康 師 傅 控 股 有 限 公 司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0322)

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31ST MARCH 2016

SUMMARY

	For the three months ended 31 March		
US$'000	**2016**	**2015**	**Change**
• Revenue	2,099,694	2,321,179	↓ 9.54%
• Gross margin	31.43%	31.66%	↓ 0.23 ppt.
• Gross profit of the Group	659,939	734,870	↓ 10.20%
• EBITDA	281,615	329,724	↓ 14.59%
• Profit for the period	73,546	133,777	↓ 45.02%
• Profit attributable to owners of the Company	58,010	107,014	↓ 45.79%
• Earnings per share (US cents)			
Basic	1.04	1.91	↓ 0.87 cents
Diluted	1.04	1.91	↓ 0.87 cents

At 31 March 2016, cash and cash equivalents was US$1,676.795 million, an increase of US$653.095 million when compared to 31 December 2015. Gearing ratio was 0.23 times.

2016 FIRST QUARTERLY 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 ended 31 March 2016 together with the comparative figures for the corresponding period in 2015. These unaudited condensed consolidated first quarterly financial statements have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the Three Months Ended 31 March 2016

	Note	For the three months ended 31 March 2016 (Unaudited) *US$'000*	2015 (Unaudited) *US$'000*
Revenue	2	2,099,694	2,321,179
Cost of sales		(1,439,755)	(1,586,309)
Gross profit		659,939	734,870
Other revenue and other net income		36,056	25,049
Distribution costs		(425,467)	(430,935)
Administrative expenses		(82,731)	(82,360)
Other operating expenses		(61,101)	(37,703)
Finance costs	5	(16,493)	(15,008)
Share of results of associates and joint ventures		5,701	3,697
Profit before taxation	5	115,904	197,610
Taxation	6	(42,358)	(63,833)
Profit for the period		73,546	133,777
Profit attributable to:			
Owners of the Company		58,010	107,014
Non-controlling interests		15,536	26,763
Profit for the period		73,546	133,777
Earnings per share	7		
Basic		US 1.04 cents	US 1.91 cents
Diluted		US 1.04 cents	US 1.91 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Three Months Ended 31 March 2016

	For the three months ended 31 March	
	2016	**2015**
	(Unaudited)	**(Unaudited)**
	US$'000	*US$'000*
Profit for the period	73,546	133,777
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on consolidation	12,934	(1,798)
Fair value changes in available-for-sale financial assets	(1,885)	701
Reclassification adjustments relating to available-for-sale financial assets disposed of during the period	(628)	—
Other comprehensive income (loss) for the period	10,421	(1,097)
Total comprehensive income for the period	83,967	132,680
Total comprehensive income attributable to:		
Owners of the Company	68,045	106,756
Non-controlling interests	15,922	25,924
	83,967	132,680

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2016

	Note	At 31 March 2016 (Unaudited) US$'000	At 31 December 2015 (Audited) US$'000
ASSETS			
Non-current assets			
Investment properties		155,176	154,498
Property, plant and equipment		5,318,888	5,396,574
Prepaid lease payments		601,689	607,822
Intangible asset		26,363	26,551
Interest in associates		31,138	30,065
Interest in joint ventures		88,927	82,741
Available-for-sale financial assets		89,495	92,120
Other non-current assets		15,468	15,400
Deferred tax assets		48,371	49,002
		6,375,515	6,454,773
Current assets			
Inventories		361,566	325,793
Trade receivables	9	237,033	233,403
Tax recoverable		–	14,780
Prepayments and other receivables		415,710	429,057
Pledged bank deposits		5,698	12,048
Bank balances and cash		1,671,097	1,011,652
		2,691,104	2,026,733
Total assets		9,066,619	8,481,506

