



康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 322)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2014

SUMMARY

US\$'000	For the three months ended 30 June			For the six months ended 30 June		
	2014	2013	Change	2014	2013	Change
• Turnover	2,722,649	2,774,574	↓ 1.87%	5,504,418	5,422,795	↑ 1.51%
• Gross margin	31.78%	30.45%	↑ 1.33 ppt.	31.07%	29.87%	↑ 1.20 ppt.
• Gross profit of the Group	865,393	844,809	↑ 2.44%	1,710,493	1,619,931	↑ 5.59%
• EBITDA	339,228	287,584	↑ 17.96%	703,414	582,570	↑ 20.74%
• Profit for the period	164,129	127,633	↑ 28.59%	336,999	244,734	↑ 37.70%
• Profit attributable to owners of the Company	103,547	91,779	↑ 12.82%	231,906	196,655	↑ 17.93%
• Earnings per share (US cents)						
Basic	1.85	1.64	↑ 0.21 cents	4.14	3.52	↑ 0.62 cents
Diluted	1.84	1.64	↑ 0.20 cents	4.13	3.50	↑ 0.63 cents

At 30 June 2014, cash and cash equivalents was US\$1,576.991 million and gearing ratio was 0.11 times.

2014 INTERIM RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2014 together with the comparative figures for the corresponding periods in 2013. These unaudited condensed consolidated interim financial statements have been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Three Months and Six Months Ended 30 June 2014 (Unaudited)

	<i>Note</i>	April to June 2014 <i>US\$'000</i>	January to June 2014 <i>US\$'000</i>	April to June 2013 <i>US\$'000</i>	January to June 2013 <i>US\$'000</i>
Turnover	2	2,722,649	5,504,418	2,774,574	5,422,795
Cost of sales		(1,857,256)	(3,793,925)	(1,929,765)	(3,802,864)
Gross Profit		865,393	1,710,493	844,809	1,619,931
Other revenue and other net income		76,865	109,774	82,386	107,684
Distribution costs		(591,573)	(1,105,475)	(626,540)	(1,130,285)
Administrative expenses		(86,670)	(168,770)	(87,757)	(173,934)
Other operating expenses		(42,011)	(69,685)	(31,195)	(46,282)
Finance costs	5	(10,039)	(20,900)	(8,913)	(19,156)
Share of results of associates and joint ventures		7,929	9,472	4,203	5,779
Profit before taxation	5	219,894	464,909	176,993	363,737
Taxation	6	(55,765)	(127,910)	(49,360)	(119,003)
Profit for the period		<u>164,129</u>	<u>336,999</u>	<u>127,633</u>	<u>244,734</u>
Attributable to:					
Owners of the Company		103,547	231,906	91,779	196,655
Non-controlling interests		60,582	105,093	35,854	48,079
Profit for the period		<u>164,129</u>	<u>336,999</u>	<u>127,633</u>	<u>244,734</u>
Earnings per share	7				
Basic		<u>US 1.85 cents</u>	<u>US 4.14 cents</u>	<u>US 1.64 cents</u>	<u>US 3.52 cents</u>
Diluted		<u>US 1.84 cents</u>	<u>US 4.13 cents</u>	<u>US 1.64 cents</u>	<u>US 3.50 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months and Six Months Ended 30 June 2014 (Unaudited)

	April to June 2014 US\$'000	January to June 2014 US\$'000	April to June 2013 US\$'000	January to June 2013 US\$'000
Profit for the period	164,129	336,999	127,633	244,734
Other comprehensive income				
Items that are or may be reclassified				
subsequently to profit or loss:				
Exchange differences on consolidation	12,159	(104,649)	43,022	54,298
Fair value changes in available-for-sale financial assets	—	—	3,951	11,173
Reclassification adjustments relating to available-for-sale financial assets disposed of during the period	—	—	(14,397)	(14,397)
Other comprehensive income for the period	12,159	(104,649)	32,576	51,074
Total comprehensive income for the period	176,288	232,350	160,209	295,808
Total comprehensive income attributable to:				
Owners of the Company	113,084	155,335	112,903	232,995
Non-controlling interests	63,204	77,015	47,306	62,813
	176,288	232,350	160,209	295,808

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

		At 30 June 2014	At 31 December 2013
		(Unaudited)	(Audited)
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		6,103,751	5,485,100
Prepaid lease payments		332,211	318,961
Intangible assets		27,681	28,058
Interest in associates		31,990	29,050
Interest in joint ventures		76,742	80,276
Available-for-sale financial assets		53,720	24,683
Deferred tax assets		52,135	48,105
		6,678,230	6,014,233
Current assets			
Financial assets at fair value through profit or loss		1,103	4,952
Inventories		472,826	480,862
Trade receivables	9	345,084	260,427
Prepayments and other receivables		454,236	413,957
Pledged bank deposits		23,940	15,491
Bank balances and cash		1,553,051	1,234,399
		2,850,240	2,410,088
Total assets		9,528,470	8,424,321

