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康師傅控股

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

康師傅控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0322)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

RMB'000	2021	2020		Change
• Revenue	74,082,292	67,617,835	↑	9.56%
• Gross margin (%)	30.39%	33.17%	↓	2.78 ppt
• Gross profit	22,510,425	22,432,155	↑	0.35%
• EBITDA	8,390,312	9,360,966	↓	10.37%
• Profit for the year	4,383,667	4,573,684	↓	4.15%
• Profit attributable to owners of the Company	3,802,482	4,062,263	↓	6.39%
• Earnings per share (RMB cents)				
Basic	67.57	72.23	↓	4.66 cents
Diluted	67.51	72.15	↓	4.64 cents

At 31 December 2021, total cash at bank and on hand was RMB21,961.138 million, with a decrease of RMB1,905.015 million when compared to 31 December 2020. Gearing ratio was -44.48%.

CHAIRMAN'S STATEMENT

With an aim to build Master Kong into a comprehensive “China National Brand” of food and beverage, we have kept on taking “Catering to Consumer Needs” as the first priority and placed high emphasis on long-term development while remaining true to our original aspiration of “Promoting Chinese Food & Beverage Culture”.

Facing heightened market volatility in 2021, our Group has pressed ahead by continually executing the business strategy of “Consolidate, Reform and Develop”. Remarkable performance has been made as a result of our concentrated efforts in optimizing product-mix, promoting digital transformation, offering better consumer services, and carrying out win-win cooperation with partners.

Food safety and sustainable development remain our top priorities. We have both supervised the quality of food ingredients and kept full track of the production process. Products featuring low fat, low sugar and low salt have been launched as our attempt to help build a “Healthy China”. In addition, we have been devoting ourselves to the undertakings of public welfare, disaster relief and epidemic containment, playing a part in addressing issues relating to agriculture, rural areas and the well-being of farmers, and backing up the cause of sports. In response to China’s “dual carbon” goal (reaching peak carbon emissions by 2030 and achieving carbon neutrality by 2060), Master Kong has completed carbon footprint verification, and vigorously promoted energy conservation and emission reduction. Noticeably, we have become a participant of the United Nations Global Compact.

Looking ahead in 2022 amid enormous market uncertainties, we the Board will continue to provide effective oversight of the Management, and prompt them to lead Master Kong to meet challenges more actively and drive long-term values for customers. More importantly, I would like to take this opportunity to express my heartfelt gratitude to all fellow members of the Board, the management team, employees and customers for their support over the years.

Wei Hong-Ming

Chairman

Hong Kong, China

28 March, 2022

RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021 together with the comparative figures for the corresponding period in 2020 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

		2021	2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	74,082,292	67,617,835
Cost of sales		<u>(51,571,867)</u>	<u>(45,185,680)</u>
Gross profit		22,510,425	22,432,155
Other revenue	5	783,501	667,617
Other net income	6	1,024,195	567,894
Distribution costs		(15,708,282)	(14,150,828)
Administrative expenses		(2,469,530)	(2,290,999)
Other operating expenses		(229,996)	(475,724)
Finance costs	7	(223,494)	(348,639)
Share of results of an associate and joint ventures		<u>121,824</u>	<u>130,436</u>
Profit before taxation	7	5,808,643	6,531,912
Taxation	8	<u>(1,424,976)</u>	<u>(1,958,228)</u>
Profit for the year		<u>4,383,667</u>	<u>4,573,684</u>
Profit attributable to:			
Owners of the Company		3,802,482	4,062,263
Non-controlling interests		<u>581,185</u>	<u>511,421</u>
Profit for the year		<u>4,383,667</u>	<u>4,573,684</u>
Earnings per share	10	<i>RMB</i>	<i>RMB</i>
Basic		<u>67.57 cents</u>	<u>72.23 cents</u>
Diluted		<u>67.51 cents</u>	<u>72.15 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	4,383,667	4,573,684
Other comprehensive (loss) income:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	(5,652)	(367)
Fair value changes in equity instruments designated as at fair value through other comprehensive income	—	32,456
	(5,652)	32,089
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on consolidation	292,959	784,122
	287,307	816,211
Other comprehensive income for the year	287,307	816,211
Total comprehensive income for the year	4,670,974	5,389,895
Total comprehensive income attributable to:		
Owners of the Company	4,070,213	4,847,840
Non-controlling interests	600,761	542,055
	4,670,974	5,389,895

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Note</i>	2021	2020
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Investment properties		1,807,100	1,771,700
Property, plant and equipment		21,510,028	21,934,571
Right-of-use assets		3,691,741	3,804,456
Intangible assets		155,970	165,668
Goodwill		97,910	97,910
Interest in an associate		94,847	94,802
Interest in joint ventures		625,163	627,031
Financial assets at fair value through profit or loss		626,901	1,329,479
Equity instruments designated as at fair value through other comprehensive income		137,317	140,444
Deferred tax assets		518,605	429,027
Long-term time deposits		5,376,900	2,435,000
		34,642,482	32,830,088
Current assets			
Inventories		4,671,477	3,347,676
Trade receivables	11	2,043,744	1,660,389
Tax recoverable		14,729	21,194
Prepayments and other receivables		2,352,553	2,240,898
Current portion of long-term time deposits		725,000	—
Pledged bank deposits		20,746	37,832
Bank balances and cash		15,838,492	21,393,321
		25,666,741	28,701,310
Total assets		60,309,223	61,531,398

	<i>Note</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		235,633	235,422
Share premium		786,965	730,075
Reserves		17,637,378	20,147,227
		<hr/>	<hr/>
Total capital and reserves attributable to owners of the Company		18,659,976	21,112,724
Non-controlling interests		3,748,524	3,626,659
		<hr/>	<hr/>
Total equity		22,408,500	24,739,383
		<hr/>	<hr/>
Non-current liabilities			
Long-term interest-bearing borrowings		6,350,369	7,805,122
Lease liabilities		195,519	215,609
Employee benefit obligations		79,920	122,166
Deferred tax liabilities		1,449,910	1,577,110
		<hr/>	<hr/>
		8,075,718	9,720,007
		<hr/>	<hr/>
Current liabilities			
Financial liabilities at fair value through profit or loss		9,959	9,959
Trade payables	12	9,046,518	8,146,974
Other payables and deposits received		9,593,331	10,079,278
Current portion of interest-bearing borrowings		7,311,444	5,891,412
Other current liabilities		40,000	40,000
Lease liabilities		159,520	101,191
Advance payments from customers		3,342,990	2,360,954
Taxation		321,243	442,240
		<hr/>	<hr/>
		29,825,005	27,072,008
		<hr/>	<hr/>
Total liabilities		37,900,723	36,792,015
		<hr/>	<hr/>
Total equity and liabilities		60,309,223	61,531,398
		<hr/>	<hr/>
Net current (liabilities) assets		(4,158,264)	1,629,302
		<hr/>	<hr/>
Total assets less current liabilities		30,484,218	34,459,390
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Notes:

1. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2020 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 3.