	Note	At 31 March 2016 (Unaudited) *US$'000*	At 31 December 2015 (Audited) *US$'000*
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		28,014	28,014
Share premium		63,900	63,900
Reserves		2,887,972	2,817,145
Total capital and reserves attributable to owners of the Company		2,979,886	2,909,059
Non-controlling interests		1,001,124	985,202
Total equity		3,981,010	3,894,261
Non-current liabilities			
Financial liabilities at fair value through profit or loss		4,349	9,080
Long-term interest-bearing borrowings		1,254,895	1,326,367
Employee benefit obligations		43,683	42,901
Deferred tax liabilities		228,793	221,807
		1,531,720	1,600,155
Current liabilities			
Trade payables	10	886,855	722,288
Other payables and deposits received		1,079,126	1,008,234
Current portion of interest-bearing borrowings		1,108,327	1,123,198
Advance payments from customers		461,304	123,179
Taxation		18,277	10,191
		3,553,889	2,987,090
Total liabilities		5,085,609	4,587,245
Total equity and liabilities		9,066,619	8,481,506
Net current liabilities		(862,785)	(960,357)
Total asset less current liabilities		5,512,730	5,494,416

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated first quarterly financial statements. These condensed consolidated first quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed consolidated first quarterly financial statements should be read in conjunction with the 2015 annual financial statements. The accounting policies adopted in preparing the condensed first quarterly financial statements for the three months ended 31 March 2016 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of the new/revised standard of Hong Kong Financial Reporting Standards ("HKFRS") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2016.

Amendments to HKFRSs	Annual Improvements Project – 2012-2014 cycle
Amendments to HKAS 1	Disclosure initiative

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

2. Revenue

The Group's revenue 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 Three Months ended 31 March 2016					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Total (Unaudited)** *US$'000*
Revenue						
Revenue from external customers	841,832	1,191,979	35,472	30,411	–	2,099,694
Inter-segment revenue	17	79	27	42,545	(42,668)	–
Segment revenue	841,849	1,192,058	35,499	72,956	(42,668)	2,099,694
Segment results after finance cost	71,162	40,948	(2,671)	2	916	110,357
Share of results of associates and joint ventures	–	6,219	(518)	–	–	5,701
Unallocated expenses, net	–	–	–	(154)	–	(154)
Profit (loss) before taxation	71,162	47,167	(3,189)	(152)	916	115,904
Taxation	(22,501)	(19,325)	–	(532)	–	(42,358)
Profit (loss) for the period	48,661	27,842	(3,189)	(684)	916	73,546

	For the Three Months ended 31 March 2015					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Total (Unaudited)** *US$'000*
Revenue						
Revenue from external customers	1,000,038	1,260,216	37,493	23,432	–	2,321,179
Inter-segment revenue	19	37	44	31,200	(31,300)	–
Segment revenue	1,000,057	1,260,253	37,537	54,632	(31,300)	2,321,179
Segment results after finance cost	133,899	64,432	(2,628)	(1,678)	21	194,046
Share of results of associates and joint ventures	–	6,114	(2,417)	–	–	3,697
Unallocated expenses, net	–	–	–	(133)	–	(133)
Profit (loss) before taxation	133,899	70,546	(5,045)	(1,811)	21	197,610
Taxation	(39,711)	(24,020)	–	(102)	–	(63,833)
Profit (loss) for the period	94,188	46,526	(5,045)	(1,913)	21	133,777

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

3. **Segment information** *(continued)*

Segment assets and liabilities

	At 31 March 2016					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Total (Unaudited)** *US$'000*
Segment assets	3,361,943	5,211,191	139,301	1,161,971	(1,017,347)	8,857,059
Interest in associates	–	31,071	67	–	–	31,138
Interest in joint ventures	–	78,954	9,973	–	–	88,927
Unallocated assets						89,495
Total assets						9,066,619
Segment liabilities	773,022	3,431,994	52,768	1,745,730	(961,588)	5,041,926
Unallocated liabilities						43,683
Total liabilities						5,085,609

