,367	2,035,214
<i>Weighted average number of ordinary shares (diluted) ('000)</i>		
Weighted average number of ordinary shares	5,631,997	5,625,354
Effect of the Company's share option scheme	3,464	6,051
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,635,461	5,631,405
Diluted earnings per share (RMB cents)	22.24	36.14

7. Dividend

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

	January to June 2022 (Unaudited) RMB'000	January to June 2021 (Unaudited) RMB'000
Special interim dividend proposed after the end of the reporting period of US6.63 cents (2021: US6.88 cents) per ordinary share	2,500,000	2,500,000

At meeting held on 22 August 2022, the Directors approved the payment of a special interim dividend of US6.63 cents per ordinary share. The special interim dividend has not been recognised as dividends payable in the condensed consolidated statement of financial position.

8. Trade receivables

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

	At 30 June 2022 (Unaudited) RMB'000	At 31 December 2021 (Audited) RMB'000
0 - 90 days	2,100,130	1,920,716
Over 90 days	195,534	123,028
	2,295,664	2,043,744

9. Issued capital

	At 30 June 2022 (Unaudited)			At 31 December 2021 (Audited)		
	No. of shares	US\$'000	Equivalent to RMB'000	No. of shares	US\$'000	Equivalent to RMB'000
Authorised:						
Ordinary shares of US\$0.005 each	7,000,000,000	35,000		7,000,000,000	35,000	
Issued and fully paid:						
At the beginning of the period/year	5,630,972,360	28,155	235,633	5,624,386,360	28,123	235,422
Shares issued under share option scheme	1,672,000	8	54	6,586,000	32	211
At the end of the reporting period	5,632,644,360	28,163	235,687	5,630,972,360	28,155	235,633

During the reporting period, 1,672,000 options were exercised to subscribe for 1,672,000 ordinary shares of the Company at a total consideration of RMB15,125,000 of which RMB54,000 was credited to share capital and the balance of RMB15,071,000 was credited to the share premium account. In addition, RMB4,802,000 has been transferred from the share-based payment reserve to the share premium account.

10. Interest-bearing borrowings

	At 30 June 2022	At 31 December 2021
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
The maturity of the interest-bearing borrowings:		
Within one year	10,033,086	7,311,444
In the second year	2,319,506	2,135,826
In the third to the fifth years, inclusive	5,158,172	4,214,543
	17,510,764	13,661,813
Portion classified as current liabilities	(10,033,086)	(7,311,444)
Non-current portion	7,477,678	6,350,369

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

The carrying value of the unsecured notes issued by the Company on 24 September 2020 (the “Notes”) at the end of the reporting period is US\$495,555,000 (equivalent to approximately RMB3,323,989,000) (2021: US\$496,043,000 (equivalent to approximately RMB3,162,569,000)) and is included in the interest-bearing borrowings with maturity in the third to fifth years (2021: in the third to fifth years). The Notes are listed on the Singapore Exchange Securities Trading Limited. The fair value of the Notes as at 30 June 2022, based on the quoted market price, was US\$460,695,000 (equivalent to approximately RMB3,083,938,000) (2021: US\$492,190,000 (equivalent to approximately RMB3,138,007,000)).

During the six months ended 30 June 2022, the Group obtained bank loans in aggregate amount of RMB8,391,744,000 (2021: RMB6,482,376,000), repayments of bank loans amounting to RMB5,204,735,000 (2021: RMB4,739,021,000) were made in line with previously disclosed repayment term.

11. Trade payables

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

	At 30 June 2022	At 31 December 2021
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	9,128,756	8,364,033
Over 90 days	855,894	682,485
	9,984,650	9,046,518

12. Disposal of subsidiaries

During the period, the Group entered into two sale and purchase agreements with two independent third parties for the disposal of entire equity interests in two subsidiaries at an aggregate consideration of approximately RMB136,067,000. The disposals were completed before February 2022. The net assets of subsidiaries at the date of disposal were amounting to approximately in aggregate of RMB57,402,000. The gain on disposal of subsidiaries of RMB78,665,000 was recognised in profit or loss and recorded as other net income.

13. Fair Value Measurements

(a) Financial assets and liabilities carried at fair value

The following table presents the financial assets and liabilities measured at fair value or required to disclose their fair value in these condensed consolidated financial statements on a recurring basis at 30 June 2022 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level of input that is significant to the entire measurement. The levels are defined as follows:

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

	At 30 June 2022 (Unaudited)				At 31 December 2021 (Audited)			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets								
Financial assets at fair value through profit and loss								
– Investment funds	—	—	662,759	662,759	—	—	626,707	626,707
– Equity securities, listed	185	—	—	185	194	—	—	194
Equity instruments designated as at fair value through other comprehensive income								
– Equity securities, unlisted	—	—	144,598	144,598	—	—	137,317	137,317
	<u>185</u>	<u>—</u>	<u>807,357</u>	<u>807,542</u>	<u>194</u>	<u>—</u>	<u>764,024</u>	<u>764,218</u>
Liabilities								
Financial liabilities at fair value through profit or loss								
– Contingent consideration payable	—	—	9,959	9,959	—	—	9,959	9,959
Derivative financial instruments								
– Foreign currency forward contracts	—	60,225	—	60,225	—	—	—	—
	<u>—</u>	<u>60,225</u>	<u>9,959</u>	<u>70,184</u>	<u>—</u>	<u>—</u>	<u>9,959</u>	<u>9,959</u>

