

康師傅控股

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

2017

First Quarterly Report



Incorporated in Cayman islands with limited liability  
Stock Code : 0322

\* For identification purposes only

Life +  
Delicacy

**SUMMARY**

RMB'000	<u>For the three months ended 31 March</u>		Change
	2017	2016 (Restated)	
• Revenue	14,197,639	13,687,364	↑ 3.73%
• Gross margin	28.04%	31.41%	↓ 3.37 ppt.
• Gross profit of the Group	3,980,784	4,299,333	↓ 7.41%
• EBITDA	1,732,618	1,831,717	↓ 5.41%
• Profit for the period	474,867	473,945	↑ 0.19%
• Profit attributable to owners of the Company	433,504	375,910	↑ 15.32%
• Earnings per share (RMB cents)			
Basic	7.73	6.71	↑ 1.02 cents
Diluted	7.73	6.71	↑ 1.02 cents
At 31 March 2017, cash and cash equivalents was RMB14,793.084 million, an increase of RMB4,561.272 million when compared to 31 December 2016. Gearing ratio was 0.09 times.			

**2017 FIRST QUARTERLY 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 three months ended 31 March 2017 together with the comparative figures for the corresponding period in 2016. These unaudited condensed consolidated first quarterly financial statements have been reviewed by the audit committee of the Company (the “Audit Committee”).

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
For the Three Months Ended 31 March 2017

	<i>Note</i>	<b>For the three months ended 31 March</b>	
		<b>2017</b>	<b>2016</b>
		<b>(Unaudited)</b>	<b>(Unaudited and restated)</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	2	14,197,639	13,687,364
Cost of sales		(10,216,855)	(9,388,031)
Gross profit		3,980,784	4,299,333
Other revenue		54,582	42,846
Other net income (expenses)		134,249	86,878
Distribution costs		(2,612,198)	(2,775,135)
Administrative expenses		(514,402)	(539,670)
Other operating expenses		(233,638)	(294,343)
Finance costs	5	(130,924)	(107,666)
Share of results of associates and joint ventures		48,835	37,433
<b>Profit before taxation</b>	5	727,288	749,676
Taxation	6	(252,421)	(275,731)
<b>Profit for the period</b>		<u>474,867</u>	<u>473,945</u>
<b>Profit attributable to:</b>			
Owners of the Company		433,504	375,910
Non-controlling interests		41,363	98,035
<b>Profit for the period</b>		<u>474,867</u>	<u>473,945</u>
<b>Earnings per share</b>	7		
Basic		<u>RMB 7.73 cents</u>	<u>RMB 6.71 cents</u>
Diluted		<u>RMB 7.73 cents</u>	<u>RMB 6.71 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months Ended 31 March 2017

	For the three months ended 31 March	
	2017	2016
	(Unaudited) RMB'000	(Unaudited and restated) RMB'000
<b>Profit for the period</b>	474,867	473,945
<b>Other comprehensive income (loss)</b>		
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		
Exchange differences on consolidation	53,341	(13,015)
Fair value changes in available-for-sale financial assets	(930)	(12,308)
Reclassification adjustments relating to available-for-sale financial assets disposed of during the period	(7,345)	(4,058)
<b>Other comprehensive income (loss) for the period</b>	45,066	(29,381)
<b>Total comprehensive income for the period</b>	519,933	444,564
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	483,922	366,296
Non-controlling interests	36,011	78,268
	519,933	444,564

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 31 March 2017

	<i>Note</i>	<b>At 31 March 2017</b>	<b>At 31 December 2016</b>
		<b>(Unaudited)</b>	<b>(Audited and restated)</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties		1,060,000	1,060,000
Property, plant and equipment		31,906,963	32,556,784
Prepaid lease payments		3,910,940	3,932,435
Intangible asset		176,854	179,179
Interest in associates		185,811	160,538
Interest in joint ventures		715,575	676,408
Available-for-sale financial assets		622,776	641,619
Other non-current assets		317,964	—
Deferred tax assets		290,590	276,291
		39,187,473	39,483,254
<b>Current assets</b>			
Inventories		2,780,455	2,482,202
Trade receivables	9	1,534,639	1,589,893
Tax recoverable		—	120,861
Prepayments and other receivables		2,221,017	2,613,009
Pledged bank deposits		106,030	42,352
Bank balances and cash		14,687,054	10,189,460
		21,329,195	17,037,777
<b>Total assets</b>		<b>60,516,668</b>	<b>56,521,031</b>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017

		At 31 March 2017	At 31 December 2016
		(Unaudited)	(Audited and restated)
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Issued capital	10	234,767	234,767
Share premium		523,278	523,278
Reserves		17,864,031	17,365,495
<b>Total capital and reserves attributable to owners of the Company</b>		<u>18,622,076</u>	<u>18,123,540</u>
<b>Non-controlling interests</b>		<u>6,013,050</u>	<u>5,977,039</u>
<b>Total equity</b>		<u>24,635,126</u>	<u>24,100,579</u>
<b>Non-current liabilities</b>			
Financial liabilities at fair value through profit or loss		96,067	152,650
Long-term interest-bearing borrowings	11	5,968,959	6,880,190
Employee benefit obligations		185,248	205,573
Deferred tax liabilities		1,160,623	1,473,995
		<u>7,410,897</u>	<u>8,712,408</u>
<b>Current liabilities</b>			
Trade payables	12	8,421,182	6,595,355
Other payables and deposits received		6,718,914	6,697,875
Current portion of interest-bearing borrowings	11	10,561,387	9,163,746
Advance payments from customers		2,584,683	1,015,548
Taxation		184,479	235,520
		<u>28,470,645</u>	<u>23,708,044</u>
<b>Total liabilities</b>		<u>35,881,542</u>	<u>32,420,452</u>
<b>Total equity and liabilities</b>		<u>60,516,668</u>	<u>56,521,031</u>
<b>Net current asset (liabilities)</b>		<u>(7,141,450)</u>	<u>(6,670,267)</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the Three Months Ended 31 March 2017

	Attributable to owners of the Company			Total capital and reserves (Unaudited and restated) RMB'000	Non- controlling interests (Unaudited and restated) RMB'000	Total Equity (Unaudited and restated) RMB'000
	Issued capital (Unaudited and restated) RMB'000	Share premium (Unaudited and restated) RMB'000	Reserves (Unaudited and restated) RMB'000			
<b>At 1 January 2016</b>	234,710	505,449	17,971,880	18,712,039	6,463,657	25,175,696
Profit for the period	—	—	375,910	375,910	98,035	473,945
<b>Other comprehensive income (loss):</b>						
Exchange differences on consolidation	—	—	6,752	6,752	(19,767)	(13,015)
Fair value changes in available-for-sale financial assets	—	—	(12,308)	(12,308)	—	(12,308)
Reclassification adjustments relating to available-for-sale financial assets disposed of during the period	—	—	(4,058)	(4,058)	—	(4,058)
<b>Total other comprehensive loss</b>	—	—	(9,614)	(9,614)	(19,767)	(29,381)
<b>Total comprehensive income for the period</b>	—	—	366,296	366,296	78,268	444,564
<b>Transactions with owners: Contributions and distribution</b>						
Equity settled share-based transactions	—	—	18,164	18,164	—	18,164
<b>Total transactions with owners</b>	—	—	18,164	18,164	—	18,164
<b>At 31 March 2016</b>	<u>234,710</u>	<u>505,449</u>	<u>18,356,340</u>	<u>19,096,499</u>	<u>6,541,925</u>	<u>25,638,424</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Three Months Ended 31 March 2017