	At 31 December 2015					
	Instant noodles (Audited) *US$'000*	**Beverages (Audited)** *US$'000*	**Instant food (Audited)** *US$'000*	**Others (Audited)** *US$'000*	**Inter-segment elimination (Audited)** *US$'000*	**Total (Audited)** *US$'000*
Segment assets	3,268,452	4,774,066	145,190	1,211,071	(1,122,199)	8,276,580
Interest in associates	–	29,998	67	–	–	30,065
Interest in joint ventures	–	72,234	10,507	–	–	82,741
Unallocated assets						92,120
Total assets						8,481,506
Segment liabilities	742,034	3,012,906	56,853	1,797,417	(1,064,866)	4,544,344
Unallocated liabilities						42,901
Total liabilities						4,587,245

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

4. **Seasonality of operations**

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

5. Profit before taxation

This is stated after charging:

	For the three months ended 31 March	
	2016	**2015**
	(Unaudited)	**(Unaudited)**
	US$'000	*US$'000*
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	16,493	15,008
Other items		
Depreciation	152,474	126,939
Amortisation	3,313	1,991

6. Taxation

	For the three months ended 31 March	
	2016	**2015**
	(Unaudited)	**(Unaudited)**
	US$'000	*US$'000*
Current tax – the People's Republic of China (the "PRC") Enterprise income tax		
Current period	34,681	55,453
Deferred taxation		
Origination and reversal of temporary differences, net	3,130	2,076
Effect of withholding tax on the distributable earnings of the Group's PRC subsidiaries	4,547	6,304
Total tax charge for the period	42,358	63,833

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

Hong Kong Profits Tax has not been provided as the Group's entities had no assessable profit subject to Hong Kong Profits Tax for the three months ended March 2016 and 2015.

The applicable PRC enterprise income tax for the PRC subsidiaries is at the statutory rate of 25% (2015: 25%).

According to the Tax Relief Notice (Cai Shui [2011] no. 58) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of PRC ("Western Region") with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in the Western Region are entitled to a preferential rate of 15% (2015: 15%).

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

7. Earnings per share

(a) *Basic earnings per share*

	For the three months ended 31 March 2016 (Unaudited)	2015 (Unaudited)
Profit attributable to ordinary shareholders (US$'000)	58,010	107,014
Weighted average number of ordinary shares ('000)	5,602,871	5,604,009
Basic earnings per share (US cents)	1.04	1.91

(b) *Diluted earnings per share*

	For the three months ended 31 March 2016 (Unaudited)	2015 (Unaudited)
Profit attributable to ordinary shareholders (US$'000)	58,010	107,014
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	5,602,871	5,604,009
Effect of the Company's share option scheme	–	9,275
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,602,871	5,613,284
Diluted earnings per share (US cents)	1.04	1.91

8. Dividend

The Board of Directors does not recommend the payment of a quarterly dividend for the three months ended 31 March 2016 (2015: 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 31 March 2016 (Unaudited) *US$'000*	At 31 December 2015 (Audited) *US$'000*
0 - 90 days	218,745	215,529
Over 90 days	18,288	17,874
	237,033	233,403

10. Trade payables

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

	At 31 March 2016 (Unaudited) *US$'000*	At 31 December 2015 (Audited) *US$'000*
0 - 90 days	843,986	700,892
Over 90 days	42,869	21,396
	886,855	722,288

11. Approval of first quarterly financial statements

The first quarterly financial statements of 2016 were approved by the board of directors on 26 May 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Reviewing the first quarter of 2016, the global economy experienced a slight recovery. However, a slowdown was recorded in the economic growth rate in China. According to National Bureau of Statistics, GDP growth of China is expected to increase by 6.7% year-on-year ("yoy") in 2016, in the first quarter GDP growth was 6.7%. Meanwhile, the price level was affected by the message of easing monetary and credit policies with faster increases in the prices of commodity, the CPI increased by approximately 2.1% in the first quarter.

In 2016, while adhering to the established operation strategy of transformation and upgrading, the Group will also continue to emphasize on improving the free cash flow, reducing capital expenditure and establishing a good foundation for generation change. We increased brand investment, actively grasped the opportunity of channel diversification through the establishment of the channel innovation centre, implemented healthy channel inventory, strengthened channel sinking to grasp the business opportunity of urbanization and continued to implement management systems such as food safety admission and traceability management, with a view to achieve the objectives of "safety, cost saving, higher efficiency and innovation".