		At 30 June 2014 (Unaudited) US\$'000	At 31 December 2013 (Audited) US\$'000
	<i>Note</i>		
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		27,999	27,982
Share premium		58,935	53,431
Reserves		2,755,765	2,798,879
Total capital and reserves attributable to owners of the Company		2,842,699	2,880,292
Non-controlling interests		1,084,606	1,046,095
Total equity		3,927,305	3,926,387
Non-current liabilities			
Long-term interest-bearing borrowings		940,812	659,643
Other non-current liabilities		76,126	262
Employee benefit obligations		29,836	28,186
Deferred tax liabilities		206,602	184,389
		1,253,376	872,480
Current liabilities			
Trade payables	10	1,468,445	1,251,710
Other payables		1,829,130	1,192,428
Current portion of interest-bearing borrowings		939,875	1,016,636
Advance payments from customers		55,734	108,354
Taxation		54,605	56,326
		4,347,789	3,625,454
Total liabilities		5,601,165	4,497,934
Total equity and liabilities		9,528,470	8,424,321
Net current liabilities		(1,497,549)	(1,215,366)
Total asset less current liabilities		5,180,681	4,798,867

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 2013 annual financial statements. The accounting policies adopted in preparing the condensed consolidated interim financial statements for the six months ended 30 June 2014 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the new/revised standard of Hong Kong Financial Reporting Standards ("HKFRSs") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2014:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Leases

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

2. Turnover

The Group's turnover represents revenue arising from the sale of goods at invoiced value to customers, net of returns, discounts and Value Added Tax.

3. Segment information

Segment results

For the Six Months ended 30 June 2014						
	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Instant food (Unaudited) US\$'000	Others (Unaudited) US\$'000	Inter-segment elimination (Unaudited) US\$'000	Group (Unaudited) US\$'000
Turnover						
Revenue from external customers	2,033,801	3,332,107	89,615	48,895	—	5,504,418
Inter-segment revenue	25	381	57	44,302	(44,765)	—
Segment revenue	<u>2,033,826</u>	<u>3,332,488</u>	<u>89,672</u>	<u>93,197</u>	<u>(44,765)</u>	<u>5,504,418</u>
Segment results after finance costs	220,860	251,593	(5,698)	(8,365)	(841)	457,549
Share of results of associates and joint ventures	—	14,911	(5,439)	—	—	9,472
Unallocated income (expenses), net	—	—	—	(2,112)	—	(2,112)
Profit (loss) before taxation	220,860	266,504	(11,137)	(10,477)	(841)	464,909
Taxation	(59,630)	(69,494)	485	729	—	(127,910)
Profit (loss) for the period	<u>161,230</u>	<u>197,010</u>	<u>(10,652)</u>	<u>(9,748)</u>	<u>(841)</u>	<u>336,999</u>

For the Six Months ended 30 June 2013						
	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Instant food (Unaudited) US\$'000	Others (Unaudited) US\$'000	Inter-segment elimination (Unaudited) US\$'000	Group (Unaudited) US\$'000
Turnover						
Revenue from external customers	1,992,919	3,249,603	99,085	81,188	—	5,422,795
Inter-segment revenue	26	625	24	49,503	(50,178)	—
Segment revenue	<u>1,992,945</u>	<u>3,250,228</u>	<u>99,109</u>	<u>130,691</u>	<u>(50,178)</u>	<u>5,422,795</u>
Segment results after finance costs	218,814	127,188	(5,308)	20,970	(3,706)	357,958
Share of results of associates and joint venture	—	6,637	(858)	—	—	5,779
Profit (loss) before taxation	218,814	133,825	(6,166)	20,970	(3,706)	363,737
Taxation	(64,128)	(46,338)	274	(8,811)	—	(119,003)
Profit (loss) for the period	<u>154,686</u>	<u>87,487</u>	<u>(5,892)</u>	<u>12,159</u>	<u>(3,706)</u>	<u>244,734</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 profit (loss) before taxation, share of results of associates and joint ventures and unallocated income (expenses), net, and net profit for the period.

3. Segment information (continued)

Segment assets

At 30 June 2014						
	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Instant food (Unaudited) US\$'000	Others (Unaudited) US\$'000	Inter-segment elimination (Unaudited) US\$'000	Group (Unaudited) US\$'000
Segment assets	3,293,718	5,335,919	155,672	1,478,369	(898,763)	9,364,915
Interest in associates	—	29,440	2,550	—	—	31,990
Interest in joint ventures	—	56,914	19,828	—	—	76,742
Unallocated assets						54,823
Total assets						9,528,470
Segment liabilities	1,028,407	3,371,363	57,460	1,958,865	(844,766)	5,571,329
Unallocated liabilities						29,836
Total liabilities						5,601,165

At 31 December 2013						
	Instant noodles (Audited) US\$'000	Beverages (Audited) US\$'000	Instant food (Audited) US\$'000	Others (Audited) US\$'000	Inter-segment elimination (Audited) US\$'000	Group (Audited) US\$'000
Segment assets	3,420,533	5,075,114	182,198	839,614	(1,232,099)	8,285,360
Interest in associates	—	25,628	3,422	—	—	29,050
Interest in joint ventures	—	57,883	22,393	—	—	80,276
Unallocated assets						29,635
Total assets						8,424,321
Segment liabilities	1,290,983	3,179,545	77,143	1,106,220	(1,184,143)	4,469,748
Unallocated liabilities						28,186
Total liabilities						4,497,934