	Attributable to owners of the Company				Non-controlling interests (Unaudited) RMB'000	Total Equity (Unaudited) RMB'000
	Issued capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Reserves (Unaudited) RMB'000	Total capital and reserves (Unaudited) RMB'000		
<b>At 1 January 2017 (Restated)</b>	234,767	523,278	17,365,495	18,123,540	5,977,039	24,100,579
Profit for the period	—	—	433,504	433,504	41,363	474,867
<b>Other comprehensive income (loss):</b>						
Exchange differences on consolidation	—	—	58,693	58,693	(5,352)	53,341
Fair value changes in available-for-sale financial assets	—	—	(930)	(930)	—	(930)
Reclassification adjustments relating to available-for-sale financial assets disposed of during the period	—	—	(7,345)	(7,345)	—	(7,345)
<b>Total other comprehensive income (loss)</b>	—	—	50,418	50,418	(5,352)	45,066
<b>Total comprehensive income for the period</b>	—	—	483,922	483,922	36,011	519,933
<b>Transactions with owners:</b>						
<i>Contributions and distribution</i>						
Equity settled share-based transactions	—	—	14,614	14,614	—	14,614
<b>Total transactions with owners</b>	—	—	14,614	14,614	—	14,614
<b>At 31 March 2017</b>	<u>234,767</u>	<u>523,278</u>	<u>17,864,031</u>	<u>18,622,076</u>	<u>6,013,050</u>	<u>24,635,126</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Three Months Ended 31 March 2017

	<b>January to March 2017</b>  (Unaudited) <i>RMB'000</i>	<b>January to March 2016</b>  (Unaudited and restated) <i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>		
<b>Cash generated from operations</b>	4,848,948	5,240,537
The People's Republic of China ("PRC") enterprise income tax paid	(510,272)	(78,686)
Interest paid	(126,782)	(104,682)
<b>Net cash from operating activities</b>	4,211,894	5,057,169
<b>INVESTING ACTIVITIES</b>		
Interest received	54,582	42,846
Purchase of property, plant and equipment	(271,779)	(326,861)
Prepaid lease payments	(5,408)	(200)
Others	14,136	5,386
<b>Net cash used in investing activities</b>	(208,469)	(278,829)
<b>FINANCING ACTIVITIES</b>		
Proceeds from bank and other borrowings	2,524,871	1,153,778
Repayments of bank and other borrowings	(1,965,504)	(1,736,162)
<b>Net cash from (used in) financing activities</b>	559,367	(582,384)
<b>Net increase in cash and cash equivalents</b>	4,562,792	4,195,956
<b>Cash and cash equivalents at 1 January</b>	10,231,812	6,647,191
Effect on exchange rate changes	(1,520)	(2,838)
<b>Cash and cash equivalents at 31 March</b>	14,793,084	10,840,309
<b>Analysis of the balances of cash and cash equivalents:</b>		
Bank balances and cash	14,687,054	10,803,474
Pledged bank deposits	106,030	36,835
	14,793,084	10,840,309

**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 first quarterly financial statements. These condensed consolidated first quarterly 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 first quarterly financial statements should be read in conjunction with the 2016 annual financial statements. The accounting policies adopted in preparing these condensed consolidated first quarterly financial statements for the three months ended 31 March 2017 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of the new/revised standard of Hong Kong Financial Reporting Standards ("HKFRS") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2017 and change of presentation currency as described below.

**(a) Adoption of new/revised HKFRSs**

Amendments to HKAS 7      Disclosure initiative  
Amendments to HKAS 12    Recognition of Deferred Tax Assets for Unrealised Losses

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 and prior periods.

**(b) Change of presentation currency**

The condensed consolidated first quarterly financial statements for the three months ended 31 March 2017 are presented in Renminbi ("RMB"), which is different from the presentation currency of United States dollars ("US\$") used in the Company's condensed consolidated first quarterly financial statements for the three months ended 31 March 2016 and the consolidated financial statements for the year ended 31 December 2016. Since most of the Group's transaction are denominated and settled in RMB, the directors of the Company considered that the change in presentation currency could reduce the impact of any fluctuations in the exchange rate of the US\$ against the RMB, which is not due to the operations and beyond the control of the Group, on the consolidated financial statements of the Group. It enables the Shareholders of the Company to have a more accurate picture of the Group's financial performance. Accordingly, the directors of the Company have determined the change of presentation currency from US\$ to RMB effective from 1 January 2017. The comparative figures have been restated accordingly to achieve comparability with the current period.

As aforementioned, the condensed consolidated first quarterly financial statements are presented in RMB, which is different from the Company's functional currency of US\$. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

**2. Revenue**

The Group's revenue comprises revenue arising from the sale of goods at invoiced value to customers, net of returns, discounts and value added tax, and rental income from investment properties.

3. Segment information

Segment results

	For the Three Months ended 31 March 2017					
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Instant food (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	Total (Unaudited) RMB'000
<b>Revenue</b>						
Revenue from external customers	5,810,796	7,982,007	218,527	186,309	—	14,197,639
Inter-segment revenue	157	30	85	258,631	(258,903)	—
Segment revenue	<u>5,810,953</u>	<u>7,982,037</u>	<u>218,612</u>	<u>444,940</u>	<u>(258,903)</u>	<u>14,197,639</u>
<b>Segment results after finance cost</b>	539,254	124,727	(2,612)	8,640	4,334	674,343
Share of results of associates and joint ventures	—	50,428	(1,593)	—	—	48,835
Unallocated income, net	—	—	—	4,110	—	4,110
<b>Profit (loss) before taxation</b>	539,254	175,155	(4,205)	12,750	4,334	727,288
Taxation	(146,220)	(99,360)	—	(6,841)	—	(252,421)
<b>Profit (loss) for the period</b>	<u>393,034</u>	<u>75,795</u>	<u>(4,205)</u>	<u>5,909</u>	<u>4,334</u>	<u>474,867</u>

	For the Three Months ended 31 March 2016					
	Instant noodles (Unaudited and restated) RMB'000	Beverages (Unaudited and restated) RMB'000	Instant food (Unaudited and restated) RMB'000	Others (Unaudited and restated) RMB'000	Inter-segment elimination (Unaudited and restated) RMB'000	Total (Unaudited and restated) RMB'000
<b>Revenue</b>						
Revenue from external customers	5,494,481	7,762,396	231,844	198,643	—	13,687,364
Inter-segment revenue	110	513	176	277,777	(278,576)	—
Segment revenue	<u>5,494,591</u>	<u>7,762,909</u>	<u>232,020</u>	<u>476,420</u>	<u>(278,576)</u>	<u>13,687,364</u>
<b>Segment results after finance cost</b>	464,986	259,504	(17,278)	13	6,020	713,245
Share of results of associates and joint ventures	—	40,820	(3,387)	—	—	37,433
Unallocated expenses, net	—	—	—	(1,002)	—	(1,002)
<b>Profit (loss) before taxation</b>	464,986	300,324	(20,665)	(989)	6,020	749,676
Taxation	(147,058)	(125,195)	—	(3,478)	—	(275,731)
<b>Profit (loss) for the period</b>	<u>317,928</u>	<u>175,129</u>	<u>(20,665)</u>	<u>(4,467)</u>	<u>6,020</u>	<u>473,945</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 based on the net profit for the period and the profit/(loss) before taxation, share of results of associates and joint ventures and unallocated income (expenses), net.