During the six months ended 30 June 2022 and 2021, there was no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

13. Fair Value Measurements (Continued)

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

The details of the movements of the recurring fair value measurements categorised as Level 3 of the fair value hierarchy for the six months ended 30 June 2022 and 2021 are shown as follows:

	30 June 2022 (Unaudited)			30 June 2021 (Unaudited)		
	Assets	Liabilities		Assets	Liabilities	
	Financial assets at fair value through profit or loss	Equity instruments designated as at fair value through other comprehensive income		Financial assets at fair value through profit or loss	Equity instruments designated as at fair value through other comprehensive income	
	Investment funds RMB'000	Equity securities, unlisted RMB'000	Contingent consideration payable RMB'000	Investment funds RMB'000	Equity securities, unlisted RMB'000	Contingent consideration payable RMB'000
At beginning of the period	626,707	137,317	(9,959)	558,177	140,444	(9,959)
Purchases	6,992	—	—	2,911	—	—
Disposal	—	—	—	(929)	—	—
Total gains recognised:						
– in profit or loss	—	—	—	405	—	—
– other comprehensive income	—	421	—	—	—	—
Exchange difference	29,060	6,860	—	(5,569)	(1,400)	—
At the end of the reporting period	662,759	144,598	(9,959)	554,995	139,044	(9,959)
Change in unrealised (losses) or gain for the period included in profit or loss for assets and liabilities held at the end of the reporting period	—	—	—	—	—	—

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

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

The fair value of these investment funds in Level 3 is mainly estimated either based on the net asset value of the investment fund reported to the investors by the investment manager or the fair values of the companies invested by the funds as at the end of the reporting period. All of the investment funds in Level 3 included both listed investments and unlisted investments. The fair values of listed investments are estimated with reference to quoted market price, while the fair values of unlisted investments are estimated by the respective investment managers using valuation techniques including mainly price-to-sales (P/S) ratio model and net asset value approach (31 December 2021: price-to-sales (P/S) ratio model and net asset value approach). In determining the fair value of unlisted investments, it includes assumptions that are not supported by observable market prices or rates, including expected annual growth rates and comparable companies' average price-to-sales (P/S) ratio.

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

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

13. Fair Value Measurements (Continued)**(a) Financial assets and liabilities carried at fair value (Continued)****Valuation techniques and significant inputs used in Level 2 and Level 3 fair value measurement (Continued)****(iii) Financial liabilities at fair value through profit or loss: Contingent consideration payable**

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

(iv) Derivative financial instruments: Foreign currency forward contracts

The fair value of foreign currency forwards is determined by the banks using present value of future cash flows based on the forward exchange rates at the end of the reporting period.

There was no change in valuation techniques during the reporting period. The assumptions of the unobservable inputs used in Level 3 fair value measurement at the end of the reporting period have no significant difference with those used in the Group's annual financial statements for the year ended 31 December 2021.

Sensitivity to changes in significant unobservable inputs

In the opinion of the Directors, the impact of changes in significant unobservable inputs on the Level 3 fair value measurement and the Group's profit and other comprehensive income for the period have no significant difference with those in the Group's annual financial statements for the year ended 31 December 2021, as there was no significant change in the reasonably possible range of significant unobservable inputs for Level 3 fair value measurements as at 30 June 2022 comparing to 31 December 2021.

Valuation processes used in Level 3 fair value measurement

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

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

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

In the opinion of the directors, no other financial assets and liabilities of the Group are carried at amount materially different from their fair values as at 30 June 2022 and 31 December 2021.

14. Capital expenditure commitments

	At 30 June 2022 (Unaudited) RMB'000	At 31 December 2021 (Audited) RMB'000
Contracted but not provided for: Expenditures on property, plant and equipment	<u>770,186</u>	<u>990,797</u>

15. Related party transactions

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

	January to June 2022 (Unaudited) RMB'000	January to June 2021 (Unaudited) RMB'000
(a) Sales of goods to:		
Companies controlled by a substantial shareholder of the Company	57,052	67,903
An associate	5,289	16,935
Joint ventures	<u>438,771</u>	<u>396,275</u>
(b) Purchases of goods from:		
A group of companies controlled by the family members and relatives of the Company's directors	3,176,023	3,190,916
Joint ventures	<u>4,586</u>	<u>16,298</u>
(c) Distribution costs paid to:		
A group of companies controlled by the family members and relatives of the Company's directors	<u>858,490</u>	<u>775,959</u>

16. Approval of interim financial statements

The interim financial statements of 2022 were approved by the Board of Directors on 22 August 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro and Industry Environment

The first half of 2022 featured great challenges in macro environment, yet the long-term trend remains positive. On the one hand, changes in international situation and the toll exacted by the COVID-19 as well as abnormal weather conditions in some regions led to economic fluctuations and posed immense pressure to the industry. On the other hand, the diversification of consumption scenarios, the thrive of community group buying and O2O model brought by household consumptions, and consumers' pursuit of nutrition, health and cost-effectiveness also presented opportunities for the Group.