2. BASIS OF CONSOLIDATION

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

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

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

3. ADOPTION OF NEW/REVISED HKFRSs

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

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16: Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “Reform”). The amendments complement those issued in November 2019 and relate to:

- changes to contractual cash flows – a company will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- hedge accounting – a company will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and
- disclosures – a company will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

Business segment analysis

	2021				
	Instant noodles	Beverages	Others	Inter- segment elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue					
Revenue from contracts with customers	28,432,040	44,799,982	766,136	—	73,998,158
Timing of revenue recognition:					
Recognised at a point in time	<u>28,432,040</u>	<u>44,799,982</u>	<u>766,136</u>	<u>—</u>	<u>73,998,158</u>
Revenue from other sources:					
Rental income from investment properties	—	—	84,134	—	84,134
Inter-segment revenue	<u>15,606</u>	<u>1,954</u>	<u>932,003</u>	<u>(949,563)</u>	<u>—</u>
Segment revenue	<u>28,447,646</u>	<u>44,801,936</u>	<u>1,782,273</u>	<u>(949,563)</u>	<u>74,082,292</u>
Segment result after finance costs	2,626,994	3,052,225	35,276	(5,847)	5,708,648
Share of results of an associate and joint ventures	428	132,974	(11,578)	—	121,824
Unallocated expenses, net	—	—	(21,829)	—	(21,829)
Profit (loss) before taxation	2,627,422	3,185,199	1,869	(5,847)	5,808,643
Taxation	<u>(623,087)</u>	<u>(766,547)</u>	<u>(35,342)</u>	<u>—</u>	<u>(1,424,976)</u>
Profit (loss) for the year	<u>2,004,335</u>	<u>2,418,652</u>	<u>(33,473)</u>	<u>(5,847)</u>	<u>4,383,667</u>

2020

	Instant noodles	Beverages	Others	Inter- segment elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue					
Revenue from contracts with customers	29,501,133	37,265,751	769,429	—	67,536,313
Timing of revenue recognition:					
Recognised at a point in time	29,501,133	37,265,751	710,983	—	67,477,867
Recognised over time	—	—	58,446	—	58,446
	<u>29,501,133</u>	<u>37,265,751</u>	<u>769,429</u>	<u>—</u>	<u>67,536,313</u>
Revenue from other sources:					
Rental income from investment properties	—	—	81,522	—	81,522
Inter-segment revenue	8,777	14,172	1,207,928	(1,230,877)	—
Segment revenue	<u>29,509,910</u>	<u>37,279,923</u>	<u>2,058,879</u>	<u>(1,230,877)</u>	<u>67,617,835</u>
Segment result after finance costs	3,980,673	2,654,056	(184,740)	(6,970)	6,443,019
Share of results of an associate and joint ventures	(507)	141,383	(10,440)	—	130,436
Unallocated income, net	—	—	(41,543)	—	(41,543)
Profit (loss) before taxation	3,980,166	2,795,439	(236,723)	(6,970)	6,531,912
Taxation	(1,246,935)	(689,976)	(21,317)	—	(1,958,228)
Profit (loss) for the year	<u>2,733,231</u>	<u>2,105,463</u>	<u>(258,040)</u>	<u>(6,970)</u>	<u>4,573,684</u>

Segment assets and liabilities

	2021				
	Instant noodles	Beverages	Others	Inter- segment elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets					
Segment assets	19,917,991	35,239,108	5,020,610	(1,278,657)	58,899,052
Interest in an associate	—	94,847	—	—	94,847
Interest in joint ventures	803	619,571	4,789	—	625,163
Unallocated assets					690,161
Total assets					<u>60,309,223</u>
Liabilities					
Segment liabilities	9,018,715	20,305,649	9,531,235	(1,034,796)	37,820,803
Unallocated liabilities					79,920
Total liabilities					<u>37,900,723</u>
Other information					
Depreciation and amortisation	<u>831,358</u>	<u>2,230,326</u>	<u>193,056</u>	<u>(113,064)</u>	<u>3,141,676</u>
Capital expenditures	<u>521,388</u>	<u>2,448,225</u>	<u>28,049</u>	<u>—</u>	<u>2,997,662</u>
Interest income	<u>393,426</u>	<u>426,996</u>	<u>16,820</u>	<u>(53,741)</u>	<u>783,501</u>
Interest expenses	<u>20,106</u>	<u>89,962</u>	<u>177,187</u>	<u>(63,761)</u>	<u>223,494</u>
Gain on disposal of subsidiaries	<u>160,104</u>	<u>48,646</u>	<u>—</u>	<u>—</u>	<u>208,750</u>

2020

	Instant noodles	Beverages	Others	Inter- segment elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets					
Segment assets	25,182,638	31,152,963	5,007,269	(2,003,228)	59,339,642
Interest in an associate	—	94,802	—	—	94,802
Interest in joint ventures	375	598,337	28,319	—	627,031
Unallocated assets					1,469,923
Total assets					61,531,398
Liabilities					
Segment liabilities	9,073,005	16,942,691	12,413,035	(1,758,882)	36,669,849
Unallocated liabilities					122,166
Total liabilities					36,792,015
Other information					
Depreciation and amortisation	814,164	2,201,882	222,308	(90,322)	3,148,032
Capital expenditures	502,934	1,725,297	38,029	—	2,266,260
Interest income	433,587	284,319	17,015	(67,304)	667,617
Interest expenses	20,189	93,293	305,924	(70,767)	348,639
Impairment loss of property, plant and equipment	16,514	49,677	—	—	66,191
Gain on disposal of subsidiaries	—	117,941	128	—	118,069