3. Segment information (continued)

Segment assets and liabilities

	At 31 March 2017					Total (Unaudited) RMB'000
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Instant food (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	
	<b>Segment assets</b>	19,297,998	30,726,563	858,898	9,036,015	
Interest in associates	—	182,636	3,175	—	—	185,811
Interest in joint ventures	—	666,564	49,011	—	—	715,575
Unallocated assets						622,776
<b>Total assets</b>						<u>60,516,668</u>
<b>Segment liabilities</b>	7,443,246	19,174,301	337,112	9,887,633	(1,145,998)	35,696,294
Unallocated liabilities						185,248
<b>Total liabilities</b>						<u>35,881,542</u>

	At 31 December 2016					Total (Audited and restated) RMB'000
	Instant noodles (Audited and restated) RMB'000	Beverages (Audited and restated) RMB'000	Instant food (Audited and restated) RMB'000	Others (Audited and restated) RMB'000	Inter-segment elimination (Audited and restated) RMB'000	
	<b>Segment assets</b>	22,440,591	30,809,377	1,023,107	6,975,755	
Interest in associates	—	172,713	(12,175)	—	—	160,538
Interest in joint ventures	—	626,059	50,349	—	—	676,408
Unallocated assets						641,619
<b>Total assets</b>						<u>56,521,031</u>
<b>Segment liabilities</b>	7,125,673	19,271,095	485,088	11,403,247	(6,070,224)	32,214,879
Unallocated liabilities						205,573
<b>Total liabilities</b>						<u>32,420,452</u>

Segment assets include all assets with the exception of interest in associates and joint ventures and unallocated assets which include available-for-sale financial assets. Segment liabilities include all liabilities with the exception of employee benefit obligation.

4. 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.

5. Profit before taxation

This is stated after charging:

	For the three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
<b>Finance costs</b>		
Interest on bank and other borrowings wholly repayable within five years	121,850	107,666
Interest on bank and other borrowings wholly repayable over five years	9,074	—
	<u>130,924</u>	<u>107,666</u>
<b>Other items</b>		
Depreciation	904,529	995,556
Amortisation	24,459	21,665
	<u>928,988</u>	<u>1,017,227</u>

6. Taxation

	For the three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
<b>Current tax – the PRC Enterprise income tax</b>		
Current period	217,704	226,118
<b>Deferred taxation</b>		
Origination and reversal of temporary differences, net	7,506	20,236
Effect of withholding tax on the distributable earnings of the Group's PRC subsidiaries	27,211	29,377
	<u>252,421</u>	<u>275,731</u>
Total tax charge for the period	<u>252,421</u>	<u>275,731</u>

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

Hong Kong Profits Tax has not been provided as the Group's entities had no assessable profit subject to Hong Kong Profits Tax for the three months ended March 2017 and 2016.

The applicable PRC enterprise income tax for the PRC subsidiaries is at the statutory rate of 25% (2016: 25%).

According to the Tax Relief Notice (Cai Shui [2011] no. 58) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of PRC ("Western Region") with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in the Western Region are entitled to a preferential rate of 15% (2016: 15%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends distributed to foreign investors by the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings accumulated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and jurisdiction of the foreign investors. For the Group's PRC subsidiaries, associates and joint ventures, the applicable rate is 10%. Deferred tax liability is provided on 50% of post-2007 net earnings of the Group's PRC subsidiaries that are expected to be distributed in the foreseeable future. The remaining 50% of post-2007 net earnings of the Group's PRC subsidiaries that are not expected to be distributed in the foreseeable future would be subject to additional taxation when they are distributed. Undistributed earnings of the Group's PRC associates and joint ventures are not subject to withholding tax as these companies are held by a PRC subsidiary.

**7. Earnings per share**

*(a) Basic earnings per share*

	<b>For the three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited and restated)</b>
Profit attributable to ordinary shareholders (RMB'000)	433,504	375,910
Weighted average number of ordinary shares ('000)	5,604,501	5,602,871
Basic earnings per share (RMB cents)	7.73	6.71

*(b) Diluted earnings per share*

	<b>For the three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited and restated)</b>
Profit attributable to ordinary shareholders (RMB'000)	433,504	375,910
<i>Weighted average number of ordinary shares (diluted) ('000)</i>		
Weighted average number of ordinary shares	5,604,501	5,602,871
Effect of the Company's share option scheme	1,553	—
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,606,054	5,602,871
Diluted earnings per share (RMB cents)	7.73	6.71

**8. Dividend**

The Board of Directors does not recommend the payment of a quarterly dividend for the three months ended 31 March 2017 (2016: nil).

**9. Trade receivables**

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

	<b>At 31 March 2017</b>	<b>At 31 December 2016</b>
	<b>(Unaudited)</b>	<b>(Audited and restated)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	1,324,010	1,460,298
Over 90 days	210,629	129,595
	<u>1,534,639</u>	<u>1,589,893</u>

10. Issued capital

	At 31 March 2017 (Unaudited)			At 31 December 2016 (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	<u>7,000,000,000</u>	<u>35,000</u>		<u>7,000,000,000</u>	<u>35,000</u>	
Issued and fully paid:						
At the beginning of the period/year	5,604,501,360	28,023	234,767	5,602,871,360	28,014	234,710
Shares issued under share option scheme	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,630,000</u>	<u>9</u>	<u>57</u>
At the end of the reporting period	<u>5,604,501,360</u>	<u>28,023</u>	<u>234,767</u>	<u>5,604,501,360</u>	<u>28,023</u>	<u>234,767</u>

11. Interest-bearing borrowings

	At 31 March 2017 (Unaudited) RMB'000	At 31 December 2016 (Audited and restated) RMB'000
The maturity of the interest bearing borrowings:		
Within one year	10,561,387	9,163,746
In the second year	1,589,071	2,454,080
In the third year to the fifth years, inclusive	3,829,567	3,983,876
Over five years	<u>550,321</u>	<u>442,234</u>
	16,530,346	16,043,936
Portion classified as current liabilities	<u>(10,561,387)</u>	<u>(9,163,746)</u>
Non-current portion	<u>5,968,959</u>	<u>6,880,190</u>

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

On 6 August 2015, the Company issued notes (the "RMB Notes") with an aggregate principal amount of RMB1,000,000,000. The carrying amount of the RMB Notes at the end of reporting period is RMB996,032,000 (2016: RMB995,313,000) and is included in the interest-bearing borrowings with maturity in the second year (2016: in the second year). The RMB Notes are listed on the Singapore Exchange Securities Trading Limited. The fair value of the RMB Notes as at 31 March 2017 was RMB991,430,000 (2016: RMB991,050,000).

The carrying value of the notes issued by the Company on 20 June 2012 (the "US\$ Notes") at the end of the reporting period is RMB3,446,427,000 (2016: RMB3,467,870,000) and is included in the interest-bearing borrowings with maturity within one year (2016: within one year). The US\$ Notes are listed on the Singapore Exchange Securities Trading Limited. The fair value of the US\$ Notes as at 31 March 2017 was RMB3,459,714,000 (2016: RMB3,493,934,000).

During the three months ended 31 March 2017, the Group obtained bank loans in aggregate amount of RMB2,524,871,000 (2016: RMB1,153,778,000) and recognised amortised interest of the RMB Notes and US\$ Notes (collectively, the "Unsecured Notes"), and other unsecured notes for an aggregate amount of RMB4,136,000 (2016: RMB3,023,000). Repayments of bank loans amounting to RMB1,965,504,000 (2016: RMB1,736,162,000) were made in line with previously disclosed repayment term.