Business Review

In the first half of 2022, the Group, by continually executing the business strategy of "Consolidate, Reform and Develop", further explored the mass consumer markets, tapped into the high-end markets targeting at the middle class, and laid out the markets in new rural areas. Operation safety and corporate values were attached equal importance in building its core competitiveness. Moreover, the Group gave full play to its scale advantage and remained focused on brand investment aiming to raise brand awareness and improve its market penetration in all aspects. As shown in Kantar's Brand Footprint reports, Master Kong was ranked among the top three China's most chosen brands for ten years in a row.

The Group's total revenue in the first half of 2022 reached RMB38.217 billion, a year-on-year increase of 7.97%. Specifically, revenue from the instant noodles segment grew by 6.49% and the beverage segment rose by 9.08% year on year. Gross margin dropped to 28.22%, a decrease of 2.83 percentage points year on year. The distribution costs ratio was basically on par with that of the first half of 2021. EBITDA went down by 24.34% to RMB3.418 billion year on year. Due to the contraction in gross margin, the profit attributable to shareholders of the Company fell by 38.42% to RMB1.253 billion and basic earnings per share declined by RMB13.93 cents to RMB22.25 cents.

Instant Noodles Business

Nielsen's data showed that the sales volume of overall instant noodles market in the first half of 2022 declined by 5.4% year on year, with a year-on-year decrease of 1.3% in sales value. During the same period, Master Kong held a market share of 44.6% and 46.7% respectively in sales volume and sales value, both ranking first in the market.

The first half of 2022 witnessed a year-on-year increase of 6.49% in the revenue from instant noodles segment to RMB13.548 billion, which made up 35.45% of the Group's total revenue. Due to the rising price of raw materials, gross margin of instant noodles dropped to 20.63%, down by 3.26 percentage points year on year. The profit attributable to shareholders of the Group in the instant noodles segment went down by 39.23% to RMB0.544 billion as a result of the decline in gross margin.

The instant noodles segment continued to fit diversified consumer needs with products of multiple prices, flavors, and sizes. To secure a wider range of choices for consumers, efforts to develop new-flavored products and lay out high-end products were intensified in the business under the guiding principle of "Quality is the First Productivity". In response to constantly changing consumer buying behavior, the segment explored new retail channels. The segment continued to improve its production layout, and digital tools were deployed to enhance supply chain efficiency. Rationalization of selling prices was also steadily underway, as an attempt to promote sound and sustainable development of the industry.

High-priced Noodles

The instant noodles segment continued to promote its core products in the high-priced noodles market and focused on brand rejuvenation. Capitalizing on its scale advantage, the instant noodles segment worked closely with spokespersons, increased its investment in branding and offered products of multiple flavors and sizes to customers, with special attention paid to large-sized products. A music themed package for all sized “Roasted Beef Noodles” were launched in cooperation with its spokesperson Lay Zhang. “Hot Beef Noodles” and “Rattan Pepper Beef Noodles” were very well received among young consumers. “Tomato Egg Beef Noodles” and “Korean Spicy Beef Noodles”, characterized by new and original flavors, gained market share in short order. Meanwhile, “Master Kong BIG Bucket/Packet” achieved sustained growth in sales.

Premium Noodles/Super-premium Noodles

Considering the needs of middle class for upgraded consumption, the instant noodles segment made extensive efforts to lay out premium products and enrich flavors and sizes. “Soup Chef” remained committed to the concept of “Proficiency in Every Type of Soups” and launched “Soup Chef-BIG CUP”. Rapid increase in sales was seen in packet products as a result of rising household consumption needs. The newly-released “Dried Noodles Collection” played a leading role in accelerating the consumption upgrade of the dried noodles market. “RanHun Noodles”, upon its debut, was highly rated by the general public. With an aim to allow consumers to have best-quality noodles at anytime and anywhere, “Express Chef’s Noodles” diversified its sizes to meet public needs under different consumption scenarios.

Mid-priced Noodles/Snack Noodles

The mid-priced noodles, which boasted satiety at the best price, were tailor-made for consumers valuing cost-effectiveness. The large-sized “50% Plus” rolled out a new flavor of “Tomato Egg Beef Noodles”, and achieved vigorous sales growth. The snack noodles “Flavored and Crunchy”, through IP cooperation with “Luo Tianyi”, a most popular virtual idol among ACGN lovers, managed to precisely reach the student group and a wider community, and enhanced brand awareness and goodwill.