5. OTHER REVENUE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income	<u>783,501</u>	<u>667,617</u>

6. OTHER NET INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Income (Expenses):		
Gain on sales of scrapped materials	207,189	171,762
Change in fair value of financial assets at fair value through profit or loss, net	(21,239)	(40,905)
Change in fair value of financial liabilities at fair value through profit or loss, net	—	(285)
Dividend income from financial assets at fair value through profit or loss	2,522	135
Gain on disposal of subsidiaries	208,750	118,069
Government grants	356,718	160,431
Loss on disposal of property, plant and equipment and right-of-use assets	(29,527)	(77,332)
Exchange gain, net	36,031	29,159
Others	<u>263,751</u>	<u>206,860</u>
	<u>1,024,195</u>	<u>567,894</u>

7. PROFIT BEFORE TAXATION

This is stated after charging:

	2021	2020
	RMB'000	RMB'000
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	204,049	315,096
Interest on bank and other borrowings wholly repayable over five years	2,867	15,144
Finance costs on lease liabilities	16,578	18,399
	223,494	348,639
Other items		
Depreciation:		
Property, plant and equipment	2,827,355	2,835,810
Right-of-use assets	306,808	305,819
Amortisation of intangible assets	7,513	6,403
Impairment loss of property, plant and equipment (included in other operating expenses)	—	66,191

8. TAXATION

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax		
PRC Enterprise income tax		
Current year	1,294,663	1,460,775
Under provision in prior year	10,518	26,443
	<u>1,305,181</u>	<u>1,487,218</u>
Hong Kong profits tax		
Current year	<u>2,293</u>	206
Deferred taxation		
Origination and reversal of temporary differences, net	(116,825)	(19,387)
Effect of withholding tax on the net distributable earnings of the Group's PRC subsidiaries	<u>234,327</u>	<u>490,191</u>
	<u>117,502</u>	470,804
Total tax charge for the year	<u><u>1,424,976</u></u>	<u><u>1,958,228</u></u>

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

For the year ended 31 December 2021, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax regime. Under the two-tiered profits tax regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25% (2020: 8.25%), and profits above HK\$2 million will be taxed at 16.5% (2020: 16.5%).

The statutory PRC Enterprise income tax for the PRC subsidiaries is 25% (2020: 25%). According to the Tax Relief Notice (Cai Shui [2020] no. 23) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Taxation Administration and National Development and Reform Commission, foreign investment enterprises located in the Western Region of the PRC (the "Western Region") with over 60% (2020: 70%) of principal revenue generated from the encouraged business activities are continuously entitled to a preferential income tax rate of 15% from 1 January 2021 to 31 December 2030. Accordingly, certain subsidiaries located in the Western Region are entitled to an income tax rate of 15% (2020: 15%).

9. DIVIDENDS

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Special interim dividend approved and paid of US6.88 cents (2020: nil) per ordinary share	2,500,000	—
Final dividend proposed after the end of the reporting period of US5.30 cents (2020: US5.54 cents) per ordinary share	1,901,241	2,031,132
Special final dividend proposed after the end of the reporting period of US5.30 cents (2020: US5.54 cents) per ordinary share	1,901,241	2,031,131
	<u>6,302,482</u>	<u>4,062,263</u>

At meeting held on 28 March 2022, the directors recommended the payment of a special final dividend and a final dividend of US5.30 cents and US5.30 cents per ordinary share respectively. The proposed special final dividend and final dividend have not been recognised as dividend payables in the consolidated statement of financial position.

10. EARNINGS PER SHARE

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

(a) Basic earnings per share

	2021	2020
Profit attributable to ordinary equity shareholders (RMB'000)	<u>3,802,482</u>	<u>4,062,263</u>
Weighted average number of ordinary shares ('000)	<u>5,627,083</u>	<u>5,624,061</u>
Basic earnings per share (RMB cents)	<u>67.57</u>	<u>72.23</u>

(b) Diluted earnings per share

	2021	2020
Profit attributable to ordinary equity shareholders (RMB'000)	<u>3,802,482</u>	<u>4,062,263</u>
<i>Weighted average number of ordinary shares (diluted) ('000)</i>		
Weighted average number of ordinary shares	5,627,083	5,624,061
Effect of the Company's share option scheme	<u>5,251</u>	<u>6,187</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>5,632,334</u>	<u>5,630,248</u>
Diluted earnings per share (RMB cents)	<u>67.51</u>	<u>72.15</u>

11. TRADE RECEIVABLES

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0 – 90 days	1,920,716	1,579,741
Over 90 days	<u>123,028</u>	<u>80,648</u>
	<u><u>2,043,744</u></u>	<u><u>1,660,389</u></u>

12. TRADE PAYABLES

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0 – 90 days	8,364,033	7,243,120
Over 90 days	<u>682,485</u>	<u>903,854</u>
	<u><u>9,046,518</u></u>	<u><u>8,146,974</u></u>

13. COMMITMENTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Capital expenditure commitments		
<i>Contracted but not provided for:</i>		
Expenditures on property, plant and equipment	<u><u>990,797</u></u>	<u><u>672,014</u></u>

Management Discussion and Analysis

Macro and Industry Environment

In 2021, China registered a growth of 8.1% in GDP, accompanied by an urbanization rate of 64.7% and an enlarged size of the middle class. Despite the rapid development in online channels, the sharp rise in the price of raw materials has posed great challenges to the industry. In a nutshell, the demand in the instant noodles segment has gradually returned to normal levels and the demand in the beverage segment has kept a steady growth trend.

Business Review

Over the past year, the Group, by continually executing the business strategy of “Consolidate, Reform and Develop”, further explored the mass consumer markets, tapped into the high-end markets targeting at the middle class, and laid out the markets in new rural areas. The Group’s total revenue in 2021 reached RMB 74.082 billion, a year-on-year increase of 9.56%. Specifically, revenue from the instant noodles segment declined by 3.60% and the beverage segment increased by 20.18% year on year. The gross profit margin of 2021 dropped to 30.39%, a decrease of 2.78 percentage points compared with that of 2020. The ratio of distribution costs to revenue recorded a slight increase of 0.27 percentage points to 21.20% year on year. EBITDA went down by 10.37% to RMB 8.390 billion year on year. Due to the decrement in gross margin along with the increase in distribution costs, the profit attributable to shareholders of the Company fell by 6.39% to RMB 3.802 billion and basic earnings per share declined by RMB 4.66 cents to RMB 67.57 cents.

