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 2016

US$'000	2016	2015		Change
• Revenue	**8,371,863**	9,102,810	↓	8.03%
• Gross margin (%)	**31.30%**	31.86%	↓	0.56ppt
• Gross profit	**2,620,692**	2,900,195	↓	9.64%
• EBITDA	**996,049**	1,038,576	↓	4.09%
• Profit for the year	**213,027**	281,484	↓	24.32%
• Profit attributable to owners of the Company	**176,884**	256,340	↓	31.00%
• Earnings per share (US cents)				
Basic	**3.16**	4.57	↓	1.41
Diluted	**3.16**	4.57	↓	1.41

At 31 December 2016, cash and cash equivalents was US$1,473.2 million, with an increase of US$449.5 million when compared to 31 December 2015. Gearing ratio was 0.32 times.

CHAIRMAN STATEMENT

Although China's economy maintained steady growth in the first half of 2016, its food and beverage industry was under a certain degree of pressure in the second half of the year arising from increasing costs of raw materials in both domestic and international markets and the change in trends in domestic demand. However, the Group still showed signs of stabilizing, and will continue, particularly in times of such macro environment, to take a long-term view, insist on effecting its transformation and upgrade in a steady manner and monitor any change in the Group's free cash flow, so as to achieve its objective of "Consolidation, Development, Innovation and Security".

In the fourth quarter of 2016, the Group's profit recorded a year-on-year significant improvement. In 2016, the Group's revenue was US$8,371.9 million, profit attributable to owners of the Company was US$176.9 million and earnings per share was US$3.16 cents. The Board will recommend the payment of a final dividend of US$1.58 cents per share. Total amount of final dividend for the year 2016 will be US$89 million.

Although the Group's market share was slightly below target in 2016 due to factors like the implementation of upgrade procedure, the Group showed signs of continual recovery in the second half of the year. Members of the Board and I still hope that our operation team will insist on effecting transformation and upgrade of the Group, accelerate the process of promoting young talents, optimize channel management model, continue to carry out the multi-price band strategy and increase the flexibility in operation in 2017, so that the Group will be able to respond rapidly to market development, promote the future source of growth, lead the upgrade of the industry and satisfy the diversified needs of customers.

All members of Master Kong will uphold integrity, pragmatism and innovation as the corporate culture value, and be, as always, dedicated to work to offer a wide range of healthy and high quality products to customers. The Group will also adhere to the concept of "pursuing sustainable development and contributing to the community", continue to put a strong emphasis on food safety and discharge its corporate social responsibility in a practical manner. I wish that our consumers, employees and shareholders will continue to give their support to Master Kong, so that together we could move towards a more sustainable and brighter future.

I would like to take this opportunity to express my heartfelt appreciation to all fellows of the Board, the management and all staff and customers.

Wei Ing-Chou
Chairman

Shanghai, the PRC
27 March 2017

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 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	**2016** *US$'000*	2015 *US$'000*
Revenue	4	**8,371,863**	9,102,810
Cost of sales		**(5,751,171)**	(6,202,615)
Gross profit		**2,620,692**	2,900,195
Other revenue and other net income	6	**154,667**	162,144
Distribution costs		**(1,816,606)**	(1,883,844)
Administrative expenses		**(307,738)**	(344,324)
Other operating expenses		**(216,249)**	(312,117)
Finance costs	7	**(74,560)**	(61,838)
Share of results of associates and joint ventures		**11,578**	11,282
Profit before taxation	7	**371,784**	471,498
Taxation	8	**(158,757)**	(190,014)
Profit for the year		**213,027**	281,484
Profit attributable to:			
Owners of the Company		**176,884**	256,340
Non-controlling interests		**36,143**	25,144
Profit for the year		**213,027**	281,484
Earnings per share	10		
Basic		**US3.16 cents**	US4.57 cents
Diluted		**US3.16 cents**	US4.57 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	US$'000	*US$'000*
Profit for the year	**213,027**	281,484
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**16,542**	(13,229)
Surplus on revaluation of properties and prepaid lease payments	**–**	2,026
Deferred tax arising from revaluation of properties and prepaid lease payments	**–**	(506)
	16,542	(11,709)
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on consolidation	**(358,868)**	(236,019)
Fair value changes in available-for-sale financial assets	**8,351**	5,560
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year	**(6,862)**	(5,736)
	(357,379)	(236,195)
Other comprehensive loss for the year, net of tax	**(340,837)**	(247,904)
Total comprehensive (loss) income for the year	**(127,810)**	33,580
Total comprehensive (loss) income attributable to:		
Owners of the Company	**(92,785)**	68,126
Non-controlling interests	**(35,025)**	(34,546)
	(127,810)	33,580