Beverage Business

Nielsen’s data suggested that the sales volume and sales value of China’s beverage industry¹ in the first half of 2022 fell by 6.8% and 5.5% respectively year on year. In terms of sales volume, Master Kong had the largest market share of 41.7% in ready-to-drink (RTD) tea segment (including milk tea), a second largest market share of 17.9% in juice segment, a market share of 6.0% in bottled water segment and a second largest market share of 11.6% in RTD coffee segment during the period. According to statistics from a third-party research agency, Pepsi’s carbonated soft drink segment held a second largest market share of 34.7% as to the overall sales volume.

In the first half of 2022, the overall revenue from the beverage business reached RMB24.298 billion, a year-on-year increase of 9.08%, which accounted for 63.58% of the Group’s total revenue. During the period, the gross margin of the beverage business dropped by 2.64 percentage points to 32.14% because of the rising price of raw materials and change in product mix. Owing to the decrease of gross margin, the profit attributable to shareholders of the Company for beverage business arrived at RMB0.744 billion, down by 37.06% year on year.

Not only did the beverage segment give primacy to major flagship products, it also placed high emphasis on developing new products. Consequently, through a well-established product matrix comprising beverages of multiple categories, flavors, sizes and prices, Master Kong satisfied diversified consumer needs under different consumption scenarios and particularly addressed their upgraded needs for health. The segment geared its efforts towards expanding purchasing channels, streamlining distribution channels, rationalizing selling prices, and investing more into brand building, which altogether ensured the solid and sustainable development of the Group. Production capacity layout was optimized and scientific and digital tools were employed to enhance supply chain efficiency. In adaptation to demands in peak season, the segment properly increased capital investment in boosting outdoor consumption.

¹ The eight categories in the beverage industry are as follows: RTD tea (excluding milk tea), milk tea, bottled water, juice, carbonated soft drink, functional drink, traditional Asian drink and RTD coffee.

RTD Tea

The RTD tea segment gained popularity in the mass market with its core products and launched products of various flavors and sizes to fit diverse consumer needs under different consumption scenarios, therefore ensuring Master Kong's leading position in the RTD tea market. "Master Kong Ice Tea" further consolidated its brand image of youth and fashion via selecting Wang Yibo as its spokesperson. "Sugar-free Ice Tea" remained all the rage and led a new consumption trend. The brand image of the "Jasmine" series became synonymous with fragrant and refreshing jasmine. In promoting the "Green Tea" series, an integrated marketing approach was adopted, mainly by making the best of Jackson Yee's popularity and cooperation with some hottest IPs. New package of "Master Kong Peach Oolong Tea" and the new arrival "Master Kong Green Grape Green Tea" were brought into the market. The kicking off of "Master Kong Pure Sugar-free" fittingly went in line with customers' need for health.

Carbonated Soft Drinks

Pepsi's bottled carbonated soft drink segment was devoted to both generating category and flavor innovation, and offering customers products of various sizes with less sugar to meet their needs under different drinking scenarios, consequently driving the comprehensive growth of the segment. Pepsi-cola joined hands with Mirinda and 7UP to launch the "Auspicious Beast" series and other festival-related products. The newly-launched "Pepsi White Shaddock (Pomelo) & Green Bamboo Flavor", together with "Pepsi White Peach and Oolong Flavor" and "Pepsi Osmanthus Flavor", made the Chinese Style a nationwide hit. "Pepsi No Sugar" continued to dominate the sugar-free market. Besides, "Mirinda" rolled out another two products: "Passion Fruit & Coconut Flavor" and "Apple Juice Bubble Drink". And the sugar-free, calorie-free "Bubly Sparkling Water" series enriched the production line by releasing the apple and strawberry flavors.

Juices

This segment attached great significance to consolidating the leading position of Chinese-style juices while facilitating the continual growth of Western-style juices. In terms of the "Rock Candy Pear" series, "Rock Candy Red Grapefruit" was released to satisfy customers' need for drinking while dining. "Traditional Drink Sweet-Sour Plum Juice" was noted for effects of quenching thirst, cleansing palate and beating the heat. The Western-style juice "Master Kong Juices" series highlighted tasty fruits. "NutriLight Fruits" fit the young group's pursuit of health preservation. "Calamansi & Lemon juice" featured a refreshing and palate-cleansing effect. "Tropicana 100%" succeeded in grasping the market of 100% ambient juice, while "Tropicana" focused on mixed fruit flavors to expand its sales.

Bottled Water

The bottled water segment managed to satisfy different consumer needs with products of various prices. It preferentially offered large packages to the market and placed a high emphasis on stimulating household consumption demands. "Master Kong Bottled Drinking Water", with the world-renowned Olympic champion Guo Jingjing as its spokesperson, conveyed a brand image of "The Best Choice for Reassurance and Health". Endorsed by Cai Xukun, the mid-priced "Drink Boiled Water" was targeted at young consumers. "Aquafina" enhanced communication with consumers by means of cooperation with China women's national football team. The five-liter packages of the above three flagship products all hit the shelf. The soda water series of "Aquafina" reported steady growth in sales volume. "Han Yang Quan", known as natural mineral water, was relaunched with upgraded packaging.