Instant noodles Business

As shown in the Nielsen’s data, the sales volume of overall instant noodles market in 2021 fell by 4.0% compared with that of 2020, with a year-on-year decrease of 2.7% in sales value. Yet a steady increasing trend of the two indicators has been kept if taking the figures over the past two years into consideration. Throughout the year, Master Kong held a market share of 45.7% and 48.0% respectively in sales volume and sales value, both ranking first in the market.

In 2021, the Group’s revenue from the instant noodles segment reached RMB 28.448 billion, a year-on-year decrease of 3.60% (up by 12.44% compared with that of 2019), which made up 38.40% of the total revenue. Due to the rising price of raw materials and shift in product-mix, the gross margin of instant noodles dropped to 24.36%, down by 4.94 percentage points year on year. The profit attributable to shareholders of the Company in the instant noodles segment went down by 26.67% to RMB 2.004 billion as a result of the rising price of raw materials and the decline in revenue.

High-priced Noodles

The instant noodles segment continued to promote its core products in the high-priced noodles market, and carried out a marketing strategy focusing on young consumers through multi-sized and multi-flavored products, thus keeping its brand vigorous. At the same time, the segment grasped the market of large-sized products. To be specific, “Roasted Beef Noodles” highlighted communication with young consumers and promoted its brand goodwill by choosing Lay Zhang as its spokesperson and cooperating with the variety show “IN CHINA”. “Hot Beef Noodles” attracted young consumers through IP collaboration with “Game for Peace”. The prevalent “Rattan Pepper Beef Noodles” expanded its fans group through IP collaboration with the domestic animation, “Douro Mainland”, and unfolded a blind box campaign to improve the re-purchase rate. Meanwhile, the newly launched “Tomato Egg Beef Noodles” and “Korean Spicy Beef Noodles” have been well received among the public. “Master Kong BIG Bucket/Package” grasped the market opportunity to meet needs of consumers for large-sized products and achieved sustained growth in sales. For the convenience of consumers, innovative and consumer-friendly water filters have been applied in “Master Kong Dried Noodles”.

Premium Noodles/Super-premium Noodles

In line with the needs of the middle class for upgraded consumption and quality life, the instant noodles segment continued to put premium and super-premium products with various flavors and sizes into market. Committed to the concept of “Proficiency in Every Type of Soups”, “Soup Chef” opened up the market of premium instant noodles and offered noodles with five kinds of high-end flavorful broths, each serving as a best representative of Chinese-style, Japanese-style and Hong-Kong-style cuisines, which led to rapid growth in sales. To improve its brand awareness, the segment collaborated with the variety show “Call Me by Fire” in October 2021 and the spokesperson Nathan Scott Lee. In addition, digital tools were used to push up foretaste promotional activities as well as to attract young students and white-collar workers. With an aim to diversify its sizes and flavors, the super-premium noodles, “Express Chef’s Noodles” newly launched a dry noodles version in addition to its previous bowl noodles and self-heating noodles, and offered noodles with new flavors, namely “Spiced Shredded Chicken with Sesame Sauce Noodles” and “Thai Tom Yum Noodles”. Notably, the “Express Chef’s Noodles” series expanded its popularity in office, household and outdoors occasions, which allows high-profiled consumers to “Enjoy the Express Chef’s Noodles at Anytime and Anywhere”.

Mid-priced Noodles/Snack Noodles

The mid-priced noodles were tailor-made for consumers in township and rural areas valuing cost-effectiveness. “Rattan Pepper Beef Noodles” came out to meet customers’ demand for new flavors, apart from which the large-sized “50% Plus” was also released for those who favor satiety at the best price. The snack noodles “Flavored and Crunchy” series were dedicated to attract students and snack lovers, while newly launched, namely “Rattan Pepper Chicken Chop Noodles” managed to increase its brand awareness through IP cooperation with “Luo Tianyi” and corresponding card collecting activities, accompanied by publicity activities on new media platforms like Bilibili and Weibo.

Beverage Business

Nielsen’s data suggested that the sales volume and sales value of China’s beverage industry¹ in 2021 grew by 8.8% and 10.1% respectively year on year. In terms of sales volume, Master Kong had the largest market share of 43.4% in ready-to-drink (RTD) tea segment (including milk tea), a second largest market share of 18.9% in juice segment, a market share of 6.8% in bottled water segment and a second largest market share of 12.1% in RTD coffee segment.

In 2021, the overall revenue of the Group from the beverage business reached RMB 44.802 billion, a year-on-year increase of 20.18%, which accounted for 60.48% of the Group’s total revenue. During the period, the gross margin of the beverage business dropped by 2.11 percentage points to 33.83% because of the rising price of raw materials and shift in product-mix. Thanks to the increase of revenue and the decrease of sales to distribution cost ratio, the profit attributable to shareholders of the Company for beverage business reached RMB 1.837 billion, up by 15.27% year on year.

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

RTD Tea

The RTD tea segment gained popularity in the mass market with its core products and launched products of various flavors and sizes to fit diverse needs of younger consumers under different consumption occasions, thus ensuring Master Kong's leading position in the RTD tea market. The "Master Kong Ice Tea" series, characterized by multiple flavors, became synonymous with youth and fashion, and the tropical flavor in particular, caught on among the ACGN lovers. To meet consumer needs for taste and health, the Group released the "Sugar-free Ice Tea", which was all the rage and yielded high sales upon its debut. The "Jasmine" series went down very well with the young consumers through a microfilm "Jasmine Only for You", as well as IP cooperation with Shanghai Disneyland, and other online and offline promotional activities. Via selecting the Millennials' favorite stars as the spokespersons and advancing cooperation with hot IPs, the "Green Tea" series continued to enhance its brand image of "Fresh, Vigorous and Rich in Tea Polyphenol" and stimulated substantial sales growth. The "Master Kong Peach Oolong Tea" series established an aromatic and palatable brand image and fittingly fed the thirst for fruit tea of the new generation of urban consumers. In addition, the Group innovatively launched its fifth largest tea brand of the "Master Kong Plum Green Tea" series, which blended the green tea with green plums.