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 *US$'000*	2015 *US$'000*
ASSETS			
Non-current assets			
Investment properties		**152,617**	154,498
Property, plant and equipment		**4,687,464**	5,396,574
Prepaid lease payments		**566,185**	607,822
Intangible asset		**25,798**	26,551
Interest in associates		**23,678**	30,065
Interest in joint ventures		**96,646**	82,741
Available-for-sale financial assets		**92,253**	92,120
Other non-current assets		**–**	15,400
Deferred tax assets		**39,780**	49,002
		5,684,421	6,454,773
Current assets			
Inventories		**357,383**	325,793
Trade receivables	11	**228,910**	233,403
Tax recoverable		**17,402**	14,780
Prepayments and other receivables		**376,216**	429,057
Pledged bank deposits		**6,098**	12,048
Bank balances and cash		**1,467,059**	1,011,652
		2,453,068	2,026,733
Total assets		**8,137,489**	8,481,506

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**2016** *US$'000*	2015 *US$'000*
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		**28,023**	28,014
Share premium		**66,467**	63,900
Reserves		**2,525,490**	2,817,145
Total capital and reserves attributable to owners of the Company		**2,619,980**	2,909,059
Non-controlling interests		**849,673**	985,202
Total equity		**3,469,653**	3,894,261
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**21,978**	9,080
Long-term interest-bearing borrowings		**990,597**	1,326,367
Employee benefit obligations		**29,598**	42,901
Deferred tax liabilities		**212,223**	221,807
		1,254,396	1,600,155
Current liabilities			
Trade payables	12	**949,587**	722,288
Other payables and deposits received		**964,347**	1,008,234
Current portion of interest-bearing borrowings		**1,319,378**	1,123,198
Advance payments from customers		**146,218**	123,179
Taxation		**33,910**	10,191
		3,413,440	2,987,090
Total liabilities		**4,667,836**	4,587,245
Total equity and liabilities		**8,137,489**	8,481,506
Net current assets (liabilities)		**(960,372)**	(960,357)
Total assets less current liabilities		**4,724,049**	5,494,416

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 Hong Kong 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 2015 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 1: Disclosure Initiative

The amendments include changes in the following five areas: (1) materiality; (2) disaggregation and subtotals; (3) structure of notes; (4) disclosure of accounting policies; (5) presentation of items of other comprehensive income arising from investments accounted for using equity method. It is considered that these amendments are clarifying amendments that do not directly affect an entity's accounting policies or accounting estimates. The adoption of the amendments did not have any significant impact on the consolidated financial statements.

Amendments to HKASs 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortisation

HKAS 16 and HKAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments to HKAS 16 clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments to HKAS 38 clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The adoption of the amendments did not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 11: Accounting for Acquisitions of Interests in Joint Operations

The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in HKFRS 3, shall apply all of the principles on business combinations accounting in HKFRS 3 and other HKFRSs except for those principles that conflict with the guidance in HKFRS 11. In addition, the acquirer shall disclose the information required by HKFRS 3 and other HKFRSs in relation to business combinations. The adoption of the amendments did not have any significant impact on the consolidated financial statements.

Annual Improvements Project – 2012-2014 Cycle

The amendments relevant to the Group include the followings:

1) HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in Methods of Disposal

These amendments clarify the accounting for a change in an entity's disposal plan from a plan to sell to a plan to distribute a dividend in kind to its shareholders (or vice versa). Such a reclassification shall not be treated as a change to a plan of sale (or distribution to owners) and accounted for as such. Consequently, such a change in classification is considered as a continuation of the original plan of disposal and the entity will not follow the accounting for a change to the plan. Besides, to address the lack of guidance in circumstances when an asset no longer meets the criteria for held for distribution to owners, the amendments clarify that an entity should cease to apply held-for-distribution accounting in the same way as it ceases to apply the held-for-sale accounting when the asset no longer meets the held-for-sale criteria. The adoption of the amendments did not have any significant impact on the consolidated financial statements.

2) HKFRS 7 Financial Instruments: Disclosures

HKFRS 7 is updated as follows:

a) Servicing contracts

These amendments clarify what kind of servicing contracts may constitute continuing involvements for the purposes of applying the disclosure requirements for transferred financial assets that are derecognised in their entirety.

b) *Applicability of the Amendments to HKFRS 7 concerning Offsetting to Condensed Interim Financial Statements*

These amendments also clarify that the additional disclosure required by the amendments to HKFRS 7 concerning offsetting is not specifically required for all interim periods.