In the first quarter of 2016, the Group's revenue decreased by 9.54% yoy to US$2,099.694 million. Revenue of instant noodles and beverages decreased by 15.82% and 5.41% respectively. During the period, unfavorable sales resulted in an increase in the production costs per carton, the gross profit margin of the Group decreased by 0.23 ppt. to 31.43% yoy. Meanwhile, the Group has increased the investment in advertisement and branding, distribution costs as a percentage of the total revenue was 20.26%, an increase of 1.69 ppt. yoy. In addition, other operating expense was increased yoy mainly due to the increase in depreciation of idle assets. As a result, EBITDA of the Group for the first quarter of 2016 decreased by 14.59% to US$281.615 million and profit attributable to owners of the Company dropped by 45.79% to US$58.010 million. Earnings per share decreased by 0.87 US cents to 1.04 US cents.

Instant Noodle Business

In the first quarter of 2016, the revenue of the Group's instant noodle business was US$841.849 million, dropped by 15.82% yoy, representing 40.09% of the Group's revenue. In the fourth quarter of 2015, channels maintained the wait and see attitude, however, under the countermeasures of continued communication and applying various price ranges to accelerate the satisfaction of blank price ranges, the extent of decline in the first quarter has shrunk as compared to the previous quarter. During the period, due to the unfavorable sales and the staged adjustment of product mix in instant noodles, the gross profit margin of the instant noodle business decreased by 2.22 ppt. to 28.59% yoy. Together with the increasing advertising expenses in the instant noodle business resulted in a decline of 48.34% yoy to US$48.661 million in profit attributable to shareholders of the Company in the first quarter of 2016.

According to the latest market share analysis data from AC Nielsen, in first quarter of 2016, the market shares of Master Kong's instant noodles in terms of sales volume and sales amount were 43.5% and 52.4% respectively, maintained their market leading positions. Sales in the first quarter has been restored to levels in previous periods in the direct operation channels. In the future, we will actively enhance the awareness of consumers about brands, expand brand investment and apply various price range product portfolio strategies to satisfy the consumption demand.

New products of prototype flavor such as the "Black pepper steak noodles/White pepper pork rib noodles" with distinctive characters were launched after the Spring Festival from the innovation perspective. This new product has a spicy pepper flavor and the soup concentrate is extracted by high technology. The soup is not only thick and aromatic, it has also preserved the nutrients of raw soup to the maximum extent which is beneficial to health, in addition with fresh and fashionable packaging with a cool style to match the flavour of pepper which might catch consumer's attention.

The pepper flavor series detonated the domestic market instantly after being launched for sale in the market, with single-month sales promptly exceeding one million boxes. "ZhenLiaoDao" (plenty of fine ingredients) also emphasized on boiling soup stock and through this modification to upgrade the cup noodle products. As for taste innovation and diversification, we launched a new Dandan noodles with red oil minced meat with an international style to satisfy the changing needs of young consumer groups for innovative tastes.

To capture the opportunity of the rise of the middle class, fit the lifestyle of urban white-collar elites and meet the demand of white-collar office workers for high-end cup noodles, we launched the new upgraded "Master Soup" specification in March. Apart from emphasizing concentrated soup stock techniques and boiling soup with real ingredients, the product has enhanced the image of the parent brand by making an appeal for thick soup stock without MSG and satisfied the demand of white-collar office workers for a good instant noodle to supplement their energy in the later stage of busy work. It has gradually become a preferred product of high-end cup noodles to enhance product power and is extended to the whole country for sale.

Moreover, in pursuing the strategy of a product portfolio with various pricing bands and satisfying specifications, we served the fast growing "ZhenPinLe" series. To facilitate identification by consumers, from late of March we have applied classical packages with which consumers are familiar to satisfy consumers who are loyal to familiar tastes.

The mid-end noodle "Super FuManDao" launched a super package of 110 grams to satisfy large-portion demand, and the core brand "JinShuang Ramen" introduced various products to satisfy the affordable and non-upgrading demand of consumers. By allocating resources nationwide to enhance TV commercials, branding awareness increased rapidly and resulted in high growth for business performance, our ranking in the market of mid-end noodles jumped to No.1 according to AC Nielsen.