Segment assets include all assets with the exception of available-for-sale financial assets, financial assets at fair value through profit or loss, interest in associates and interests in joint ventures. 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:

	April to June 2014 (Unaudited) USD'000	January to June 2014 (Unaudited) USD'000	April to June 2013 (Unaudited) USD'000	January to June 2013 (Unaudited) USD'000
Finance costs				
Interest on bank and other borrowings wholly repayable within five years	10,039	20,900	8,913	19,156
Other items				
Depreciation	125,671	249,288	112,930	218,141
Amortisation	2,058	4,083	1,850	3,753

6. Taxation

	April to June 2014 (Unaudited) USD'000	January to June 2014 (Unaudited) USD'000	April to June 2013 (Unaudited) USD'000	January to June 2013 (Unaudited) USD'000
Current tax – The People's Republic of China (the "PRC") Enterprise income tax				
Current period	44,488	109,008	39,016	99,379
Deferred taxation				
Origination and reversal of temporary differences, net	3,694	1,461	3,915	5,772
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	7,583	17,441	6,429	13,852
Total tax charge for the period	55,765	127,910	49,360	119,003

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

Hong Kong Profits Tax has not been provided as the Group's entities had no assessable profit subject to Hong Kong Profits Tax for the six months ended June 2014 and 2013.

The applicable PRC enterprise income tax for the PRC subsidiaries is at the statutory rate of 25% (2013: 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 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% (2013: 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 earnings of the Group's PRC subsidiaries that are expected to be distributed in the foreseeable future. The remaining 50% of post-2007 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

	April to June 2014 (Unaudited)	January to June 2014 (Unaudited)	April to June 2013 (Unaudited)	January to June 2013 (Unaudited)
Profit attributable to ordinary shareholders (US\$' 000)	103,547	231,906	91,779	196,655
Weighted average number of ordinary shares ('000)	5,597,817	5,597,133	5,593,896	5,593,605
Basic earnings per share (US cents)	1.85	4.14	1.64	3.52

b) Diluted earnings per share

	April to June 2014 (Unaudited)	January to June 2014 (Unaudited)	April to June 2013 (Unaudited)	January to June 2013 (Unaudited)
Profit attributable to ordinary shareholders (US\$' 000)	103,547	231,906	91,779	196,655
Weighted average number of ordinary shares (diluted) ('000)				
Weighted average number of ordinary shares ('000)	5,597,817	5,597,133	5,593,896	5,593,605
Effect of the Company's share option scheme	18,815	18,420	16,769	17,687
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,616,632	5,615,553	5,610,665	5,611,292
Diluted earnings per share (US cents)	1.84	4.13	1.64	3.50

8. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: 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:

	At 30 June 2014 (Unaudited) US\$'000	At 31 December 2013 (Audited) US\$'000
0 - 90 days	335,246	248,538
Over 90 days	9,838	11,889
	<u>345,084</u>	<u>260,427</u>

10. 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 2014 (Unaudited) US\$'000	At 31 December 2013 (Audited) US\$'000
0 - 90 days	1,384,993	1,214,761
Over 90 days	83,452	36,949
	<u>1,468,445</u>	<u>1,251,710</u>

11. Approval of interim financial statements

The interim financial statements of 2014 were approved by the board of directors on 18 August 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half year of 2014, the Gross Domestic Product (GDP) of the PRC increased by 7.4% year-on-year and in the second quarter increased by 7.5%. The Consumer Price Index (CPI) increased by 2.3%, of which food prices increased by 3.4%. Factory prices of industrial manufacturers decreased by 1.8% year-on-year. During the period, the economy of China was stable in general, while the spending desire of consumers remained conservative.

Under the challenging operating environment during the first half year of 2014, the Group achieved sound and steady growth in interim results through its solid infrastructure and flexible marketing strategies. The Group's turnover increased by 1.51% year-on-year to US\$5,504.418 million. Turnover of instant noodles and beverages increased by 2.05% and 2.53% respectively, and turnover of instant food products decreased by 9.52%. Benefiting from the prices falling of some of the major raw materials during the period and refining operations in production, the gross profit margin was improved. The Group's gross profit margin in the first half increased by 1.2ppt. to 31.07%, gross profit grew by 5.59%. As a more conservative trend in consumption developed, the Group improved the controls over operation costs and implemented effective marketing strategies, resulting a decrease in the percentage of distribution costs to total turnover by 0.76ppt. to 20.08%. During the period, the depreciation in Renminbi against US dollar by 2.39% brought an exchange loss of US\$10.288 million in the income statement. Compared to the same period of last year, the Group's EBITDA increased by 20.74% to US\$703.414 million, profit attributable to shareholders increased by 17.93% to US\$231.906 million, net profit margin increased by 0.58ppt. to 4.21%, and earnings per share increased by 0.62 US cents to 4.14 US cents.