12. Trade payables

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

	At 31 March 2017  (Unaudited) RMB'000	At 31 December 2016  (Audited and restated) RMB'000
0 - 90 days	8,131,365	5,938,123
Over 90 days	289,817	657,232
	8,421,182	6,595,355

13. Fair Value Measurements

(a) Financial assets and liabilities carried at fair value

The following table presents the 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 31 March 2017 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 31 March 2017 (Unaudited)				At 31 December 2016 (Audited and restated)			
	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
<b>Assets</b>								
<i>Available-for-sale financial assets</i>								
– Investment funds	–	–	468,600	468,600	–	–	487,053	487,053
– Unlisted equity securities	–	–	129,857	129,857	–	–	130,756	130,756
	–	–	598,457	598,457	–	–	617,809	617,809
<b>Liabilities</b>								
<i>Financial liabilities at fair value through profit or loss</i>								
– Derivatives not designated as hedging instruments	–	96,067	–	96,067	–	152,650	–	152,650
	–	96,067	–	96,067	–	152,650	–	152,650

During the three months ended 31 March 2017 and 2016, 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 nine months ended 31 March 2017 and 2016 are shown as follows:

	31 March 2017 (Unaudited)		31 March 2016 (Unaudited and restated)	
	Investment Funds RMB'000	Unlisted equity securities RMB'000	Investment Funds RMB'000	Unlisted equity securities RMB'000
At beginning of the period	487,054	130,757	391,429	101,295
Disposals	(14,174)	—	(5,146)	—
Total gains or (losses) recognised:				
– in profit or loss	—	—	—	—
– in other comprehensive income	(930)	—	(7,189)	—
Exchange differences	(3,350)	(900)	(1,712)	(443)
<b>At the end of the reporting period</b>	<b>468,600</b>	<b>129,857</b>	<b>377,382</b>	<b>100,852</b>
Total gains or (losses) for the period reclassified from other comprehensive income on disposals	7,345	—	4,058	—
Change in unrealised gain or (losses) 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) Available-for-sale: Investment funds

As at 31 March 2017, the Group's available-for-sale financial assets comprise four investment funds which are categorised as Level 3 of the fair value hierarchy (31 December 2016: four Level 3).

The fair value of one of the investment funds in Level 3 is based on the net asset value of the investment fund reported to the investors by the investment manager as of the end of the reporting period. For the remaining three (31 December 2016: three) investment funds in Level 3, their fair values are based on the fair values of the companies invested by the funds. All of the investment funds in Level 3 included both listed investments and unlisted investments. The fair value of listed investments is estimated with reference to quoted market price, while the fair value of unlisted investments which is valued by the respective investment managers are estimated by valuation techniques, mainly including using Price/earning ratio (P/E) multiple model, Price/sales (P/S) multiple model and discounted cash flows model. In estimating the fair value of unlisted investments, assumptions are used that are not supported by observable market prices or rates, including the expected annual growth rates, average P/E multiples of comparable companies, average P/S multiples of comparable companies and discount rates.

(ii) Available-for-sale: Unlisted equity securities

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

13. Fair Value Measurements (continued)

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

(iii) Financial liabilities at fair value through profit or loss – Derivatives not designated as hedging instruments

The fair values of cross-currency interest rate swap contracts and interest rate swap contract, which are categorized as Level 2 of the fair value hierarchy, determined based on the present value of the estimated cash flows based on the terms and maturity of each contract, taking into account the spot interest rates, spot and forward foreign exchange rates and interest rate curves.

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 2016.

**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 2016, as there was no significant change in the reasonably possible range of significant unobservable inputs for Level 3 fair value measurements as at 31 March 2017 comparing to 31 December 2016.

**Valuation processes used in Level 3 fair value measurement**

In estimating the fair value of an asset or a liability 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 and unlisted equity securities.

The Group's finance department includes a team that reviews the valuations performed by the investment managers or trust administrator of the investment funds and unlisted equity securities 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 or unlisted equity securities 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 or unlisted equity securities 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 and unlisted equity securities. 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, except for the Unsecured Notes as described in the note 11 to the condensed consolidated financial statements, no other financial assets and liabilities of the Group are carried at amount materially different from their fair values as at 31 March 2017 and 31 December 2016.

14. Capital expenditure commitments

	At 31 March 2017 (Unaudited) RMB'000	At 31 December 2016 (Audited and restated) RMB'000
Contracted but not provided for:		
Expenditures on investment properties and property, plant and equipment	1,140,544	797,850
Investment funds	127,669	128,554
	1,268,213	926,404

**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.

	<b>For the three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited and restated)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>(a) Sales of goods to:</b>		
Companies controlled by a substantial shareholder of the Company	33,644	28,343
Associates	23,813	24,223
Joint ventures	51,289	62,352
	51,289	62,352
<b>(b) Purchases of goods from:</b>		
A group of companies jointly controlled by the Company's directors and their dependent	811,242	871,286
Joint ventures	4,190	7,469
	815,432	878,755

**16. Comparative figures**

Conforming to current period's presentation, the gross rental income from investment properties of RMB6,285,000 that was included in other revenue as shown in the condensed consolidated income statement has been reclassified under revenue. In addition, expenses of RMB105,098,000 that was included in other operating expenses and other net income of RMB191,976,000 as shown in the condensed consolidated income statement have been reclassified under other net income (expenses). The revised presentation reflects more appropriately the nature of these items. These reclassifications have no effect on the reported financial position, results or cash flows of the Group.

**17. Approval of first quarterly financial statements**

The first quarterly financial statements of 2017 were approved by the board of directors on 22 May 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Overview Review

Entering 2017, the global economic environment is still deeply fluctuating. The medium-to-long-term economic growth of China has slowed down, with the diversified trend of consumption becoming increasingly obvious. The population consumption structure and consumption habits are gradually changing. Together with the diversification of channels and the customization of the demand, all these have an impact on the traditional food and beverage industry. From the cost point of view, prices of raw materials such as white sugar, PET resin and palm oil continue to rise and will still continue to be under pressure in the short term. Although the external environment is full of challenges, the Group will continue to carry forward the following existing strategies of stable operation to achieve stability.

1. To implement food safety management, continue to strengthen the food safety system, and improve the internal and external audit and control mechanism;
2. To put emphasis on the optimization of free cash flow, control capital expenditure, and constantly revitalize assets;
3. To focus on evergreen and distinctive products, optimize the product mix, and consolidate the market share through a multi-price range strategy;
4. To continue on brand building, focus on logistics and channel construction diversification, and innovate product upgrades.

This year marks the 25th anniversary of the birth of “braised beef noodles”. We will continue our efforts to praise the Chinese food culture and continue to carry forward the Group’s work for generation change, thereby laying a solid foundation for the Group’s transformation and development strategy.

In the first quarter of 2017, the Group’s revenue increased by 3.73% to RMB14,197.6 million yoy, (year-on-year compared with the corresponding period in 2016). Revenue from instant noodles and beverages increased by 5.76% and 2.82%, respectively, yoy. Due to the rising prices from key raw material such as sugar and PET resin, the Group’s gross profit margin dropped by 3.37 ppt. to 28.04% yoy. Distribution costs represented 18.40% of the revenue for the period and decreased by 1.88 ppt. yoy. EBITDA of the Group decreased by 5.41% to RMB1,732.6 million yoy, and EBITDA margin dropped by 1.18 ppt. to 12.20% yoy. Benefited by the yoy decline from distribution costs and other operating expenses, profit attributable to owners of the Company during the year grew by 15.32% to RMB433.5 million. Profit margin attributable to owners was 3.05%, increased by 0.30 ppt. yoy, earnings per share increased by RMB1.02 cents to RMB7.73 cents.