In production management, production and sales coordination and e-operation systems were improved and refined continuously to satisfy customer demand and minimize the shortage of products. Qualified suppliers were developed from various aspects to ensure product quality and optimize costs. New production technologies were actively developed and introduced to safeguard the smooth launching of new product categories. Operational management was refined and implemented to stabilize the customization process and quality for the provision of superior products to consumers. Food safety inspection and verification would be pursued continuously and management on source tracing would be further pursued to establish a corporate image actively for protecting consumer safety and quality.

Beverage Business

In the first quarter of 2016, the revenue of the beverage business was US$1,192.058 million, dropped by 5.41% yoy, representing 56.77% of the Group's total revenue. The revenue decline in beverage business was mainly due to the lackluster performance in the bottled water and recession in the performance of family size products. During the period, price of major raw material PET resin declined, the gross profit margin increased by 0.77 ppt. yoy to 33.29%. To accumulate long term brand assets, we stepped up our efforts in advertising expenses and branding efforts. The amount of profit from the beverage business attributable to owners of the Company was US$12.822 million, yoy decreased by 35.98%.

According to the latest survey data in the first quarter of 2016 by AC Nielsen, it showed that based on sales volume, the overall market share of the Group's RTD tea products (included milk tea) was 52.2% and ranking No. 1 in the market. By leveraging on the fruit juice brands under Master Kong and Pepsi's Tropicana, the market share in the overall juice drink market was 15.7%, ranking No. 2 in the market. Market share of sales in the milk tea market was 16.5%. The Group's bottled water's market share was 14.3%, ranking No. 3 in the market.

According to Canadean's latest data in the first quarter of 2016, the market share of Pepsi Cola CSD drinks increased 1.4 ppt. yoy to 31.4% in the market and gained 49.1% in the cola drink market. In the juice flavour CSD market, Mirinda gained 34.2% market share.

An overview of the performance in the first quarter showed that the beverage industry in China presented a slight growth in sales volume by 0.8% on a yoy basis. The beverage industry emphasized on long-term planning, the Group continue to have sustainable stable operation and sound management of capital expenditure. Meanwhile, planning for a product portfolio of bottled water with various pricing bands was actively pursued, brand investment efforts and brand penetration strengths were increased, communication with consumers and channels were improved, product innovations and upgrading in flavors and products were constantly refined, international strategic cooperation and channel innovation management were carried out, The progress of the optimization of Pepsi organization personnel in the alliance formed by Master Kong-Pepsi is still implemented as planned. The major strategies and achievements are set out below:

For long-term operational planning, brand investment efforts continued to increase in the first quarter, with advertising expenses increased as compared to the amount invested in same period of last year. Branding and packaging communication for Master Kong brand was enhanced to recover consumers lost in favor of fashion packaging and retain brand and flavor loyalty from customers, as well as to attract more potential consumers with flavors and brands.

Upgrading in the flavors and packaging of RTD tea, the "Aromatic Lemon Tea" containing quality tea leaves with lemon juice created a multi-level aromatic enjoyment in taste, targeted at the small audience market to satisfy the market demand from young office workers for upgraded enjoyment. Adhering to professional positioning, the Group had endeavored to make "Original Flavor Tea House" the same as fresh tea worthy of appreciation to meet customers' high-end, healthy, and personalized demands. The new English fruity tea flavors from Lipton launched a range of "Colorful Mixed Flavors" that brought a diversified fashionable style for English tea to consumers. Classical jasmine series launched new jasmine fruit tea products amidst the fast-growing fruit tea business opportunity to expand the jasmine tea market. As for the milk tea category, the Group operated the milk tea category by adopting a dual-brand strategy, operated the mainstream public milk tea segment with mellow and thick classical milk tea, and introduced "One Second Fresh Milk Tea" to meet customers' demand for good tea without the burden of calorie to seize the new milk tea segment.