FOOD BUSINESS

Instant Noodle Business

In the first half of 2014, the turnover of the Group's instant noodle business continued to grow at a steady rate and increased by 2.05% to US\$2,033.826 million year-on-year, representing 36.95% of the Group's turnover. According to AC Nielsen, in the first half of 2014, the sales amount of the overall instant noodle market dropped by 1.9%, and the growth of the Group's instant noodle business continued to outperform the industry average growth rate. During the period, prices of certain raw materials increased, together with the enhancement in quality and quantity of the Group's products to benefit consumers, the gross profit margin of the instant noodle business declined by 1.89ppt. to 27.29%. During the same period, the Group strengthened management and control over distribution expenses, resulting in an increase in profit attributable to shareholders from the instant noodle business by 4.23% on a year-on-year basis to US\$161.230 million.

According to the latest market share analysis data from AC Nielsen, the market shares of Master Kong's instant noodles in terms of sales volume and sales amount were 47.4% and 57.1%, respectively, in the second quarter of 2014, representing an increase of 3.2ppt. and 1.5ppt. on a year-on-year basis, moved further ahead from competitors and continued to maintain their market leading positions.

For Master Kong's Braised Beef Noodle, following the sales promotion and marketing campaign "New Year New Hope, Win the Million Dollar Dream Gift Pack" (新年新希望，贏百萬夢想禮包) O2O (from online to offline) launched in the first quarter of this year to strengthen branding recognition, then a thematic promotion "Adherence to Dreams, Loyalty to Original Taste" (堅持夢想，忠於原味) was launched in the second quarter to promote specification fulfillment and branding enhancement. And by combining with the pursuit of basketball dream by CUBA (Chinese University Basketball Association), tournament promotions and offline creative thematic activities were launched to attract the student consumer groups, giving the brand of Braised Beef Noodle a complete new feeling of young, trendy and vigorous. At the same time, by taking advantage of the hot topic on World Cup, the promotion of "watching soccer match overnight by eating braised beef noodles" (熬夜看球，要吃紅燒牛肉麵) was broadcasted over the World Cup network, which substantially extended the opportunities of eating instant noodles. Spicy Beef took advantage of the release of the popular drama series "Love Apartments 4" (愛情公寓4) for promotions, and organized meetings with the stars through TV and webcast to stir up a spicy food eating trend.

On pickled mustard flavours, besides adhering to the differentiation needs of "not only sour and crisp, plenty of flavours are even better" (不止酸爽，超多口味更爽), promotional activities of "You are the winner of sour and crisp expert award" (酸爽行家獎的就是你) are launched to activate the brand, and market share in the high-end pickled mustard flavor market continue to increase. Master Kong's Homemade Mushroom Lu Xiang Series continued to refine flavours and enhance gross profit, and has gained a leading market share.

In order to enhance the branding awareness of products and the brand image of “Chinese cuisine culture expert”, the regional brands jointly launched the entertainment and food program “Eating missions must be accomplished” (食命必達). The program was hosted by the spokesman Young Master Hua and 2moro, the famous gourmet in Taiwan, and was broadcasted over the video channel of SOHU, an exclusive cooperation platform, as well as dissemination by words of mouth through the consolidated online resources such as SNS, Weibo and Weixin. At the same time, offline promotions such as product packaging, interactions with consumers were also conducted for end-user promotions. Through these activities, a cumulative hit rate of 12.5 billion times was recorded, the active participation and sharing by consumers through the internet and terminals provided repeated disseminations for the activities and further enhanced the branding awareness and preference, as a result the sales of regional brands recorded double-digit growth during the first half of 2014.

The Group has recently started enhancing the texture of our noodles to lead the instant noodle industry in a new direction while continually reinforcing our product advantage. Firstly, we continued the research and development and innovation of our fried crispy noodle. Following the launch of “Cui Xuan Feng” last year which brought consumers tasty, crunchy and crispy enjoyment, we continued to introduce new trends of leisure noodle snacks by bringing our new product “Crispy Fatty” to the market this February. It set a new benchmark for noodle snacks and was well accepted by the consumers. Secondly, our refinement of “Mian Ba Cooked Noodle” allowed consumers to enjoy the texture of their home-cooked noodle and tasty soup that tasted the same as those served at famous noodle restaurants. Thirdly, our newly launched “Fresh Banquet”, which was made with our hot air drying technology to preserve the original taste and nutrition of wheat and provided the texture of freshly cut noodles, together with thick, mellow and nutritious ox bone soup, and rich ingredients such as large pieces of cut meat, the fresh and good quality noodles, soup and ingredients satisfied expectations of consumers for upgraded and trendy products in the market, also attracted many consumers who was seldom or even did not eat instant noodles before to buy. The sales of this new product was promising. These three initiatives taken by Master Kong to refine the texture of our noodle products made it possible for consumers to enjoy noodles of the quality of those served at noodle restaurants in just a few minutes. The change brought by our product renovation to noodle lovers was significant.

We also upgraded our main flavors on bowl noodle. We added some more ingredients to give more enriched tastes to consumers’ taste buds such as dried egg and shrimp on top of commonly seen meats and vegetables. We believe that this will make instant noodles products with the highest cost/performance ratio among noodles which can satisfy consumers’ needs and expectations for nutrition, taste and multiple textures.

Under these two major directions of development, instant noodles have now evolved to become a food that is not just for fulfilling the need for foods. The color, smell, flavor, rich taste and multiple textures of the instant noodles of our Group are largely comparable with traditional noodles. In the future, we will continue to develop our products towards these directions to lead the industry.