### Instant Noodle Business

According to the data from AC Nielsen, overall sales volume of the instant noodle market decreased by 3.2% and sales amount decreased by 0.8% in the first quarter of 2017. The market continued to show the upgrade trend of product mix. During the period, the market shares of Master Kong instant noodle in terms of sales volume and sales amount were 44.5% and 51.2%, respectively, ranking No.1 in the market.

In the first quarter of 2017, the Group’s revenue from the instant noodle business was RMB5,811.0 million, which grew by 5.76% yoy, accounting for 40.93% of the total revenue of the Group. During the period, gross profit margin of instant noodles decreased by 0.84 ppt. to 27.75% due to rising prices of flour and palm oil. Thanked for the sales growth and saving from distribution costs, profit attributable to owners of the Company in the overall instant noodle business increased by 23.62% to RMB393.0 million, profit margin attributable to owners increased by 0.97 ppt. to 6.76% yoy.

**High-priced noodles:** The focus was continuously put on the strategy of “Back to Classics” and continuous efforts were made to consolidate hero products. Through the continuous improvement of terminal distribution rate (終端鋪貨率), a steady rebound in sales volume and sales amount was achieved since the third quarter of 2016 and the needs of different consumers for multiple specifications such as corned egg set meal, rich ingredients, jumbo noodles, mini cups, dry noodles with sauce and other series under established scenarios were satisfied. Besides, continuous efforts were made to expand market space.

Meanwhile, the emphasis was put on strengthening brand activities and a variety of ways of communication so as to create repeated positive interaction between the images of classic brands and categories and consumers. In addition to actively responding to the national strategy of “Healthy China 2030 (健康中國2030)” and continuing to focus on health and nutrition issues, Master Kong insisted on providing consumers with nutritious diets. Since 2014, Master Kong has been supporting CUBA, providing team members with a steady stream of nutritious diet and energy support. Besides, during the marathon events held in Chongqing, Xiamen, Wuxi and other places in 2017, Master Kong provided energy reserves for thousands of runners before the events and prepared a variety types of noodles such as “Golden Stock Beef” and “Braised Beef” to provide considerate services of energy support for the resumption of physical strength after the events, but also promoted nutritious diet, health and sport and other popular science knowledge during the course of the events as well as conveying the Chinese food culture to many foreign friends. At present, Master Kong’s instant noodles have become the best recommended meal for marathon runners. Meanwhile, for the Zhu Ting “Caring Companionship Plan (安心陪伴計畫)”, the professional nutritionists and chefs provided by Master Kong also provided balanced and healthy diets and nutrition needed for Zhu Ting to win more honors for Chinese sport! Master Kong not only spread from young target groups to the public, but also penetrated from emotional resonance into needs education in respect of scenarios for the consumption of food with various specifications and carried out diversified cross-border cooperation to enhance brand vitality.

**High-end Noodles/Innovative products:** With rising consumer income and emergence of the middle-class group in recent years, consumer behavior pursued for a high-end and refined trend. Since 2016, “Premium Soup” series positioning at “less additives, rich, delicious, healthy, nutritious” have been successively launched. The products and flavours were well-received by consumers, with a continued increase in market shares. In February, the new product, “Premium Soup Cup Noodle”, which can be grasped with one hand, was launched to meet the market demand for refined and light food. “Golden Stock” joined hands with star Jia Nailiang in March to comprehensively kick off online and offline integrated promotion to enhance brand awareness. The new product, “Pot-cooking Ramen” emphasizing noodle innovation, was synchronically launched in the market in March. It’s rough and elastic ramen taste, combined with a concentrated and extracted broth pack, restores the natural delicacy of a bowl of soup.

**Mid-end Noodles/Snack Noodles:** Mid-end noodles focused on affordable and large volume demand in the consumer market. The market leader position was continuously consolidated through the strategy of launching new flavours and jumbo noodles in the market during this quarter. Both sales volume and sales amount increased yoy.

The instant noodle business continued to put efforts on organization refinement, energy saving and efficiency enhancement and food safety control as the core and drove process optimization, while continuing to conduct automation, labor saving and energy saving projects to improve production efficiency and effectiveness and ensure that the market demand was met. Continuous efforts were made to strengthen food safety check and intensify traceability management, provide consumers with safe, delicious and quality-assured products and enhance corporate and brand images.

The industry-leading position was consolidated through the continued effective implementation of the “Back to Classics” strategy, the excellent performance of the high-end products of the “Premium Soup” series, the concurrent implementation of multiple price ranges and the promotion and development of the strategy of product mix optimization.

## Beverage Business

According to the data from AC Nielsen, the beverage industry was continued to grow in the first quarter of 2017. During the period, the sales volume and sales amount of the beverage industry in China grew by 6.0% and 7.1%, respectively, yoy. The ready-to-drink (RTD) tea (including milk tea) of the Group’s beverage business accounted for 49.7% market share in terms of sales volume and continued to secure top ranking position in the market. The fruit juice brands under Master Kong and Pepsi’s Tropicana accounted for a market share of 15.5%, ranking No. 2 in the market. Market share for bottled water was 12.5%, ranking No. 3 for the time being.

According to the database of Canadean, in the first quarter of 2017, in terms of sales volume, the overall market share of Pepsi carbonated drinks was 31.4%, market share of Pepsi Cola was 49.9% in the cola carbonated drinks market and was the No.1 brand. For the juice flavor carbonated drinks, the market share of the Mirinda brand was 31.5%, ranking No. 2.

In the first quarter of 2017, the overall revenue of the beverage business was RMB7,982.0 million, grew by 2.82% yoy, accounting for 56.22% of the Group’s total revenue. During the period, gross profit margin of the beverage business dropped by 5.11ppt. to 28.15% yoy, mainly due to the price increase from sugar, PET resin and other key raw materials. And channel inventory health strategy product mix change compared to last year. In the first quarter, advertising and promotion expenses have been decreased yoy, due to the decline of gross profit and the new traffic regulations caused the rising freight, as a result, profit attributable to owners in the beverage business for the period dropped 54.13% yoy to RMB36.91 million. Profit margin attributable to owners decreased by 0.58 ppt. yoy to 0.46%.

**RTD Tea:** Master Kong continued to maintain its leading position in the RTD tea market and still continued to introduce tea drink segmented products such as series of fruit tea apart from consolidating the market share of evergreen products, and wished to drive the healthy and rapid growth of new products through the strong market position of evergreen products.

Master Kong RTD Tea launched the “Jia Ni Jia Nian Wei (加你加年味)” event at the beginning of the year and successfully enhanced the double-digit growth in the sales of large packages. As the official chief partner of National Basketball Association (NBA), Master Kong invited its new ambassador, Li Yuchun, to enthusiastically play the role of a dream youngster with tremendous vitality of ice to communicate with music and sport line consumers, and constantly created package diversification and multi-scenario drinking opportunities and developed sales opportunities. “Green Tea” effectively increased its market share and sales by Li Yifeng and Wu Lei as spokesperson virtue of “Having Another Bottle for Health and Vitality (健康活力派再來一瓶)” and seized the potential market of fruit tea with the launch of grapefruit green tea in a new look in the market. The “Jasmine Series” used romance marketing to create buzz marketing for confession bottles, carry new screen companions Zhao Liying/Yang Yang, create a romantic brand image and consolidate its product category leadership.