The bottled water market was obviously divided into three core pricing bands of low/mid/high levels, with Master Kong's bottled water and "Youyue" purified water, "Aquafina" launched by Pepsi with emphasis on the background of international brand and "HanYangQuan" could be precisely operated and promoted within various price ranges based on the characteristics of different regions. The "Youyue" purified water expected to be launched for sale in the market in the second quarter appeals for "nanoscale filtering, clarity and purity" and has obtained various international certifications to satisfy the upgraded demand of consumers for assured good quality of bottled water. Nature mineral spring water "HanYangQuan" has been chosen by a renowned international group as the designated brand sold by it. To seize consumer groups of various price ranges and continue to step up efforts in water brand building, enhancing brand value is an unchanged key direction for this year's strategies.

The juice drink portion is divided into the two major series of Chinese style fruit juice and western style fruit juice which cover more consumer tastes and preferences. In the segment of juice drinks, by leveraging the fruit juice brands under Master Kong (Master Kong fruit juices, "Daily C", "Pure Taste for Traditional Drinks", "Crystal Sugar Series" and "Light Fruit Mix") and Pepsi's Tropicana brand, demand for Chinese and western style fruit juices from consumers was satisfied persistently. In the first quarter, "Master Kong Rock Candy Pear" and "Traditional Fruit Mix Sour Plum Drink" further vitalized the brand through its new package launched in the market to secure existing consumers, attract new users and increase sales. "Light Fruit Mix" continued to carry out promotion with "Honey citron" as the main flavor and drove a double-digit growth in the results of other flavours such as "Haijing lemon" and "Bamboo cane and chestnut". New flavors of Pepsi's Tropicana fruit cocktail are planned to be launched in the second quarter of this year, and Cai Yilin, an artiste, will be invited to act as the spokesperson for fruit cocktail to launch the "Colorful Mix" branding promotion activities of fruit cocktail.

In the aspect of enhancing the corporate image and expediting operational innovation through strengthening international strategic cooperation, the Group carried out innovative technical exchanges and capacity building with partners such as Pepsi and Starbucks. The Shanghai Disneyland will be opening soon, Master Kong Beverage and Pepsi-Cola are strategic cooperative partners in constant planning for characteristic and influential marketing activities for Disneyland. It is expected world consumers will be presented with Chinese tea beverage culture at the Shanghai Disneyland which will be further promoted worldwide.

In addition to online market inspection and operation guidance and offline segmental nurturing to enhance team capabilities, Master Kong – Pepsi alliance will have a pivotal role in enhancing and optimizing integrated effectiveness. The alliance will continue to optimize coordination between production and sales and enhance inventory management and control. By adjusting and improving the production bases and production line structure, resources of the Group will be fully utilized to maximized effect. The establishment of a food safety system will be reinforced through internal and external auditing as well as management and control system, source tracing management will be strengthened continuously to ensure the premium quality of products.

Instant Food Business

Affected by slower economic growth and conservative consumer sentiment, consumption in the traditional biscuit market did not present obvious signs of recovery. According to the latest survey data in the first quarter of 2016 by AC Nielsen, the overall sales volume in the biscuit market declined by 0.1% on a yoy basis in the first quarter of 2016, while the sales amount increased by 1.6% yoy. The decline in sandwich cracker was more obvious, sales volume decreased by 2.1% yoy and sales amount decreased by 2.9% yoy. In terms of sales amount, the market share of Master Kong egg rolls was 17.2% and ranking the second highest in the market in the first quarter of 2016, while the market share of sandwich cracker was 10.0% and ranking the second highest in the market.

With an overall slowdown in the whole industry, the Company still focused on promoting reforms in the long-run. Relatively obvious achievement was attained initially in improving results and increasing efficiency during the year. By actively adjusting the operational strategy, the Group optimized the supply chain layout, managed and controlled the selling and administrative expenses stringently and reduced the losses during the period.

In the first quarter of 2016, the revenue of the group's instant food business was US$35.499 million, dropped by 5.43% yoy, representing 1.69% of the Group's total revenue. During the period, the gross profit margin dropped by 0.19 ppt. to 34.89% yoy. In the first quarter in 2016, the instant food business recorded a loss of US$3.189 million, improved 36.79% when compared to same period last year.