Carbonated Soft Drinks

Pepsi's bottled carbonated soft drink segment was devoted to offering products with new flavors and categories. Themed on "Bring Happiness Home", Pepsi joined hands with Mirinda and 7UP to launch the "Auspicious Beast Series Can" and other festival-related products to match the consumption occasions during CNY. The kicking off of "Pepsi White Peach and Oolong Flavor" and "Pepsi Osmanthus Flavor" made the Chinese Style a nationwide hit. Moreover, the segment continued to diversify its "Pepsi No Sugar" series by upgrading its packaging and flavors. More precisely, the debut of "Pepsi Lime Flavor" resulted in ever-increasing sales; and thanks to its release, together with Pepsi regular and raspberry flavors, the segment occupied a bigger share in the sugar-free market. The "Passion Fruit & Pineapple Mix Flavor" remained well received among the public. The "Passion Fruit & Pineapple Mix Flavor" of Mirinda remained well received among the public. The launch of "Mirinda Juice Bubble Drink" pushed Mirinda to seize the mid-to-high-end market. All the packaging of the "7UP" series were upgraded and constant efforts were placed on the promotion of "7UP Moji7o Grapefruit Flavor" via IP cooperation. The "Bubly Sparkling Water" rolled out in 2021 as a major star product of the sparkling water series, which addressed consumers' upgraded needs for no sugar, no calorie, and no fat. To spread a positive brand philosophy, the segment geared its efforts towards promoting the visual symbol of smile on the "Bubly Sparkling Water".

Juices

The segment capitalized on the multi-size and multi-flavor features of juice products and made it to develop juices of Chinese and Western styles yet underlying the culture of Chinese Style Drinks with Meal. The “Rock Candy Pear” series remained to be characterized by a therapeutic brand image of constant moisture provider and its consumption occasions, mainly for smoothing and moistening the throat, were also elaborated. “The Traditional Drink Sweet-Sour Plum Juice” integrated modern juice-making process into Chinese classic drink, whose effects of quenching thirst and cleansing palate were widely promoted and magnified. The Western-style juice “Master Kong Juices” series centered on tasty fruits to build an optimistic and joyful brand image. “NutriLight Fruits”, based on its main flavor of honey and grapefruit, went with other flavored products including “Mango Flavor Drink” and “Peach Flavor Drink” to draw the attention of consumer groups. The “Tropicana” series focused on mixed fruit flavors, and “Tropicana 100%” series actively seized the market of 100% juice (ambient) by means of promotion in mass-market retailers and convenience stores.

Bottled Water

The bottled water segment continued to satisfy different consumer needs with products of various sizes and prices. In addition, it placed a high emphasis on cultivating consumers’ indoor drinking habits, preferentially offering large and small packages, and stimulating more household consumption demands. The economical product “Master Kong Bottled Drinking Water”, with the world-renowned volleyball player and coach Lang Ping as its spokesperson, conveyed a brand image of “The Best Choice for Reassurance and Health” and thus establishing itself as a national brand featuring affordable prices. In terms of the mid-priced ones, the “Drink Boiled Water” stuck to the positioning of mild, safe and sweet water, and adhered to a competitive strategy of boiled water differentiation. Targeting at young consumers, the segment offered “Drink Boiled Water” with multiple sizes to spur household consumption needs. The “Aquafina” series, with an aim to let consumers “Enjoy the Purity”, enhanced its popularity through both online and offline marketing activities. The segment rolled out the soda water series in July 2021, which satisfied consumer needs with a variety of flavors and sizes. The high-end “Han Yang Quan” was relaunched with an upgraded packaging and managed to strengthen its positioning of “Being Natural, Precious, and Nutritious”, thus catering to the growing needs of the middle class for higher-quality drinking water.

Coffee Drinks/Functional Drinks/Probiotics

The “Bernachon Coffee” series focused on the markets typified by the Yangtze River Delta, the Pearl River Delta, Beijing and Sichuan. Starbucks ambient RTD coffee launched new flavor and restaged packaging for bottled Frappuccino. And mainly driven by the newly launched “Starbucks Select”, overall sales registered encouraging results. Apart from fitting various sports occasions, the functional drink “Gatorade” series enriched its categories by launching the sugar-free vitamin electrolyte beverage “Gatorade No Sugar”, as a proactive move to tap into the health drinks market. The “Wei Chuan Ambient Probiotics Drink” series gained a strong foothold in the Yangtze River Delta. Besides, the lactobacillus beverage “Xiao Lao Duo Duo” was repackaged to strengthen its fresh, fat-free and healthy product image.

Financing

The Group, with “Cash Is King” as its long-held overall strategy, has been characterized by proficient control of capital expenditures and effective promotion of asset-light and asset activation, which is expected to generate stable net cash inflows. In 2021, the net cash inflow from the Group’s operating activities amounted to RMB 5.418 billion, and the net cash outflow from investing activities reached RMB 4.044 billion. In the meantime, the Group bolstered asset-light and asset activation and boasted a net cash inflow of RMB 474 million.

The Group continued to maintain a sound financial structure through effective control on the balances of account receivables, account payables, as well as inventories, and featured abundant cash in hand. As at 31 December 2021, the Group’s total cash at bank and on hand arrived at RMB 21.961 billion, a decrease of RMB 1.905 billion compared with that of 31 December 2020. The Group’s interest-bearing borrowings reached RMB 13.662 billion, a reduction of RMB 35 million from 31 December 2020 to 31 December 2021. Net cash totaled RMB 8.299 billion, declining by RMB 1.870 billion compared with that of 31 December 2020. The Group’s proportion of the total borrowings denominated in foreign currencies and Renminbi, at the end of 2021, reported a change from 89% against 11% at the end of 2020 to 96% against 4%. And the proportion between the Group’s long-term borrowings and short-term borrowings reached 46% against 54%, compared with 57% against 43% at the end of 2020.