Coffee Drinks/Functional Drinks/Probiotics

"Starbucks RTD Coffee" successively restaged "Bottled Frappuccino", launched "Mini Frappuccino", and further expanded the distribution of "Starbucks Select" which delivered strong growth. "Bernachon Coffee" focused on the markets of core cities and strengthened online marketing. The functional drink "Gatorade" sustained its efforts in building a brand image of No.1 sports drink, with its "Gatorade No Sugar" series met the needs for light exercise and daily drinking. "Wei Chuan Ambient Probiotics Drink" highlighted core flavors while "Xiao Lao Duo Duo" was repackaged and renewed with more flavors.

Financing

The Group, with a prudent overall cash strategy, has been characterized by proficient control of capital expenditures and effective promotion of asset activation, which is expected to generate stable net cash inflows. In the first half of 2022, the net cash inflow from the Group's operating activities amounted to RMB1.279 billion, and the net cash outflow from investing activities reached RMB2.621 billion. In the meantime, the Group bolstered asset activation and boasted a net cash inflow of RMB80 million.

The Group continued to maintain a sound financial structure through effective control on the balances of trade receivables, trade payables and bank, cash as well as inventories. As at 30 June 2022, the Group's total cash and bank balances arrived at RMB24.632 billion, an increase of RMB2.670 billion compared with that of 31 December 2021. The Group's interest-bearing borrowings reached RMB17.511 billion, a growth of RMB3.849 billion from 31 December 2021 to 30 June 2022. Net cash totaled RMB7.121 billion, declining by RMB1.178 billion compared with that of 31 December 2021. The Group's proportion of the total borrowings denominated in foreign currencies and Renminbi reported a change from 96% against 4% at the end of 2021 to 86% against 14% as at 30 June 2022. And the proportion between the Group's long-term borrowings and short-term borrowings reached 43% against 57%, compared with 46% against 54% at the end of 2021.

As at 30 June 2022, the Group's total assets and total liabilities arrived at RMB63.730 billion and RMB44.923 billion respectively, up by RMB3.420 billion and RMB7.022 billion respectively from 31 December 2021. Meanwhile, the debt ratio of the Group increased by 7.65 percentage points to 70.49% compared with that of 31 December 2021. The gearing ratio² went down from -44.48% as of 31 December 2021 to -46.27% as of 30 June 2022.

Over the same period, the exchange rate of US dollars against Renminbi rose by 5.00%. This fluctuation resulted in the generation of realized and unrealized exchange loss, amounting to RMB29.590 million in the Group's income statement. During the period, the Group entered into several foreign currency forward contracts to hedge foreign currency risk associated with the cash flows of foreign currency-denominated borrowings.

Financial Ratio

	As at 30 June 2022	As at 31 December 2021
Finished goods turnover	19.21 days	18.35 days
Trade receivables turnover	10.28 days	9.13 days
Current ratio	0.79 Times	0.86 Times
Debt ratio (Total liabilities to total assets)	70.49%	62.84%
Gearing ratio (Net debt to equity attributable to owners of the Company) ²	-46.27%	-44.48%

Human Resources

The Group had 64,124 employees as of 30 June, 2022.

The Group accelerated the process of talent education and the building of management team as a move to sustain its talent advantage and organizational competence. Efforts were also made to carry out digital transformation and to upgrade its human resources information system. With an aim to meet the training needs under normalized epidemic prevention and control requirements, the management training centers conducted cooperation with partners both within and outside the Group for more diversified online training courses and teaching modes.

Valuing deepened school-enterprise cooperation, Master Kong has partnered with 45 higher education institutions and 70 vocational schools across China. To facilitate comprehensive campus recruitment, the Group implemented a variety of online and offline campus activities and resorted to some novel approaches like cloud visit and short video promotion, which altogether reached about 1 million potential candidates. In terms of partnership on vocational education, the Group cooperated with 5 universities and colleges in China to further resource sharing and collaboratively foster talents with schools.

² Long-term time deposit was taken into account when calculating the gearing ratio, since the management believed it to be a more accurate calculation basis for the Group's capital structure.

Moreover, Master Kong has attached equal importance to supporting the development of educational undertakings and strengthening its brand presence. The Group has been dedicated to building Industry-University-Research platforms with international influence, mainly through all-round strategic cooperation with top universities at home and abroad, represented by Peking University, Tsinghua University, Shanghai Jiao Tong University, Waseda University, and Wharton School.

Corporate Social Responsibility

With the mission of “Promote Chinese Food & Beverage Culture” and the vision of “Be a Respected Enterprise”, Master Kong adheres to the sustainable development concept of “Keep Our Nature Green”, and dedicates itself to the principle of “Life+Delicacy”.