On production and management, the Group continued to facilitate improvements in logistics, enhance the production to sales efficiency, optimize production layout and warehouse management, rationalize the costs of supply chain, and enhance the effectiveness of sales and marketing activities by fully utilizing the mobile visit and sales system, to further enhance competitiveness.

Looking ahead to the second half of 2014, to make a rationale competitive environment in the industry, Master Kang instant noodles will be more focused on upgrading the main flavors on bowl noodle and new product development and promotion, giving consumers more and better choices and continue to increase market share. Based on market response, phasing out free sausage gradually to improve gross margin. As a result, we will lead the direction of instant noodles industry toward benign competition and healthy profits.

Instant Food Business

Under the impact of slower economic growth in China and persistent depression in the traditional biscuit market, The turnover of the Group’s instant food business in the first half of 2014 was US\$89.672 million, declined by 9.52% for the same period on a year-on-year basis, representing 1.63% of the Group’s total turnover. Affected by the rising costs of major raw materials and staff expenses in the first half of the year, and other factors such as the decline in cakes and crackers sales and lower utilization rate of equipment, the gross profit margin of the instant food business fell by 1.62ppt. to 35.27% when compared with the corresponding period of the previous year. Besides, the performance of our new business line of instant food is suffering from sharing the start-up cost after the commencement of formal operation, but the loss for the period was within our expected range. The instant food business recorded an overall loss of US\$10.652 million in the first half of 2014. Looking forward, the focus of our instant food business development would be on the improvement of sales of cakes and crackers and investment return on new businesses so as to achieve a turnaround.

According to the latest retail research data from AC Nielsen, in terms of sales amount, the market share of Master Kong's egg rolls was 22.0% in the second quarter of 2014, and ranked No. 1 in the market. The market share of sandwich cracker was 18.3%, representing an increase of 3.0ppt. when compared with the first quarter, and ranked No. 2 in the market.

During the period, Master Kong's 3+2 sandwich crackers focused on the theme "fresh and lightly sweet" to increase promotional activities for disseminating new branding ideas continuously. The sales promotional activity "Fresh New Voice Generation" (清爽新聲代) completed the final contest in June, a total of over 16.23 million times of hit rate were recorded in visits to the activity website. Offline activities covered over 50 high schools, the product concepts were successfully communicated to young people and drove product sales. The promotion activity "Ah Li brings you a surprising delightful treasure hunt" (阿狸帶你驚喜尋寶) for Muffin cakes was fully launched, new media technology was used to conduct online lucky draws and interactive games, trial eating and complimentary gifts for purchases were provided to consumers at offline points of sale, and joint promotions with other industries at the Hangzhou animated cartoon exhibitions were conducted to contact consumers from all dimensions to enhance branding preference. Based on the consumer survey results, various packaging specifications would be launched for Master Kong's egg roll products to meet consumers' needs for consumption at different occasions.

Moreover, in the aspect of new business cooperation, the key items of leisure food produced by Calbee potato ranked No. 1 in the market of potato chips product with certainty, and acquired an absolute advantage in the key investment regions of Northern China and Southern China, in particular the rising trend was obvious in Beijing. During the period, by combining World Cup, the hot spot of world concern, with the peak consumption period for leisure food products, thematic activities of "Calbee drinks a toast to the world" (卡樂薯為世界乾杯) were launched officially with Weibo and Weixin as the key bases to attract audience to participate in the activities and lucky draws. Exhibitions and distribution activities were organized in the three cities of Beijing, Shanghai and Guangzhou jointly with the film studios as offline promotions, with somatic games and transformer art devices, and successfully created the sense of value, trendy feeling and popularity of Calbee.

Wakodo milk powder and frozen meat products were still in the preliminary launching period and focused on adjusting channel strategies and product combination at this stage. Explorations were made to establish a reasonable and effective channel cooperation model and drive performance growth.

Looking ahead to the second half of 2014, as the diversification of new categories, in the sales strategies, instant food business will continue to adjust the channel business model (Go to market model), further leveraging external force and focus on key regions. Implement high calibre candidates are retained in the product layout, focus on key items, upgrades the core products, enabled the core category back to growth and profitability trend. Meanwhile, new business will be exerted on enhancing brand awareness and channel promotions to emphasize on investment return and reduce loss. Cost pressures from continuous rising raw material prices will be reduced through production industrial engineering automation and rationalization of purchase costs to increase gross profit of the products, with strict management and tight control over selling expenses. Those are prepared for performance and gradual improvement of the loss growth in the second half of the year.

BEVERAGE BUSINESS

In the second quarter of 2014, there was a downturn in the domestic economy of China, consumption power was below expectation, together with the impact of unfavourable weather conditions, the overall beverage market presented a downward trend with sales volume only grew by 3.4% when compared with the corresponding period year-on-year.

In the first half of 2014, the turnover of the beverage business of the Group was US\$3,332.488 million, increased by 2.53% year-on-year, representing 60.54% of the Group's total turnover. During the period, prices for major raw material such as PET resin and sugar declined year-on-year, together with rationalization in production processes, the gross margin increased by 3.25ppt. year-on-year to 33.45% and gross profit grew by 13.56%. In addition, well control on distribution expenses, the amount of profit from the beverage business attributable to shareholders of the Company increased significantly by 131.58% to US\$93.080 million.