As at 31 December 2021, the Group’s total assets and total liabilities stood at RMB 60.309 billion and RMB 37.901 billion respectively, down by RMB 1.222 billion and up by RMB 1.109 billion respectively from 31 December 2020. Meanwhile, the debt ratio of the Group increased by 3.05 percentage points to 62.84% compared with that of 31 December 2020. The gearing ratio[®] went up from -48.17% as of 31 December 2020 to -44.48% as of 31 December 2021.

During 2021, the exchange rate of US dollars against Renminbi fell by 2.23%. The fluctuation in exchange rates resulted in the generation of realized and unrealized exchange gain, amounting to RMB 36.031 million in the Group’s income statement.

Financial Ratio

	As at 31 December 2021	As at 31 December 2020
Finished goods turnover	18.35 days	17.73 days
Account receivables turnover	9.13 days	8.99 days
Current ratio	0.86 Times	1.06 Times
Debt ratio (Total liabilities to total assets)	62.84%	59.79%
Gearing ratio (Net debt to equity attributable to owners of the Company) [@]	-44.48%	-48.17%

[@] As of 31 December 2021, the Group takes long-term time deposits into consideration when calculating gearing ratio because management believes that this calculation basis reflects the capital structure of the Group more accurately. As a result of the above changes, the comparative figures presented have been restated to conform to current year's presentation.

Human Resources

The Group had 62,107 employees as of 31 December, 2021.

In 2021, the Group continued to promote organizational reform based on the underlying principle of “All for Developing Business”, established an efficient and integrated human resources system, and provided sustainable talents and organizational capabilities. The Management Training Center has been established to build structured training method based on the competency models of employees at all levels. In addition, the Group has carried out digital transformation to empower the management digitally and systematically. By doing so, Master Kong managed to set up a scientific mechanism for talent selection, cultivation and development.

Moreover, the Group, in order to explore a model that can “Promote Integration of Industry and Education and Cultivate Talents through Cooperation between Schools and Enterprises”, has partnered with 35 higher education institutions and 78 vocational schools across China. Facing uncertain epidemic situations, Master Kong resorted to both online and offline channels for talent introduction and recruited graduates through various approaches, including various campus campaigns, job fairs and cross-regional career talks. In terms of partnership with the vocational schools, the Group has set up “Ordered Class of Master Kong” to help further the study on a long-term talent training mode based on college-enterprise cooperation.

Master Kong has been dedicated to building Industry-University-Research platforms with international influence, mainly through all-round strategic cooperation with top universities at home and abroad. 2021 marked the inclusion of a new strategic partner, Tsinghua University, with whom the Group has engaged in numerous talent development projects. Besides, the Group has deepened cooperation with Peking University in multiple fields, such as in medical and agricultural fields, new structural economics, and management. Furthermore, the Group has formulated new long-term cooperation projects with Waseda University and finalized the cooperation project on big data with the Wharton School and JD.

Corporate Social Responsibility

With the mission of “Promote Chinese Food & Beverage Culture” and the vision of “Be a Respected Enterprise”, Master Kong adheres to the sustainable development concept of “Keep Our Nature Green”, and makes use of external resources through strategic collaborations. Dedicated to the principle of “Life + Delicacy”, it proactively assumes its corporate social responsibilities. In 2021, in line with China’s “New Development Philosophy” and the “14th Five-Year Plan”, Master Kong made great efforts in food safety, nutrition and health, sustainable development and has been widely recognized for its great contribution to the whole society.

The Group has always taken food safety as the foundation and held a zero-tolerance attitude to safety risks, as well as strictly controlled product quality. During 2021, Master Kong increased its investment in food safety and geared its efforts towards improving food safety management and digitalization, as well as the upstream and downstream traceability for products. Furthermore, the Group participated in the formulation of a number of standards led by China National Food Industry Association, China Beverage Industry Association, State Administration for Market Regulation and China National Center for Food Safety Risk Assessment, and continued to carry out industrialization research with universities such as Shanghai Jiao Tong University on food safety and product application and development, as well as to jointly hold the seminar titled “Allergen Control of Food Companies” with Shanghai JS Life Sciences Institute and other institutes. In cooperation with Shanghai Society of Food Science, National Institute for Nutrition and Health Chinese Center for Disease Control and Prevention, Jiangnan University, Nankai University and other institutions on food safety, the Group played its role to strengthen food safety management in the society. Besides, the Group attached great importance to the research and development of nutritional products and the optimization of product formula, and has been committed to promoting the development of nutritional and healthy products through technological innovations. Various publicity activities, including food safety publicity month and food safety science popularization program were organized for building “Healthy China”.

The Group proactively lived up to the concept of green development. In 2021, in response to China’s “Carbon Peaking and Carbon Neutrality” goal, the Group took the lead in implementing Carbon Inventory Project stretching the upstream and downstream of the value chain, so as to fully grasp the carbon footprint of its own products and services, and shed some light on its follow-up carbon emission reduction efforts. Moreover, the Group set four environmental development targets containing energy conservation, water saving, emission reduction and carbon reduction, and continuously promoted various energy saving and emission reduction projects. To be specific, the Group fulfilled its environmental responsibility and practiced green and low-carbon operation by implementing targeted projects, which included the chilled water recycling project and the frying thermal energy recycling project in the instant noodles business, and the plastic reduction and waste reduction project in the beverage business.

As a national brand honored by the Xinhua News Agency, Master Kong dedicated itself to rewarding the society by providing relief supplies, offering greater support to the cause of sports and promoting community-based public welfare. The Group provided timely disaster relief and material assistance for those affected by natural disasters and COVID-19 in Henan, Zhejiang, Sichuan and other regions. Meanwhile, the Group continued to support China’s sports industry by means of sponsorship in a number of sports events concerning badminton, basketball and cycling. Notably, Master Kong made remarkable contribution to China’s winter sports as an instant and nutritional food provider in partnership with Winter Sports Center of the General Administration of Sport of China, and offered Chinese winter sports athletes customized convenience food known as “Champion Canteen”. In addition, the Group also paid back to the society by offering a helping hand to those at the front line of cities, including medical staff, sanitation workers and traffic police officers via organizing visiting activities in hospitals and communities.