The Group has always taken food safety as the foundation and paid particular attention to research on product nutrition and health. Commendably, its study on nutrition of fried/non-fried instant noodles was accepted by authoritative journal of food nutrition, and the two group standards of “Hot Air Drying Instant Noodles” and “The Frozen Noodles” were projected and approved by the Chinese Institute of Food Science and Technology.

As a vigorous promoter of national energy saving and environmental protection policies, Master Kong released the first label-free drinks and proactively advanced projects on exhaust gas treatment system upgrade and waste heat recovery. The Group actively gives back to society by providing relief supplies timely to those affected by natural disasters and the COVID-19 pandemic, conducting community-based public welfare activities throughout China, and donating essentials as well as organizing visiting activities to the disadvantaged populations.

The Group has been highly recognized by society for its performance in corporate social responsibility and was honored as one of Chinese enterprises’ “Achieving the SDGs 2021 Corporate Best Practices” by the United Nations Global Compact (UNGC) China Network. Besides, the Pepsi-Cola business won the PepsiCo’s international “Bottler of the Year 2021” award. And in the 2022 Cai Lian Press “Greening the Future” Theme Forum, Master Kong’s label-free ice tea was awarded the “Green Innovation Case Award”.

Prospects

In the second half of 2022, the macro environment is expected to be complex and uncertain, yet Chinese economic fundamentals that will sustain long-term growth remain unchanged, given the sheer scale of its consumer markets. Therefore, the Group, based on management safety and corporate values, will maintain strong resilience with the five pillars of scale, brand, system, talent, and innovation, and strengthen its core competitiveness from a future-oriented perspective, thus facilitating stable operation and creating more values for consumers and shareholders.

Looking ahead, in adherence to its “Consolidate, Reform and Develop” strategy, the Group will keep up the momentum to offer consumers healthy, delicious, safe and diversified products. Specifically, the Group will carry on launching instant noodles products with various prices, sizes and flavors. While in terms of the beverage segment, the Group will keep up its efforts in concentrating on major flagship products as well as accelerating product-mix adjustment, so as to satisfy consumer needs under different consumption scenarios.

The Group will unswervingly advance digital transformation to enhance operational efficiency. Consistently holding a zero-tolerance attitude toward anything that compromises food safety and acting in line with its principle of being responsible for all customers, the Group will guard the food safety bottom line through its effort in food safety assurance and quality control. Also, constant efforts will be directed at the comprehensive implementation of the green and low-carbon development philosophy, for the purpose of doing its bit to satisfy consumer needs in their pursuit of a better life.

With an aim to “Promote Chinese Food & Beverage Culture”, the Group will keep on regarding meeting consumer needs as its first priority and “Food Safety” as the cornerstone, and following the long-held concept of “Cash Is King” for Master Kong’s stable operation and the industry’s sustainable development. Boasting professional competence, the Group will forge ahead to build itself into a comprehensive “China National Brand” of food and beverage trustworthy for the government, partners and consumers.

CORPORATE GOVERNANCE

We have, during the six months ended 30 June 2022, complied with the code provisions of the Corporate Governance Code which became effective in the year (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the deviation from code provision B.2.2.

According to code provision B.2.2, 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 B.2.2, it is in the best interests of the Company.

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

Directors’ responsibility for the financial statements

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

Audit Committee

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

Risk Management and Internal Control

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

Under the supervision of the Board, the Group has established an organization structure, responsibility and authority in the construction of three lines of defense for risk management. The Audit Committee will assist the Board to review the design and operation effectiveness of the risk management and internal control system of the Group. As of 30 June 2022, the Group has been carrying out self-assessment of internal control where a prudent and effective self-inspection system has been established to achieve full coverage of external and internal inspection on each aspect thought the management circle. Meanwhile, more efforts have been put in supervision over subsidiaries where management regulations have been formulated with a priority to processes of higher risk and streamlined and implementable limits of authority have been defined for approval of expenditures and human resource affairs. In addition, the Group has been promoting the monitoring work in respect of laws and regulations. According to the internal audit of the internal inspection department, we have not identified any material deficiency in risk management and internal control. Therefore, the Board and the Audit Committee believe that the Group’s risk management and internal control system are effective.

Model Code For Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standards as set out in the Model Code throughout the period under review.

PURCHASE, SALE OR REDEMPTION OF SHARES

There were no purchases, sales or redemptions of the Company’s shares by the Company or any of its subsidiaries during the period under review.

SHARE OPTION SCHEME

At the extraordinary general meeting (the “EGM”) of the Company held on 20 March 2008, the shareholders approved the adoption of the share option scheme (the “2008 Share Option Scheme”), with a term of ten years from the date of adoption.

In view of the expiry of the 2008 Share Option Scheme, the shareholders of the Company adopted the new share option scheme (the “2018 Share Option Scheme”) at the EGM held on 26 April 2018, with a term of ten years from the date of adoption.