Since April, various brands of Master Kong began promotional activities both online and offline to attract consumers' attention. According to the latest monitoring data of AC Nielsen in June 2014, in the second quarter, in terms of sales volume, the market share of Master Kong and Pepsi in the RTD tea market (including milk tea) was 54.2%, being top leading players in the market. In the overall fruit juice market, the market share of Master Kong and Pepsi was 25.6%, ranking No. 1 in the market. Although competition in the bottled water market was increasingly intensive, Master Kong and Pepsi still achieved a market share of 21.8%, the highest in the market, and moved further ahead from competitors. Meanwhile, according to the data of Canadean for the second quarter of 2014, sales of carbonated drinks of the Group captured a market share of 34.7%, ranking the second highest in the market, of which the market share of cola drinks was 52.3%, the highest in the market.

For RTD tea products, the annual online advertising campaign of Master Kong iced black tea with the theme "thorough satisfaction by the whole city" (痛快全城) further secured its top leading brand position in the iced tea market. The extremely cool iced tea series was launched in the market as the latest new member of the Master Kong iced tea products. New packaging for Master Kong green tea was introduced. The new flavour of crystal sugar chrysanthemum tea achieved strong performance after being launched into the market for 3 months.

In the fruit juice series, thematic advertising and serial promotional campaign for Master Kong crystal sugar pear, the top brand of fruit juice in traditional Chinese style, enhanced the strength of its brand reputation. New Taste for Traditional Drink (傳世新飲) introduced plum juice as a gourmet food partner and led a new trend in 2014. The branding performance of Honey Pomelos of Traditional Fruit Mix was further enhanced through promotional activities. Cranberry, a new flavour of Fresh Daily C, was well received in the market after launching.

For bottled water, through the branding theme of "enjoy health by drinking safely" communicated by Yang Lan, a number of sports events and charitable activities were sponsored, and received favourable response and acclaims from consumers. An innovative bottle design was introduced for Master Kong natural mineral water, a mid to high end positioned product, to communicate the concept of high quality drinking water to consumers with "really healthy good water" as the core theme of branding.

Pepsi-cola will continue to strengthen its branding assets in music and entertainment segment to attract more young consumers. Mirinda consolidated the expansion strategies for various flavours and secured itself the ranking of No. 1 brand among fruit flavoured carbonated drinks. Its new flavor, frozen water melon, was selling well since it was launched in the market. Gatorade launched a new packaging with NBA stars, strengthening the brand image of Gatorade as a sports drink. Aquafina Pure Water presented various specifications to satisfy the needs at various drinking moments and drove the growth in sales.

Lipton milk tea was focused on operating a high-end brand image for milk tea with strong taste and fragrance, together with pure and good quality traditional black tea, which was expected to create an exclusive English tea enjoyment for white collar working population in the milk tea market, while developing the black tea market at the same time.

In the second quarter, 100,000 refrigerators were added to the beverage business for precise target groups, and business representatives facilitated channel operations through the visit and sales system. On supply chain operation, the quality information system went online for capturing immediate food safety information in the course of production. To satisfy the needs for long-term growth, an advanced talent development project was commenced for the beverage business, and efforts were dedicated to promote and organize productivity enhancement and efficiency improvement projects.

Looking ahead in the third quarter, the beverage business will capture the sales opportunities available during the peak season with full force, consolidate sales and marketing through various channels, continue to operate innovative products, accelerate the training of succeeding product teams, strengthen communication for consumer activities, enhance consumers' preference for brands of the Group, facilitate good coordination between production and sales, ensure good quality and prepare well to meet market demand and innovative developments.

Meanwhile, to prepare the long-term high efficient operation for beverage business and to implement the integrated synergy of the alliance between Master Kong and PepsiCo, streamlining arrangements are continued to make during the year. As a result, we will reach the goal on sophisticated operation and fine controlling operating costs. We are convinced that the integration plan will be gradually achieved remarkable results.

FINANCING

The Group continued to maintain a stable and healthy financial structure for working capital use through effective control of cash and bank balances, trade receivables, trade payables and inventories.

As at 30 June 2014, the Group's cash and bank deposits totaled US\$1,576.991 million, an increase of US\$327.101 million from 31 December 2013. In addition, the Group's total assets and total liabilities amounted to approximately US\$9,528.470 million and US\$5,601.165 million respectively. This showed increases in US\$1,104.149 million and US\$1,103.231 million respectively compared to 31 December 2013. The debt ratio increased by 5.39ppt. to 58.78% compared to 31 December 2013.

As at 30 June 2014, the Group's total borrowings increased by US\$204.408 million to US\$1,880.687 million. The Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 91% and 9% respectively, as compared to 88% and 12% respectively as at 31 December 2013. The proportion between the Group's long-term borrowings and short borrowings was 50% and 50% respectively, as compared to 39% and 61% respectively as at 31 December 2013. In addition, the Group's transactions are mainly denominated in Renminbi. During the period, the depreciation in Renminbi against US dollar by 2.39% brought an exchange loss of US\$114.937 million. The exchange loss of US\$10.288 million and US\$104.649 million has been included in the income statement and exchange translation reserve respectively.