To further expand the effectiveness and benefits of business reforms, the instant food business will focus more on the bakery business, and continuous efforts will be exerted to control operating costs stringently, reinforce product innovations and develop emerging channels to enhance the responding ability to cope with the fast changes in market demand.

FINANCING

The Group continued to maintain a stable and healthy financial structure through effective control of trade receivables, trade payables, bank balances and cash and inventories. As at 31 March 2016, the Group's cash and bank deposits totaled US$1,676.795 million, an increase of US$653.095 million from 31 December 2015. A sufficient amount of cash holding was still maintained. As at 31 March 2016, the Group's total assets and total liabilities amounted to approximately US$9,066.619 million and US$5,085.609 million respectively. This showed increases in US$585.113 million and US$498.364 million respectively compared to 31 December 2015. The debt ratio increased by 2.0 ppt. to 56.09% compared to 31 December 2015.

As at 31 March 2016, the Group's total interest bearing borrowings decreased by US$86.343 million to US$2,363.222 million. During the period, the Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 74% and 26% respectively, as compared to 79% and 21% respectively as at 31 December 2015. The proportion between the Group's long-term borrowings and short-term borrowings was 53% and 47% respectively, as compared to 54% and 46% respectively as at 31 December 2015. Considering the diverged trends of the interest rates between Renminbi and the US dollars and the Group itself, the Group has adjusted its financing strategy since September 2015 to increase its proportion of onshore financing and to reduce its foreign currencies financing. The Group expects to increase its Renminbi borrowing, and the proportion of Renminbi borrowing of the Group's total borrowings will be increased gradually.

During the period, the appreciation in Renminbi against US dollar by 0.44%, due to the fluctuation of exchange rate, brought realized/unrealized exchange losses of US$2.362 million in the Group's income statement.

In 2014, the Group announced a voluntary retirement plan (the "Plan") for its employees as a result of an integration programme of its Pepsi beverage business. The Group has made an offer of the Plan to the affected employees who can apply to accept the offer of benefits in exchange for the termination of their employments. The termination benefits of US$4.218 million have been recognised as expenses during the three-month period ended 31 March 2016. At 31 March 2016, the estimated possible obligation of termination benefits is amounted to approximately US$27.061 million which is expected to be settled in 2016 and disclosed as contingent liabilities.

The joint ventures and associates in the Pepsi beverage business of the Group (the "Joint Ventures and Associates") have, based on their own operation requirements, also implemented a compensation plan (the "Compensation Plan") which is similar to the Plan. During the three-month period ended 31 March 2016, the Group has not committed for the payment arising from the Compensation Plan and no such payment has been recognized as expenses by the Group. At 31 March 2016, the possible amount of liabilities which arising from the Compensation Plan but not yet committed by the Group is amounted to approximately US$18.265 million.

Financial Ratio

	As at 31 March 2016	**As at 31 December 2015**
Finished goods turnover	11.43 Days	10.87 Days
Trade receivables turnover	10.19 Days	9.46 Days
Current ratio	0.76 Times	0.68 Times
Debt ratio (Total liabilities to total assets)	56.09%	54.09%
Gearing ratio (Net debt to equity attributable to owners of the Company)	0.23 Times	0.49 Times

HUMAN RESOURCES

As of 31 March 2016, the Group had 67,878 employees. The Group has actively promoted the transformation of its human resources, made a blueprint for COE, SSC and HRBP, established a human resource sharing service centre, continued to improve the high-level talent development platform and implemented the plan for the development and cultivation of high-level leader reserve. In addition, the Group has carried out organizational capacity and leadership enhancements and strategic talents planning and focused on core talents' capacity development. Moreover, the Group has promoted the echelon building of leaders at various levels and established long-term cooperation relationship with major domestic and foreign universities and colleges to establish a talent supply system. The Group has also implemented a medium and long-term incentive plan for its senior management in order to promote the Group's long-term development. The corporate culture of "Forward-looking, Scientific, Performance driven and Harmony" was practised by publishing CIS.