(a) 2008 Share Option Scheme

During the six months ended 30 June 2022, 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

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

The summary below sets out the details of movement of the share options during the six months ended 30 June 2022 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 2022	Number of share option			Balance as at 30 June 2022	Weighted average closing price immediately before exercise HK\$	Note
					Granted during the period	Exercised during the period	Cancelled/ lapsed during the period			
Executive Director										
Tseng Chien	26 April 2012	20.54	19.88	112,000	—	—	112,000	—	—	Table A (5)
	27 May 2013	20.16	20.05	140,000	—	—	—	140,000	—	Table A (6)
	17 April 2014	22.38	22.35	164,000	—	—	—	164,000	—	Table A (7)
	5 June 2015	16.22	15.92	232,000	—	—	—	232,000	—	Table A (8)
Wei Hong-Ming	21 April 2017	10.20	10.20	1,000,000	—	—	—	1,000,000	—	Table A (10)
Wei Hong-Chen	21 April 2017	10.20	10.20	1,000,000	—	—	—	1,000,000	—	Table A (10)
Chief Executive Officer										
Chen Yinjang	17 April 2014	22.38	22.35	262,000	—	—	—	262,000	—	Table A (7)
	5 June 2015	16.22	15.92	380,000	—	—	—	380,000	—	Table A (8)
	4 July 2016	7.54	7.54	500,000	—	—	—	500,000	—	Table A (9)
	21 April 2017	10.20	10.20	500,000	—	—	—	500,000	—	Table A (10)
Substantial Shareholder										
Wei Ing-Chou [#]	26 April 2012	20.54	19.88	1,368,000	—	—	1,368,000	—	—	Table A (5)
	27 May 2013	20.16	20.05	1,390,000	—	—	—	1,390,000	—	Table A (6)
	17 April 2014	22.38	22.35	1,486,000	—	—	—	1,486,000	—	Table A (7)
	5 June 2015	16.22	15.92	1,726,000	—	—	—	1,726,000	—	Table A (8)
Other employees in aggregate	26 April 2012	20.54	19.88	4,816,000	—	—	4,816,000	—	—	Table A (5)
	27 May 2013	20.16	20.05	6,236,000	—	—	750,000	5,486,000	—	Table A (6)
	17 April 2014	22.38	22.35	7,049,000	—	—	844,000	6,205,000	—	Table A (7)
	5 June 2015	16.22	15.92	11,196,000	—	458,000	1,145,000	9,593,000	17.11	Table A (8)
	4 July 2016	7.54	7.54	1,706,000	—	564,000	—	1,142,000	14.43	Table A (9)
	21 April 2017	10.20	10.20	6,950,000	—	650,000	—	6,300,000	15.14	Table A (10)
Total				48,213,000	—	1,672,000	9,035,000	37,506,000		

For the period of six months ended 30 June 2022, 1,672,000 options had been exercised under the 2008 Share Option Scheme. Weighted average exercise price was HK\$10.95 and the average market closing price before the date of exercise was HK\$15.44.

[#] Wei Ing-Chou was the former Chairman of the Board and a former Executive Director. He is a beneficiary of two trusts which holds 25% interests in Profit Surplus Holdings Limited and Profit Surplus 3 Holdings Limited, respectively. Profit Surplus Holdings Limited is indirectly interested in 80.869% of Ting Hsin (Cayman Islands) Holding Corp. Profit Surplus 3 Holdings Limited is indirectly interested in 17.835% of Ting Hsin (Cayman Islands) Holding Corp. Ting Hsin (Cayman Islands) Holding Corp. directly holds 1,882,927,866 shares of the Company (see Note 1).

(b) 2018 Share Option Scheme

The terms of the 2018 Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Detailed arrangement for the 2018 Share Option Scheme is shown as below: (Table C)

Date of grant	Number of share options granted	Exercisable period	Exercise price (HK\$)
27 April 2018	2,478,000	30 April 2021 to 26 April 2028 (1a)	\$16.18
27 April 2018	5,626,000	30 April 2021 to 26 April 2024 (1b)	\$16.18

The summary below sets out the details of movement of the share options during the six months ended 30 June 2022 pursuant to the 2018 Share Option Scheme: (Table D)

Name	Date of grant	Exercise price HK\$	Closing price of the shares on the date of grant HK\$	Number of share option				Balance as at 30 June 2022	Weighted average closing price immediately before exercise HK\$	Note
				Balance as at 1 January 2022	Granted during the period	Exercised during the period	Cancelled/lapsed during the period			
Executive Director										
Wei Hong-Ming	27 April 2018	16.18	15.02	385,000	—	—	—	385,000	—	Table C (1a)
	27 April 2018	16.18	15.02	98,000	—	—	—	98,000	—	Table C (1b)
Wei Hong-Chen	27 April 2018	16.18	15.02	385,000	—	—	—	385,000	—	Table C (1a)
	27 April 2018	16.18	15.02	98,000	—	—	—	98,000	—	Table C (1b)
Chief Executive Officer										
Chen Yinjiang	27 April 2018	16.18	15.02	144,000	—	—	—	144,000	—	Table C (1b)
Substantial Shareholder										
Wei Ing-Chou #	27 April 2018	16.18	15.02	470,000	—	—	—	470,000	—	Table C (1b)
Other employees in aggregate										
	27 April 2018	16.18	15.02	1,708,000	—	—	—	1,708,000	—	Table C (1a)
	27 April 2018	16.18	15.02	2,975,000	—	—	—	2,975,000	—	Table C (1b)
Total				6,263,000	—	—	—	6,263,000	—	