**Bottled Water:** In response to the trend of the differentiation of multiple price ranges in the market, the beverage business established a foundation in the low-priced water market with “Master Kong Bottled Drinking Water” and Aquafina. The “Youyue purified water” established a presence in the mid-priced water market whereas natural mineral water, Han Yang Quan, satisfied the demand for high-priced water. Our ongoing efforts have achieved initial results, and revenue from bottled water rebounded this quarter on a year-on-year basis.

“Master Kong Bottled Drinking Water” was committed to diversified specification operation and promoted family packs consumption in cartoons. The “Eight Processes” processing device was granted a national utility model patent in February 2017 and delivers good water giving people peace of mind with a national patent to every family by virtue of a complete plant layout and timely services so that all consumers in China can “drink with peace of mind for health”, with the hope of establishing a foundation in the huge family drinking market with a high cost performance. With its international brand background as the starting point, Aquafina advocated “pure happiness” and completed package refinement. The new package highlighted international certification quality such as “NSF” and “ISO22000” and jointly developed the low-priced water market with “Master Kong Bottled Drinking Water”. “Youyue”, with its product strength upgraded in an all-round manner ranging from the bottle body, the bottle label and the bottle cap, continued to enhance its brand awareness with high quality of an international level endorsed by the NSF certification and continued to establish a presence in channels with a potential, with a view to continuously increasing its market share. Meanwhile, it has also become the designated water for the popular hot drama “Ode to Joy II”. Well-known artist, Liu Tao, was appointed as its brand ambassador to recommend Youyue as “my pure choice” to continuously enhance product exposure.

**Carbonated Drinks:** Pepsi carbonated drinks still occupied an important market position. We effectively stabilized our market share through ongoing brand promotion and marketing. Through the “home with children (家有兒女)” family theme of the marketing event of “Bring Joy Home (把樂帶回家)” during the Spring Festival, we obtained more than 1 billion views. This, combined with the innovative events of celebrities paying New Year calls online and New Year red packet, significantly increased the exposure and preference of the “Pepsi Cola” brand. Meanwhile, by taking advantage of the customs of giving presents during festivals, a new gift box package was launched to further consolidate the market share. In addition, to continue the hot craze of Monkey King cans in 2017, new packages such as limited Gold Rooster cans and Silver Rooster cans were launched to continue to expand the position of the brand in the hearts of consumers by taking advantage of the occasion of the Lunar Year of the Rooster.

**Juice Drinks:** Juice business delivered a good performance this quarter, thanks to its accurate market positioning. With strong product strength and through catering channel penetration, Chinese style juice drinks, “Traditional Fruit Mix Sour Plum” and “Rock Candy Pear, posted a good performance in the first quarter. Led by honey grapefruit and the new product Mango Xiaolao, the trendy and healthy brand of “Light Fruit series” which was popular among consumers, registered a proven growth in performance in the first quarter. The Master Kong juice drinks, through continuous deepening of operation in 3-6 grade business districts with focus on large packages sales and grasping the business opportunities during festive seasons, contributed to a stable growth in results. Tropicana, with mixed fruit juice as the selling point of the product, also recorded considerable growth in results due to active enhancement of the specification.

**Functional drinks/lactic acid bacteria/coffee drinks/milk drinks:** “Gatorade” continued the 2016 business strategy with focus on sweat drops, and strived to leverage the popular fitness fever to establish its image as the first sport brand through sponsoring running groups. The first quarter posted stronger results compared with the same period last year.

“Weichuan Lactic Acid Drinks” actively developed the room temperature milk drink market through strengthening operation of special channels, resulting in continuous growth in sales.

Through the brand influence of the partner Starbucks and its rapid development in the PRC market, the bottled “Frappuccino” produced in cooperation with Starbucks were well received in the high price instant coffee market since its successful launch in the third quarter of 2016. In the future we will actively develop more appropriate channels to further expand the drinking occasions and sales opportunities. Meanwhile, leveraging “Bernachon”, the beverage business continued to expand into the room temperature middle price instant coffee market, and the room temperature “Bernachon” will be launched in Shanghai and other regions to provide momentum for subsequent growth in performance, which will help Master Kong further develop its instant coffee market business.

Regarding the close co-operation with the British brand partner, the “Ovaltine” instant malt drink dairy series is planned to launch to the market this year, marking a further step for Master Kong’s expansion into China’s diary drink market in the future.

The pace of sales of the beverage business will continue to be adjusted so that stocks in the pipeline tends to remain at a health level. We will continue to consolidate evergreen products, adhere to the multi-prices strategy, strengthen control of all costs, and at the same time explore diversified channels, continue product innovation, and enhance participation and preferences of consumers. We will implement a flat pipeline hierarchy strategy in core cities to enhance distribution in channels and strengthen management of customers in the channels. We will actively develop distributors in non-core cities to build a dense sales network for achieving the purpose of leveraging and exerting forces. On the profit side, in response to the rise in transport costs in the big environmental, we adjust the freight strategy and optimize the transport model for active response and achieving cost saving in the supply chain. After completion of the last batch of voluntary retirement plan in 2016 during Pepsi’s integration, the organization has become more stable and will continue to produce synergies in the future. Meanwhile, we will still place food safety on top priority, striving to provide consumers with healthy, safe and high-quality products.

## INSTANT FOOD BUSINESS

According to the data from Nielsen, overall sales volume of the biscuit market for the first quarter of 2017 decreased by 0.9% yoy, sales amount increased slightly by 0.3% yoy, of which sales volume and sales amount of sandwich crackers increased by 2.7% and 2.4% yoy, respectively. And sales volume of egg rolls decreased by 3.2% while sales amount kept stable. In terms of sales amount, the market share of Master Kong egg rolls was 18.4%, increased 1.3 ppt. yoy and ranked No. 1 in the market. The market share of sandwich crackers was 9.8%, dropped by 0.2 ppt. and ranked No. 2 in the market.

In the first quarter of 2017, revenue of the instant food business was RMB218.6 million yoy and amounted to 1.54% of the Group’s revenue. During the period, due to the early Chinese New Year, some customers ahead of stocking, resulting in the overall revenue decreased 5.78% yoy. Gross profit margin dropped 0.42 ppt. to 34.48%. Thanked for the savings from distribution costs and administrative expenses, the loss of instant food business continued to narrow and improved by 79.65% yoy, in the first quarter of 2017 recorded a total loss of RMB4.21 million.

On product innovations, the focus was on core brands operation. The “3+2 Wafer Stick”, a new product under Master Kong’s 3+2 series, has strengthened the product mix of wafer rolls. Master Kong’s “Muffin” has launched the cylindrical large size “Happy Party Big Cake” for happy shares with friends and relatives, and sponsored promotion of the “2017 College Hundred Miles Relay Race” jointly with teddy bear to reflect the brand value of Muffin’s healthy products.

Instant food business will remain to focus on the core categories of cakes and snack in the future, to continue to speed up original product innovation and new product development; to strengthen high-end presentation, healthy presentation upgrade and innovation of products; to strengthen items portfolio in emerging channels, and to actively explore opportunities of cooperation by way of consignment. Meanwhile, efforts will be put on activation of fixed assets, promotion of reasonable production line improvement and optimization of production process, optimization of procurement management, and strengthening cost competitiveness.