The Group has been highly recognized by the society for its efforts in sustainable development and ESG and has become a participant in the United Nations Global Compact. Benefiting from its outstanding practices in the PET sustainable development project, the Group has won the “Award for Best Society(s) Case”. Last November, representatives of the Group attended the roundtable forum on “COP26 Green and Low Carbon Economy Transformation” of China International Import Expo and shared the latest achievements of Master Kong in leading the transformation of green and low carbon in upstream and downstream industry chain. In December, Master Kong was awarded the ESG Excellence Award jointly presented by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University. What’s more, Master Kong was granted the prize of the “Top Ten Enterprises” in Safety Management at the China Food Safety Annual Meeting for the 11th time and the “Leading Enterprise of Social Responsibility” at the 19th China Food Safety Conference. Also, the Group has been authorized to establish the Shanghai Instant Food Engineering Technology Research Center and its Joint Innovation and R&D Center, has been recognized as a foreign-funded R&D center by Shanghai Municipal Commission of Commerce. Besides, the Group has won numerous awards, including but not limited to “the Award for Best Social Responsibility(s) Case of China in 2021” by

Xinhua Net, “2021 Annual Recommended Case of People’s Corporate Social Responsibility•Green Development” by People’s Daily Online, “2021 Excellent Energy-saving Enterprise in China Beverage Industry”, “2021 Excellent Water-saving Enterprise in China Beverage Industry”, “2020-2021 Excellent Product Innovation Award in China Instant Food Industry”, and “2020-2021 Best Innovation Award in China Instant Food Industry”.

Prospects

The year of 2022 will continue to be full of challenges and opportunities. Despite the fact that China’s economy is expected to register a stable performance with good growth momentum, the food and beverage industry will inevitably face difficulties brought by uncertainties of the international situation and the rising price of raw materials.

Looking ahead, the Group, by adhering to its “Consolidate, Reform and Develop” strategy, will continue enhancing its brand reputation by complying with the trend of consumption segmentation and channel diversification. Specifically, the Group will keep on launching instant noodles products with various flavors, sizes and prices. While in terms of the beverage segment, the Group will sustain its efforts in concentrating on major flagship products as well as accelerating product mix adjustment. By doing so, Master Kong will push itself to satisfy diversified consumer needs under different consumption occasions. Considering the escalating price of the raw materials, the Group will resort to more feasible and practical business strategies to boost steady sales growth.

The Group will unswervingly advance digital and intelligent transformation and build an intelligent manufacturing system and logistics system to improve operation and supply chain efficiency. Also, based on the underlying principle of “All for Developing Business”, the Group will carry out organizational reform, improve talent management and optimize organizational competence. Constant efforts will also be directed at the comprehensive implementation of the green and low-carbon development philosophy, which involves promoting energy conservation, water conservation, plastic reduction and carbon reduction, thus doing its bit to realize China’s sustainable development while satisfying consumer needs in their pursuit of a better life.

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

CORPORATE GOVERNANCE

We have, throughout the year ended 31 December 2021, complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the deviations from code provisions A.4.1 and A.4.2. The reasons for these deviations are explained below.

Code provision A.4.1

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

Code Provision A.4.2

According to code provision A.4.2, each director (including those with a specific appointment period) shall be subject to retirement by rotation at least once every three years. According to the Company’s articles of association, the chairman of the Board is not subject to retirement by rotation. He is not included in the number of directors who are required to retire each year. The Board believes that the continuity of the leadership of the chairman of the Board is critical to the stability of the Group’s development and the planning, formulation and implementation of long-term strategies and business plans. Accordingly, the Board considers that although the provisions of the above rules deviate from Code Provision A.4.2, it is in the best interests of the Company.

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

Directors’ responsibility for the financial statements

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

Scope of Work of Mazars CPA Limited

The figures contained in the preliminary announcement of our Group's results for the year have been agreed by our Group's auditor, Mazars CPA Limited, to the amounts set out in our Group's consolidated financial statements for the year ended 31 December 2021. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Mazars CPA Limited on the preliminary announcement.

Audit Committee

The Audit Committee currently has three Independent Non-executive Directors, Mr. Lee Tiong-Hock, Mr. Hsu Shin-Chun and Mr. Hiromu Fukada. Mr. Lee Tiong-Hock is the chairman of the Committee. The latest meeting of the Committee was held to review the results of the Group for the year ended 31 December 2021.

Risk Management and Internal Control

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

Under the supervision of the Board, the Group has established an organization structure, responsibility and authority in the construction of three lines of defense for risk management. The Audit Committee will assist the Board to review the design and operation effectiveness of the risk management and internal control system of the Group. As of 31 December 2021, the Group has been carrying out self-assessment of internal control where a prudent and effective self-inspection system has been established to achieve full coverage of external and internal inspection on each aspect thought the management circle. Meanwhile, more efforts have been put in supervision over subsidiaries where management regulations have been formulated with a priority to processes of higher risk and streamlined and implementable limits of authority have been defined for approval of expenditures and human resource affairs. In addition, the Group has been promoting the monitoring work in respect of laws and regulations. According to the internal audit of the internal inspection department, we have not identified any material deficiency in risk management and internal control. Therefore, the Board and the Audit Committee believe that the Group's risk management and internal control system are effective.

Compliance with the Model Code

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SHARE OPTION SCHEME

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

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

(a) 2008 Share Option Scheme

During the twelve months ended 31 December 2021, no share options were granted by the Company in accordance with the terms of the 2008 Share Option Scheme.