During the six months ended 30 June 2022, no share options were exercised under the terms of the 2018 Share Option Scheme.

Wei Ing-Chou was the former Chairman of the Board and a former Executive Director. He is a beneficiary of two trusts which holds 25% interests in Profit Surplus Holdings Limited and Profit Surplus 3 Holdings Limited, respectively. Profit Surplus Holdings Limited is indirectly interested in 80.869% of Ting Hsin (Cayman Islands) Holding Corp. Profit Surplus 3 Holdings Limited is indirectly interested in 17.835% of Ting Hsin (Cayman Islands) Holding Corp. Ting Hsin (Cayman Islands) Holding Corp. directly holds 1,882,927,866 shares of the Company (see Note 1).

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER IN SHARES

As at 30 June 2022, the interests and short positions of the Directors and Chief Executive Officer in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares and underlying Shares

Name	Number of ordinary shares Personal interests	Percentage of the issued share capital	Number of underlying shares held under share options Beneficial owner	Percentage of the issued share capital
Directors				
Wei Hong-Ming	5,000,000	0.09%	1,483,000	0.03%
Wei Hong-Chen	5,000,000	0.09%	1,483,000	0.03%
Tseng Chien	—	—	536,000	0.01%
Chief Executive Officer				
Chen Yinjang	—	—	1,786,000	0.03%

Save as disclosed above, at no time during the six months ended 30 June 2022 were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in or any other body corporate.

Save as disclosed in this paragraph, as at 30 June 2022, none of the Directors and Chief Executive Officer had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

Notes:

1. These 1,882,927,866 shares are held by and registered under the name of Ting Hsin (Cayman Islands) Holding Corp. (“Ting Hsin”). Ting Hsin is beneficially owned as to approximately 50.629% by Ho Te Investments Limited (“Ho Te”), as to approximately 30.240% by Rich Cheer Holdings Limited (“Rich Cheer”), as to approximately 17.835% by Rich Gold Capital Inc. (“Rich Gold”), as to approximately 1.296% by Asahi Group Holdings, Ltd.. Ho Te and Rich Cheer are owned as to 100% by Profit Surplus Holdings Limited (“Profit Surplus”). Profit Surplus is the trustee of a unit trust, which is in turn held by four discretionary trusts in equal proportions. The settlors and discretionary objects of the four trusts are as follows:
 - Wei Chang Lu-Yun is the settlor of one of the discretionary trusts with Wei Chang Lu-Yun and Wei Ing-Chou as discretionary objects;
 - Lin Li-Mien is the settlor of one of the discretionary trusts with Lin Li-Mien and Wei Ying-Chiao as discretionary objects;
 - Wei Hsu Hsu-Mien is the settlor of one of the discretionary trusts with Wei Hsu Hsu-Mien and Wei Yin-Chun as discretionary objects; and
 - Wei Tu Miao is the settlor of one of the discretionary trusts with Wei Tu Miao and Wei Yin-Heng as discretionary objects.

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

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

2. Wei Ing-Chou is also personally interested in 13,942,000 shares and holds 5,072,000 share options (details shown as Table B and Table D on page 28 and 29 respectively) under the share option schemes of the Company. Wei Chang Lu-Yun, being the spouse of Wei Ing-Chou, is also deemed to be interested in the shares and the underlying shares held by Wei Ing-Chou.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in register required to be kept under section 336 of the SFO as at 30 June 2022.

PAYMENT OF SPECIAL INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has decided to pay a special interim dividend of US\$6.63 cents per ordinary share. The special interim dividend will be paid on or about 14 December 2022 to shareholders whose names appear on the register of members of the Company as at 10 November 2022.

The register of members of the Company will be closed from 8 November 2022 to 10 November 2022 (both dates inclusive). To qualify for the special interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Hong Kong Registrars Limited at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 7 November 2022.

Shareholders registered under the Hong Kong branch register of members will receive their dividends in Hong Kong dollars ("HK\$"). The HK\$ equivalent of the special interim dividend is HK\$0.52020 per share, which is based on today's exchange rate of US\$ against HK\$ at US\$1.00 to HK\$7.8461.

BOARD OF DIRECTORS

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

By Order of the Board
Wei Hong-Ming
Chairman

Hong Kong, 22 August 2022

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

* *For identification purpose only*