CORPORATE SOCIAL RESPONSIBILITY

Master Kong places high emphasis on food safety issues and regards it the fundamental for the survival and development of the enterprise. The Group has extensively formed win-win alliances with external resources, selected excellent multinational brand enterprises and authoritative research institutes in food safety and nutrition and carried out strategic alliance and special topic cooperation to increase product safety and conduct relevant forward-looking prevention research on key raw materials. In the new year, Master Kong has joined hands with China University Basketball Association (CUBA) again to respond to the State's strategic call for "Healthy China" and advocate the combination of healthy food with healthy sports through the concept of "immediate start" to allow the body to maintain a healthy state and allow more young consumers to feel the core spirit of the Master Kong brand.

AWARDS AND HONORS

A.T. Kearney, a global strategy and management consulting firm, published the list of winners of the "Best Innovative Enterprise in China" in Shanghai. With its deep insight into consumers and innovative strategy focusing on practice, Tingyi (Cayman Islands) Holding Corp. was granted the "Practice Innovation Award". Experts from the judging panel, who came from Bloomberg Businessweek, School of Innovation and Entrepreneurship of Peking University and A.T. Kearney Management Consultants, were responsible for evaluating the participating enterprises.

PROSPECTS

The packaged food business is currently facing challenges of the macro environment, including economic growth slowdown and moderate rising costs of raw materials. However, the Group has identified opportunities and potential for growth and expansion, the fast changes in the general market environment and consumer demand may bring turning points for our continuous development, which are also driving forces to our implementation of long-term expansion strategies as well as the timely opportunities for transformation of generation change in the Group.

The Group's growth in the first quarter was negatively affected by the short term effect of product upgrading and the temporary effect of channel inventory management policy and the Group will continue to face significant challenges in the second quarter. The Group will continue to enhance the online and offline brand communication between channels and end-consumers as well as product upgrading plan. Meanwhile, the Group will continue to introduce more customer demand-oriented product portfolio of various product lines in order to meet various demands of different consumer groups, continuously improve product quality and brand communication and continue its effective monitoring and management of financial operation.

The Group has a sound and solid foundation, when we enter the next period of development and transformation stage, the generation heritage and transformation change of the Group's management will lead to continuous and planned development of the collective leadership process. In addition to focusing on the development of our well-established competitive advantages, continuity and sustainability of our business will also be ensured, together with restructuring in our organization structure, the current and future business needs of the Group will be catered for and we are able to focus on the long-term development opportunities and strive to bring stable business development, sound and solid growth for the Group.

CORPORATE GOVERNANCE

We have, throughout the period ended 31 March 2016, complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from code A.4.1. The reason for the deviation is 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 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 Chief Financial Officer of the Company, the Directors ensure that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the financial statements of the Group is in a timely manner.

Audit Committee

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

The Board has overall responsibility for maintaining a sound and effective internal control and risk management system of the Group. The Group's internal control and risk management 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:
(Table A)

Date of grant	Number of share options granted	Exercisable period	Exercise price (HK$)	Number of share granted to Wei Ing-Chou	Number of share granted to James Chun-Hsien Wei
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	904,000
17 April 2014	12,718,500	17 April 2019 to 16 April 2024	$22.38	1,486,000	1,148,000
5 June 2015	17,054,000	5 June 2020 to 4 June 2025	$16.22	1,726,000	2,006,000

For the period of three months ended 31 March 2016, no option had been exercised under the Share Option Scheme.

BOARD OF DIRECTORS

As at the date of this announcement, Mr. Wei Ing-Chou, Mr. Junichiro Ida, Mr. Wu Chung-Yi, Mr. Teruo Nagano, Mr. Wei Hong-Ming and Mr. Koji Shinohara are Executive Directors of the Company. Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada are Independent Non-executive Directors of the Company.

By Order of the Board
Wei Ing-Chou
Chairman

Shanghai, the PRC, 26 May 2016

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

* *For identification purpose only*