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

3) *HKAS 19 Employee Benefits: Discount Rate - Regional Market Issue*

The amendment clarifies that the depth of the market for high quality corporate bonds used to determine the discount rate for post-employment benefit obligations should be assessed at a currency level and not at country level. The adoption of the amendment did not have any significant impact on the consolidated financial statements.

4. REVENUE

The Group's revenue represents the sale of goods at invoiced value to customers, net of returns, discounts and value added tax.

5. 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, instant food and others. The segment of others includes investment holding, properties investment for rental propose, logistics 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 the profit (loss) before taxation, share of results of associates and joint ventures and unallocated income (expenses), net.

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 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 available-for-sale financial assets, 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

The segment information for the years ended 31 December 2016 and 2015 are as follows:

	2016					
	Instant noodles	**Beverages**	**Instant food**	**Others**	**Inter-segment elimination**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Revenue						
Revenue from external customers	3,239,083	4,903,007	129,386	100,387	–	8,371,863
Inter-segment revenue	97	1,050	7,750	166,343	(175,240)	–
Segment revenue	3,239,180	4,904,057	137,136	266,730	(175,240)	8,371,863
Segment result after finance costs	253,636	119,397	(5,309)	(13,338)	756	355,142
Share of results of associates and joint ventures	(15)	16,491	(4,898)	–	–	11,578
Unallocated expenses, net	–	–	–	5,064	–	5,064
Profit (loss) before taxation	253,621	135,888	(10,207)	(8,274)	756	371,784
Taxation	(78,224)	(72,871)	(562)	(7,100)	–	(158,757)
Profit (loss) for the year	175,397	63,017	(10,769)	(15,374)	756	213,027

	2015					
	Instant noodles	**Beverages**	**Instant food**	**Others**	**Inter-segment elimination**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Revenue						
Revenue from external customers	3,612,658	5,243,762	136,647	109,743	–	9,102,810
Inter-segment revenue	84	470	208	137,403	(138,165)	–
Segment revenue	3,612,742	5,244,232	136,855	247,146	(138,165)	9,102,810
Segment result after finance costs	391,326	93,976	(14,641)	(15,059)	1,216	456,818
Share of results of associates and joint ventures	–	17,925	(6,643)	–	–	11,282
Unallocated income, net	–	–	–	3,398	–	3,398
Profit (loss) before taxation	391,326	111,901	(21,284)	(11,661)	1,216	471,498
Taxation	(117,404)	(71,046)	(84)	(1,480)	–	(190,014)
Profit (loss) for the year	273,922	40,855	(21,368)	(13,141)	1,216	281,484

	2016					
	Instant noodles	**Beverages**	**Instant food**	**Others**	**Inter-segment elimination**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Assets						
Segment assets	3,230,954	4,435,876	147,305	1,004,356	(893,579)	7,924,912
Interest in associates	–	25,338	(1,660)	–	–	23,678
Interest in joint ventures	–	88,304	8,342	–	–	96,646
Unallocated assets						92,253
Total assets						8,137,489
Liabilities						
Segment liabilities	1,025,941	2,774,616	69,842	1,641,818	(873,979)	4,638,238
Unallocated liabilities						29,598
Total liabilities						4,667,836
Other information						
Depreciation and amortisation	114,590	442,004	8,055	17,771	–	582,420
Capital expenditures	32,170	153,238	1,234	26,817	–	213,459
Interest income	42,742	7,666	203	1,614	(19,510)	32,715
Interest expenses	4,340	47,812	–	41,918	(19,510)	74,560
Impairment loss	8,440	7,737	1,165	–	–	17,342
Termination benefits	–	17,639	–	–	–	17,639

	2015					
	Instant noodles	Beverages	Instant food	Others	Inter-segment elimination	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Assets						
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
Liabilities						
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
Other information						
Depreciation and amortisation	112,515	410,643	9,002	18,723	–	550,883
Capital expenditures	144,533	319,738	1,317	11,994	–	477,582
Interest income	50,014	8,568	139	12,109	(25,187)	45,643
Interest expenses	661	44,074	–	42,290	(25,187)	61,838
Impairment loss	9,001	16,901	–	–	–	25,902
Termination benefits	–	42,721	–	–	–	42,721

6. OTHER REVENUE AND OTHER NET INCOME

	2016	2015
	US$'000	*US$'000*
Other revenue		
Interest income	**32,715**	45,643
Gross rental income from investment properties	**4,184**	1,268
	36,899	46,911
Other net income		
Technical consultancy fee	**11,522**	16,615
Gain on sales of scrapped materials	**21,614**	25,748
Gain on disposal of available-for-sale financial assets	**6,862**	5,736
Change in fair value of investment properties	**3,177**	—
Government grants	**44,350**	44,996
Others	**30,243**	22,138
	117,768	115,233
	154,667	162,144