Financial Ratio

	As at 30 June 2014	As at 31 December 2013
Finished goods turnover	12.33 Days	12.90 Days
Trade receivables turnover	9.96 Days	8.23 Days
Current ratio	0.66 Times	0.66 Times
Debt ratio (Total liabilities to total assets)	58.78%	53.39%
Gearing ratio (Net debt to equity attributable to owners of the Company)	0.11 Times	0.15 Times

HUMAN RESOURCES

As at 30 June 2014, the Group had 76,753 employees (80,541 employees at 31 December 2013). During the period, the Group continued to improve the mechanisms for selection and cultivation of personnel reserves, plan and implement talent development gateways for retaining the talent and deepening their development. At the same time, the successor echelon plan and the talent development plan continued to be implemented to enhance the cultivation of potential talents.

CORPORATE SOCIAL RESPONSIBILITY

Master Kong commenced the "New generation with creativity and sound bite" Creative Challenge in 2010, by selections through the online platform, youths across the Straits were encouraged to make bold innovations using their own imagination and creativity, and based on the objective of "making big changes through small charitable missions", in order to disseminate the message of "small charitable missions" to more people. The winners of the Challenge will have the superb opportunity of interflow with charitable organizations in the United States jointly sponsored by Master Kong and PepsiCo and become diplomats for charitable missions from China, connecting the enthusiasm for charity in China with the rest of the world.

Since its commencement in March this year, the campus tour and lecture activities were held in various cities including Beijing, Guangzhou, Shanghai, Xi'an, Lanzhou, Harbin, Tianjin and Taipei, covering 33 high schools in 22 cities across the Straits and sharing the enthusiasm for charity with over 6,000 students. A total of 1,679 proposals on charity were sourced across the Straits involving environmental protection, education, care for the underprivileged groups and cultural protection, etc. The top 10 final contestants will practically operate a charitable mission for one month with the awarded funds for practical projects provided by Master Kong. Then they will meet in Beijing in September to compete for the annual title of "Charitable Person for the Year".

On August 3, Ludian of Yunnan province occurred class 6.5 earthquake, the disaster hit and touches the heart of every Chinese. When we were first informed the earthquake, Tingyi Holding established a disaster response team which operated by our southwest regional company immediately and developed a systemic rescue plan. On the next day, we sent numbers of Master Kong noodles, Master Kong mineralized water and Pepsi Aquafina Pure Water from our Kunming factory to the affected areas.

After the quake, large area of Huo De Hong Town were cut off power, water pollution and shortage of relief supplies, and post-disaster environment was abominable. Master Kong emergency vehicle arrived on time, igniting liquefied gas tank, opening gasoline generators, boiling hot water to prepare instant noodles, solved the pressing need for the affected victims. To serve victims and volunteers by making 960 bowls of steaming instant noodles on the first day as well as send Master Kong people's feelings towards love and wishes in life. Master Kong emergency vehicles are still travelling around the disaster areas and carry on the relief efforts.

AWARDS AND HONOURS

1. Master Kong received the Best Brands Award in 2014 from the German Brands Association: On 5 February 2014, the 11th award assessment event was held at Munich by the German Brands Association. An international award was established for the first time this year and China was affirmed to be the main guest of honour, Master Kong of China was awarded the Best Brands Award 2014 by the German Brands Association.
2. Master Kong was ranked at the top of the list for the Top 50 Coverage of Fast Moving Consumer Goods (FMCG) Brands in China in 2014: The list of the Top 50 Coverage of FMCG Brands in China was under the Coverage Ranking List of Global Brands in 2014 released by the research institution Kantar Worldpanel, the list included brands of food, beverage, health and beauty, and family care products. Master Kong, Yili and Mengniu were the top 3 brands on the list.
3. Master Kong was once again the winner of the Most Popular Consumer Brand in China: Kaidu Consumer Index released the Coverage Ranking List of Fast Moving Brands in China in 2013, the ranking results disclosed that Chinese brands continued to be leaders and the trend of domestic brands was outpacing international brands. The famous brand, Master Kong, was once again the winner and was entitled the Most Popular Consumer Brand in China. The data revealed that Master Kong was the brand with the largest consumer size in the fast moving consumer product market in China, over 91% of urban family households purchased products of this brand in 2013. While at the same time, Master Kong was also the most frequently purchased brand, the average number of times of purchases made by consumers was over 9 times last year. According to statistical data, consumers in China chose to purchase products of the Master Kong brand for over 1.3 billion times, the consumer reach points (CRP) increased by 5.6% when compared with the previous year.
4. Ministry of Industry and Information Technology released the C-BPI Ranking List 2014, in which the Master Kong instant noodles, tea drinks and bottled water won the Top Brand titles for four consecutive years.
5. Master Kong won both the awards of the “Best Product Brand” and the “Best Food & Beverage Brand” in the Awards for Most Influential Brands in China: On 20 March 2014, the Most Influential Brands in China were unveiled by the China Brands Ranking List, Master Kong was the final winner of the “Best Product Brand” Award and also won the honour of the “Best Food & Beverage Brand”.