## FINANCING

The Group continued to maintain a stable and healthy financial structure through effective control of trade receivables, trade payables, bank balances and cash and inventories. As at 31 March 2017, the Group's bank balances and cash totalled RMB14,793.1 million, an increase of RMB4,561.3 million from 31 December 2016. A sufficient amount of cash holding was still maintained. As at 31 March 2017, the Group's total assets and total liabilities amounted to approximately RMB60,516.7 million and RMB35,881.5 million respectively. This showed an increase in RMB 3,995.6 million and an increase in RMB 3,461.1 million respectively compared to 31 December 2016. The debt ratio increased by 1.93 ppt. to 59.29% compared to 31 December 2016. Gearing ratio was 0.09 times, 0.23 ppt. lower than the ratio on 31 December 2016.

As at 31 March 2017, the Group's total interest bearing borrowings increased by RMB486.4 million to RMB16,530.3 million. At the end of the period, the Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 67% and 33% respectively, as compared to 72% and 28% respectively as at 31 December 2016. The proportion between the Group's long-term borrowings and short-term borrowings was 36% and 64% respectively, as compared to 43% and 57% respectively as at 31 December 2016. Considering the diverged trends of the interest rates between Renminbi and the US dollars and the Group itself, the Group has adjusted its financing strategy since September 2015 to increase its proportion of onshore financing and to reduce its foreign currencies financing. The Group expects to increase its Renminbi borrowing, and the proportion of Renminbi borrowing of the Group's total borrowings will be increased gradually.

During the period, Renminbi appreciated against US dollar by 0.69%, due to the fluctuation of exchange rate, realized/unrealized exchange losses of RMB8.21million in the Group's income statement from January to March 2017.

## FINANCIAL RATIO

	<b>As at 31 March 2017</b>	<b>As at 31 December 2016</b>
Finished goods turnover	12.46 Days	11.58 Days
Trade receivables turnover	9.9 Days	10.23 Days
Current ratio	0.75 Times	0.72 Times
Debt ratio (Total liabilities to total assets)	59.29%	57.36%
Gearing ratio (Net debt to equity attributable to owners of the Company)	0.09 Times	0.32 Times

## HUMAN RESOURCES

As at 31 March 2017, the Group had 63,066 employees. In respect of talent development, Master Kong focuses on the cultivation of high-level talents by running talent training projects, and continues to run special leadership development courses. It also cooperates with international talent development companies to introduce advanced tools for nurturing talents, establishes standards for nurturing corporate culture and behaviors, and chooses the right persons and provides them with proper trainings.

In respect of cooperation between education institutions and corporate enterprises, the first batch of 15 outstanding graduates recruited and reserved from the Master Kong 2017 Dream Scholarship Program have successfully commenced their employment. The first batch of about 20 outstanding students sponsored by Master Kong for Overseas Academic Exchange have returned to China and continued to participate in the internship program using the summer holidays. The second batch of new students will continue their overseas exchange study programs. Furthermore, the social practice project with Schwarzman College, Tsinghua University and the Stanford University in United States is also actively underway, aiming to further enhance the innovativeness and internationalization of the business functions.

## CORPORATE SOCIAL RESPONSIBILITY

On 5 January 2017, in the selection of “2016 Best Sports Marketing Award in China”(2016中國最佳體育行銷獎) run by Sports Money (體育大生意), the Master Kong Rio Noodles Restaurant (康師傅里約麵館) won the award with the highest votes. In the exiting Olympic marketing competition, the Master Kong Rio Noodles Restaurant has aroused wide attention in Rio. This has also been reported in detail by authoritative media and become a hot topic of social media. Some experts have named Master Kong Rio Noodles Restaurant as one of the strongest marketing projects in the history of Olympic Games.

Meanwhile, Master Kong has continued to actively devote in public welfares. On 17 March 2017, in the theme activities of the 25th “World Water Day “ jointly supported by the China Beverage Industry Association, the National Water Conservation Office, the Health Communication Branch under the Chinese Preventive Medicine Association, and the Water Education Center under the Ministry of Water Resources Education Center, Master Kong spontaneously joined the initiative of “Save Water for Healthy Drinking water” to promote today’s healthy concept of using water. Master Kong’s beverage business has for the third consecutive year participated in the “Water Education” activities launched by the China Beverage Industry Association which has become a brand charity activity reflecting the social responsibility of the beverage industry.

For environmental contribution, as a leader of the food industry, Master Kong clearly implements the philosophy of sustainable development. In the pollution control and management in March, Zhengzhou Tingyi Food Co., Ltd. had outstanding performance, with its rate of pollution and concentration reduction ranking among the top three, and was noticed by the Zhengzhou Municipal Environmental Protection Bureau for recognition of its assumption of social responsibilities.

## PROSPECT

Looking ahead, we have confronted with challenges such as long-term slowdown of economic growth, short term rising costs of raw materials, industrial upgrade and organizational transformation. For the sustained and healthy development of the future industry, we will firmly maintain the channel inventory at healthy level, and explore more diversified channels and the corresponding business optimization in response to environmental changes. We will continue to improve our free cash flow along with the multi-price portfolio strategy. We will strive to strengthen terminal sales, speed up products circulation, and maximize cost and scale advantages through a variety of process optimization. Meanwhile, we will continue to strengthen channel construction and innovative development strategy, and continue to expand the market shares of core categories and maximize the platform effect leveraging our advantages of marketing network layout and comprehensive product lines, and continue to develop multi-brands multi-categories cooperation opportunities and achieve win-win situation.

Due to the impact of rising raw material costs, the gross profit of the Group will remain under pressure in short term. However, we will ease the pressure on gross margin through strengthening innovation and continuous development strategy, focusing on core business, improving operating cost structure, optimizing product mix and ongoing enhancement of pipeline structure. We will also continue to tap the potential of the supply chain rationalization through coordination and optimization of production and marketing to achieve the overall effect of cost reduction, while enhancing optimization of the overall profit through accurate cost control.

Ongoing strengthening of the food safety system will remain a top priority. Through upgrading the monitoring equipment, we will further improve the internal and external audit and control mechanisms to ensure that consumers are provided with assured and satisfying products.

While China has experienced a long-term slowdown in macroeconomic growth, the food and beverage industry remain to have a huge market size. We will firmly focus on and continue to cultivate this market, continue to tap the potentials of existing products and channels, and at the same time keep innovation and development, updating to high-end products and optimizing product mix, hence further consolidating and strengthening our leading position in the market.

## **CORPORATE GOVERNANCE**

The Company has, throughout the period ended 31 March 2017, 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 deviation from code A.4.1 of the CG Code. The reason for the deviation is explained below.

### **Code provision A.4.1**

Code provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from this provision because the non-executive Directors and independent non-executive Directors of the Company do not currently have specific terms of appointment. However, the articles of association of the 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 offer themselves for re-election. As such, the Board considers that sufficient measures have been put in place to ensure the Company’s corporate governance practice in this aspect provides sufficient protection for the interests of shareholders to a standard commensurate with that of the code.

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 Audit Committee was held to review the results of the Group for the period under review.

### **Internal Control and Risk Management**

The principal spirit of internal control procedure established by the Company is compliance with five elements in COSO structure, i.e. environment monitor, risk assessment, control, information and communication, and monitor and assessment. It is expected that the objective is to define the management structure and authorization so as to enhance the achievement of operating performance and operational efficiency as well as asset safety protection, which ensures the reliability of financial report while complies with the requirements of national regulations.

The audit committee will assist the Board to review the design and operational effectiveness of the risk management and internal control system of the Group. Under the supervision of the Board, the Company has established a clear structural organization and responsibility and authorization. As of 31 March 2017, we completed the improvement and compliance control of internal control diagnosis and approval authorization including finance and operation. According to the review of internal control and audit department, we have not identified any material deficiency in internal control and risk management.