The terms of the 2008 Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Detailed arrangement for the 2008 Share Option Scheme is shown as below: (Table A)

Date of grant	Number of share options granted	Exercisable period	Exercise price (HK\$)
20 March 2008	11,760,000	21 March 2013 to 20 March 2018 (1)	\$9.28
22 April 2009	26,688,000	23 April 2014 to 22 April 2019 (2)	\$9.38
1 April 2010	15,044,000	1 April 2015 to 31 March 2020 (3)	\$18.57
12 April 2011	17,702,000	12 April 2016 to 11 April 2021 (4)	\$19.96
26 April 2012	9,700,000	26 April 2017 to 25 April 2022 (5)	\$20.54
27 May 2013	11,492,000	27 May 2018 to 26 May 2023 (6)	\$20.16
17 April 2014	12,718,500	17 April 2019 to 16 April 2024 (7)	\$22.38
5 June 2015	17,054,000	5 June 2020 to 4 June 2025 (8)	\$16.22
4 July 2016	10,148,000	4 July 2021 to 3 July 2026 (9)	\$7.54
21 April 2017	11,420,000	21 April 2022 to 20 April 2027 (10)	\$10.20

The summary below sets out the details of movement of the share options during the twelve months ended 31 December 2021 pursuant to the 2008 Share Option Scheme: (Table B)

Name	Date of grant	Exercise price HK\$	Closing price of the shares on the date of grant HK\$	Balance as at 1 January 2021	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	Balance as at 31 December 2021	Weighted average closing price immediately before exercise HK\$	Note
Executive Director										
Tseng Chien	12 April 2011	19.96	19.96	206,000	—	—	206,000	—	—	Table A (4)
	26 April 2012	20.54	19.88	112,000	—	—	—	112,000	—	Table A (5)
	27 May 2013	20.16	20.05	140,000	—	—	—	140,000	—	Table A (6)
	17 April 2014	22.38	22.35	164,000	—	—	—	164,000	—	Table A (7)
	5 June 2015	16.22	15.92	232,000	—	—	—	232,000	—	Table A (8)
Wei Hong-Ming	21 April 2017	10.20	10.20	1,000,000	—	—	—	1,000,000	—	Table A (10)
Wei Hong-Chen	21 April 2017	10.20	10.20	1,000,000	—	—	—	1,000,000	—	Table A (10)
Chief Executive Officer										
Chen Yinjang	17 April 2014	22.38	22.35	262,000	—	—	—	262,000	—	Table A (7)
	5 June 2015	16.22	15.92	380,000	—	—	—	380,000	—	Table A (8)
	4 July 2016	7.54	7.54	500,000	—	—	—	500,000	—	Table A (9)
	21 April 2017	10.20	10.20	500,000	—	—	—	500,000	—	Table A (10)
Substantial Shareholder										
Wei Ing-Chou [#]	12 April 2011	19.96	19.96	2,264,000	—	—	2,264,000	—	—	Table A (4)
	26 April 2012	20.54	19.88	1,368,000	—	—	—	1,368,000	—	Table A (5)
	27 May 2013	20.16	20.05	1,390,000	—	—	—	1,390,000	—	Table A (6)
	17 April 2014	22.38	22.35	1,486,000	—	—	—	1,486,000	—	Table A (7)
	5 June 2015	16.22	15.92	1,726,000	—	—	—	1,726,000	—	Table A (8)
Other employees in aggregate										
	12 April 2011	19.96	19.96	7,310,000	—	—	7,310,000	—	—	Table A (4)
	26 April 2012	20.54	19.88	4,816,000	—	—	—	4,816,000	—	Table A (5)
	27 May 2013	20.16	20.05	6,236,000	—	—	—	6,236,000	—	Table A (6)
	17 April 2014	22.38	22.35	7,049,000	—	—	—	7,049,000	—	Table A (7)
	5 June 2015	16.22	15.92	11,196,000	—	—	—	11,196,000	—	Table A (8)
	4 July 2016	7.54	7.54	7,172,000	—	5,466,000	—	1,706,000	14.87	Table A (9)
	21 April 2017	10.20	10.20	8,070,000	—	1,120,000	—	6,950,000	14.94	Table A (10)
Total				64,579,000	—	6,586,000	9,780,000	48,213,000		

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

For the period of twelve months ended 31 December 2021, 6,586,000 options had been exercised under the 2008 Share Option Scheme. Weighted average exercise price was HK\$7.99 and the weighted average market closing price before the date of exercise was HK\$14.88.

(b) 2018 SHARE OPTION SCHEME

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

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

The summary below sets out the details of movement of the share options during the twelve months ended 31 December 2021 pursuant to the 2018 Share Option Scheme: (Table D)

Name	Date of grant	Exercise price HK\$	Closing price of the shares on the date of grant HK\$	Number of share option				Balance as at 31 December 2021	Weighted average closing price immediately before exercise HK\$	Note
				Balance as at 1 January 2021	Granted during the period	Exercised during the period	Cancelled/lapsed during the period			
Executive Director										
Wei Hong-Ming	27 April 2018	16.18	15.02	385,000	—	—	—	385,000	—	Table C (1a)
	27 April 2018	16.18	15.02	98,000	—	—	—	98,000	—	Table C (1b)
Wei Hong-Chen	27 April 2018	16.18	15.02	385,000	—	—	—	385,000	—	Table C (1a)
	27 April 2018	16.18	15.02	98,000	—	—	—	98,000	—	Table C (1b)
Chief Executive Officer										
Chen Yinjang	27 April 2018	16.18	15.02	144,000	—	—	—	144,000	—	Table C (1b)
Substantial Shareholder										
Wei Ing-Chou [†]	27 April 2018	16.18	15.02	470,000	—	—	—	470,000	—	Table C (1b)
Other employees in aggregate										
	27 April 2018	16.18	15.05	1,708,000	—	—	—	1,708,000	—	Table C (1a)
	27 April 2018	16.18	15.02	2,975,000	—	—	—	2,975,000	—	Table C (1b)
Total				<u>6,263,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,263,000</u>	<u>—</u>	

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

During the twelve months ended 31 December 2021, no share options were exercised under the terms of the 2018 Share Option Scheme.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the “Annual General Meeting”) be held on 13 June 2022. The notice of the Annual General Meeting will be published on the Company’s website and sent to the shareholders of the Company in due course.

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

The Board has recommended the payment of a final dividend of US\$5.30 cents per ordinary share of the Company and the payment of a special final dividend of US\$5.30 cents per ordinary share of the Company in respect of the year ended 31 December 2021. Subject to the approval of shareholders at the Annual General Meeting, the final dividends and the special final dividends will be paid on or about 13 July 2022.

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

The register of members of the Company will be closed from 8 June 2022 to 13 June 2022 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 pm on Tuesday, 7 June 2022.

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

The register of members of the Company will be closed from 17 June 2022 to 21 June 2022 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to qualify for the final dividends and the special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 pm on Thursday, 16 June 2022.

BOARD OF DIRECTORS

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

By Order of the Board
Wei Hong-Ming
Chairman

Hong Kong, 28 March 2022

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

* *For identification purpose only*