PROSPECTS

In the first half year of 2014, despite the market sentiment of a conservative trend for consumer spending, we still recorded sound and steady growth in our performance results, and the leading positions of various products in the market were further strengthened. Looking ahead in the second half year of 2014, challenges still exist in the operating environment, we will continue to operate along our established operating directions on the basis of our strong and solid foundation, and make appropriate and fine adjustments in response to market changes, to achieve sound and stable growth in the performance results of the Group.

For the food business, we will focus on upgrading core products on instant noodles. We will develop more new products and continue to lead the industry trend and promotes benign competition in the market. Meanwhile, instant food business will first focus on the cakes and crackers operation and develop new business gradually as well as seek appropriate business opportunities. We will develop more new products. We will enhance the development of instant food business through merge and acquisition, product and branding innovations, deepen market penetration, development of new marketing channels and business opportunities to provide more varieties, safer and more delicious products for consumers. For the beverage business, we will continue to consolidate the market position of major products, strengthen research, development capabilities and launch new products timely. The resources of Master Kong and PepsiCo China will be further consolidated and capture development opportunities actively through the integrated synergy of the alliance between Master Kong and PepsiCo. In the future, we will continue to refine our operations through integration between production base and supply chain, strictly control production and selling costs, product quality and productivity, and increase the consolidated synergy in a stable team.

On 14 May, the acquisition of Wealth City Investment Limited has been approved by the independent shareholders of the Company at the extraordinary general meeting. The reasons for the acquisition is to further the development of the Group on the basis of its current foundation, the Group intends to establish an operation center in Shanghai to enhance the image of the Group, improve efficiency and to facilitate international contacts. These properties of the group's operation center amounting of US\$534,635,000 have been recognized in the property, plant and equipment at the date of acquisition.

CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the “Old 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”) was amended and revised as the Corporate Governance Code (the “CG Code”) which became effective on 1 April 2012. We have, throughout the period ended 30 June 2014, complied with the code provisions of the Old Code and the CG Code as and when they were/are applicable and in force, except for the deviations from code provisions A.2.1 and A.4.1. The reasons for these deviations are explained below.

Code provision A.2.1

Code provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same person. Mr. Wei Ing-Chou currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. However, at present, the Chairman of each of the Company’s subsidiaries is responsible for the operation of the respective subsidiary. Due to the need of business development considerations, Mr. Wei Ing-Chou is required to act as the Chairman of certain subsidiaries. Except for these subsidiaries, the Chief Executive Officer of the Group has not act as the Chairman of other subsidiaries. In practice, there is effective separation of the roles between the Chairman of the Company’s subsidiaries and the Chief Executive Officer of the Group. Mr. Wei Ing-Chou has been in charge of the overall management of the Company since the listing of the Company in 1996. Although Mr. Wei Ing-Chou does not need to retire by rotation and assumes the role of both the Chairman and the Chief Executive Officer of the Company, the Company considers that such arrangement at this stage helps to promote the efficient formulation and implementation of the Company’s strategies which will enable the Group to further develop its businesses effectively. With the above balancing mechanism of Chairman of subsidiaries and the supervision of the Board and the Independent Non-executive Directors, the interests of the shareholders are adequately and fairly represented. The Company has been gradually adopted appropriate measures to ensure that the Company’s corporate governance practices comply with the Code. With effect from 1 January 2013, food and beverage business units have been established, executive officer of the two business units have been appointed to monitor and be responsible for the strategic planning and operations of their respective business units.

Code provision A.4.1

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. Our Company deviates from this provision because the non-executive Directors and independent non-executive Directors of our Company do not currently have specific terms of appointment. However, the articles of association of our Company provide that all the Directors are subject to retirement by rotation at least once every three years and at each annual general meeting, one-third of the Directors for the time being or, if the number is not a multiple of three, then, the number nearest to but not less than one-third, shall retire from office by rotation and offer themselves for re-election. As such, the Board considers that sufficient measures have been put in place to ensure our Company’s corporate governance practice in this aspect provides sufficient protection for the interests of shareholders to a standard commensurate with that of the 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 Qualified Accountant 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 this period.

Remuneration and Nomination Committee

This Committee now comprises three Independent Non-executive Directors, Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada. Mr. Hsu Shin-Chun is the chairman of the Committee. The Committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The Committee also reviews the structure, size and composition of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors.

Internal Control

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

Compliance with the Model Code

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE OPTION SCHEME

At the extraordinary general meeting held on 20 March 2008, the shareholders approved the adoption of the Share Option Scheme. Detail arrangement for the share option scheme shown as below:

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

For the period of six months ended 30 June 2014, 3,308,000 options had been exercised under the Share Option Scheme. Weighted average exercise price was HK\$9.28 and the weighted average market closing price before the date of exercise was HK\$21.24.

BOARD OF DIRECTORS

As at the date of this report, Mr. Wei Ing-Chou, Mr. Junichiro Ida, Mr. Ryo Yoshizawa, Mr. Wei Ying-Chiao, Mr. Wu Chung-Yi and Mr. Teruo Nagano 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

Tianjin, PRC, 18 August 2014

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

* For identification purposes only