### **Compliance with the Model Code**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the 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 period ended 31 March 2017.

## SHARE OPTION SCHEME

At the extraordinary general meeting of the Company held on 20 March 2008, the shareholders approved the adoption of the share option scheme (the “Share Option Scheme”). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Detail arrangement for the Share Option Scheme 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

The summary below sets out the details of movement of the share options during the three months ended 31 March 2017 pursuant to the 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 2017	Number of share option			Balance as at 31 March 2017	Weighted average closing price immediately before exercise HK\$	Note
					Granted during the period	Exercised during the period	Cancelled/lapsed during the period			
<b>Executive Director</b>										
Wei Ing-Chou	20 March 2008	9.28	8.55	2,000,000	—	—	—	2,000,000	—	Table A (1)
	22 April 2009	9.38	9.37	2,816,000	—	—	—	2,816,000	—	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	20.54	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)
<b>Chief Executive Officer</b>										
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)
<b>Other employees in aggregate</b>	20 March 2008	9.28	8.55	2,564,000	—	—	—	2,564,000	—	Table A (1)
	22 April 2009	9.38	9.37	9,884,000	—	—	—	9,884,000	—	Table A (2)
	1 April 2010	18.57	18.42	9,651,000	—	—	—	9,651,000	—	Table A (3)
	12 April 2011	19.96	19.96	12,694,000	—	—	—	12,694,000	—	Table A (4)
	26 April 2012	20.54	20.54	7,530,000	—	—	—	7,530,000	—	Table A (5)
	27 May 2013	20.16	20.05	7,962,000	—	—	—	7,962,000	—	Table A (6)
	17 April 2014	22.38	22.35	9,110,000	—	—	—	9,110,000	—	Table A (7)
	5 June 2015	16.22	15.92	12,702,000	—	—	—	12,702,000	—	Table A (8)
	4 July 2016	7.54	7.54	5,848,000	—	—	—	5,848,000	—	Table A (9)
<b>Total</b>				101,553,000	—	—	—	101,553,000		

For the period of three months ended 31 March 2017, no option had been exercised during the period.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER IN SHARES

As at 31 March 2017, 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:

### (a) Long position in Shares and underlying Shares

Name	Number of ordinary shares		Percentage of the issued share capital	Number of underlying shares held under share options Beneficial owner (Note 2)	Percentage of the issued share capital
	Personal interests	Corporate interests (Note 1)			
<b>Directors</b>					
Wei Ing-Chou	13,242,000	1,882,927,866	33.83%	15,250,000	0.27%
Wei Hong-Ming	—	1,882,927,866	33.60%	—	—
<b>Chief Executive Officer</b>					
James Chun-Hsien Wei	—	—	—	8,358,000	0.15%

### (b) Long position in shares of associated corporation

Name of Directors	Name of associated Corporation	Number of shares of the associated corporation (Note 3)	Percentage of the issued share capital (Note 3)	Nature of interest (Note 3)
Wei Ing-Chou	Tingyi-Asahi Beverages Holding Co. Ltd.	232,645 shares	22.10%	Corporate
Wei Hong-Ming	Tingyi-Asahi Beverages Holding Co. Ltd.	232,645 shares	22.10%	Corporate

Note:

- These 1,882,927,866 shares are held by and registered under the name of Ting Hsin (Cayman Islands) Holding Corp. (“Ting Hsin”). Ting Hsin is beneficially owned as to approximately 44.761% by Ho Te Investments Limited (“Ho Te”), as to approximately 30.239% by Rich Cheer Holdings Limited (“Rich Cheer”), as to 17.835% by Itochu Corp., and 6.482% by China Foods Investment Corp., a subsidiary of Asahi Group Holdings, Ltd., and as to the remaining 0.683% by unrelated third parties. Ho Te and Rich Cheer were 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. HSBC International Trustee Limited is the trustee of each of the above four discretionary trusts, the settlors and discretionary objects of the above four discretionary trusts are as follows:
  - Wei Chang Lu-Yun is the settlor of one of the above discretionary trusts with Wei Chang Lu-Yun’s family members (including Wei Hong-Ming) as discretionary objects;
  - Lin Li-Mien is the settlor of one of the above discretionary trusts with Lin Li-Mien’s family members as discretionary objects;
  - Wei Hsu Hsiu-Mien is the settlor of one of the above discretionary trusts with Wei Hsu Hsiu-Mien’s family members as discretionary objects; and
  - Wei Tu Miao is the settlor of one of the above discretionary trusts with Wei Tu Miao’s family members as discretionary objects.

2. Wei Ing-Chou is also personally interested in 13,242,000 shares and holds 15,250,000 share options (details shown as Table B on page 26) under the share option scheme of the Company passed by an extraordinary general meeting of the Company held on 20 March 2008. 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.

James Chun-Hsien Wei holds 8,358,000 share options (details shown as Table B on page 26) under the share option scheme of the Company passed by an extraordinary general meeting of the Company held on 20 March 2008.

3. These 232,645 shares are held by and registered under the name of Ting Hsin. Please refer to note 1 for the shareholding structure of Ting Hsin.

Save as disclosed above, at no time during the period ended 31 March 2017 there were 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 any such rights exercised by them; or was 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 31 March 2017, 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.

#### Substantial Shareholders and Other Persons' Interests in Shares

So far as was known to any Director or Chief Executive Officer of the Company, as at 31 March 2017, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Name of shareholder	Capacity	Number of shares held	% of the issued share capital
<b>Interest of Substantial Shareholders</b>			
Ting Hsin (see note 1) <sup>^</sup>	Beneficial owner	1,882,927,866 (L)	33.60
Ho Te Investments Limited (see note 1) <sup>^</sup>	Interest of controlled company	1,882,927,866 (L)	33.60
Rich Cheer Holdings Limited (see note 1) <sup>^</sup>	Interest of controlled company	1,882,927,866 (L)	33.60
Profit Surplus Holdings Limited (see note 1) <sup>^</sup>	Trustee of a unit trust	1,882,927,866 (L)	33.60
HSBC International Trustee Limited (see note 1) <sup>^</sup>	Trustee of discretionary trusts	1,882,927,866 (L)	33.60
Wei Chang Lu-Yun (see notes 1 & 2) <sup>^</sup>	Settlor of a discretionary trust	1,911,419,866 (L)	34.11
Lin Li-Mien (see note 1) <sup>^</sup>	Settlor of a discretionary trust	1,882,927,866 (L)	33.60
Wei Hsu Hsiu-Mien (see note 1) <sup>^</sup>	Settlor of a discretionary trust	1,882,927,866 (L)	33.60
Wei Tu Miao (see note 1) <sup>^</sup>	Settlor of a discretionary trust	1,882,927,866 (L)	33.60
Sanyo Foods Co., Ltd.	Beneficial owner	1,882,927,866 (L)	33.60

<sup>^</sup>: Note 1 and 2 are set out on page 27 and 28

Note: (L): Long Position

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 31 March 2017.

#### BOARD OF DIRECTORS

As at the date of this report, Mr. Wei Ing-Chou, Mr. Junichiro Ida, Mr. Wu Chung-Yi, Mr. Teruo Nagano, Mr. Wei Hong-Ming and Mr. Koji Shinohara 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 Ing-Chou**  
 Chairman

Shanghai, the PRC, 22 May 2017

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

\* For identification purpose only