7. PROFIT BEFORE TAXATION

	2016	2015
This is stated after charging (crediting):	*US$'000*	*US$'000*
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	**74,578**	62,524
Interest on bank and other borrowings wholly repayable over five years	**651**	—
	75,229	62,524
Less: Borrowing costs capitalised into property, plant and equipment at weighted average capitalisation rate of 2.86% *(2015: 1.96%)*	**(669)**	(686)
	74,560	61,838
Other items		
Depreciation	**564,824**	534,078
Amortisation of prepaid lease payments	**16,843**	16,051
Amortisation of intangible asset	**753**	754

8. TAXATION

	2016	2015
	US$'000	*US$'000*
Current tax – PRC Enterprise income tax		
Current year	**125,956**	161,048
Under (Over) provision in prior year	**590**	(3,533)
	126,546	157,515
Deferred taxation		
Origination and reversal of temporary differences, net	**18,325**	11,124
Effect of withholding tax on the net distributable earnings of the Group's PRC subsidiaries	**13,886**	21,375
	32,211	32,499
Total tax charge for the year	**158,757**	190,014

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 profits subject to Hong Kong Profits Tax for the years ended 31 December 2016 and 2015.

The applicable PRC Enterprise income tax for the PRC subsidiaries is 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 the PRC (the "Western Region") with principal revenue of over 70% generated from the encouraged business activities are entitled to an 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 an income tax rate of 15% (2015: 15%).

9. DIVIDENDS

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

	2016	2015
	US$'000	*US$'000*
Final dividend proposed after the end of the reporting period of US1.58 cents *(2015: US2.29 cents)* per ordinary share	**88,551**	128,306

At meeting held on 27 March 2017, the directors recommended the payment of final dividend of US1.58 cents per ordinary share. The proposed final dividend has 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

	2016	2015
Profit attributable to ordinary equity shareholders (US$'000)	**176,884**	256,340
Weighted average number of ordinary shares ('000)	**5,602,925**	5,603,569
Basic earnings per share (US cents)	**3.16**	4.57

(b) Diluted earnings per share

	2016	2015
Profit attributable to ordinary equity shareholders (US$'000)	**176,884**	256,340
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	**5,602,925**	5,603,569
Effect of the Company's share option scheme	**504**	7,235
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**5,603,429**	5,610,804
Diluted earnings per share (US cents)	**3.16**	4.57

11. TRADE RECEIVABLES

The majority of the Group's sales are cash-on-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 impairment losses for bad and doubtful debts), based on invoice date, at the end of the reporting period is as follows:

	2016	2015
	US$'000	*US$'000*
0 – 90 days	**210,251**	215,529
Over 90 days	**18,659**	17,874
	228,910	233,403

12. TRADE PAYABLES

The trade payables to third parties, related parties 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:

	2016	2015
	US$'000	*US$'000*
0 – 90 days	**854,960**	700,892
Over 90 days	**94,627**	21,396
	949,587	722,288

13. COMMITMENTS

	2016	2015
	US$'000	*US$'000*
(a) **Capital expenditure commitments**		
Contracted but not provided for:		
Expenditures on properties, plant and equipment	**114,873**	147,768
Investment funds	**18,509**	27,789
	133,382	175,557

(b) **Commitments under operating leases**

The Group as lessee

At the end of the reporting period, the Group has total minimum lease payments under non-cancellable operating leases, which are payable as follows:

	2016	2015
	US$'000	*US$'000*
Within one year	**42,290**	39,779
In the second to fifth years inclusive	**76,431**	77,724
After five years	**20,496**	29,817
	139,217	147,320

The Group as lessor

The Group leases out certain of its investment properties under operating leases with average lease terms of 2-3 years and with options to renew the leases upon expiry at new terms. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2016	2015
	US$'000	*US$'000*
Within one year	**4,782**	3,793
In the second to fifth years inclusive	**4,316**	6,440
	9,098	10,233

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2016, the GDP of China grew by 6.7%, with growth rate reaching new low levels persistently. The Consumer Price Index (CPI) increased modestly by 2.0%, of which food prices increased by 3.8%, prices of raw materials, such as palm oil and sugar, continued to increase and were anticipated to maintain an upward trend in near term.

In 2016, the Group continued to proceed with the established operation strategy of transformation and upgrading, while persistent attention was also paid to optimize free cash flows and reduce capital expenditure to ensure the safe and solid foundation of the Group. In response to the emergence of the middle-class group and the diversified demand from consumers, products at various price levels were launched to satisfy the diversified market demand. Brand investment was progressing steadily. Through the establishment of the Go-to-market Innovation Center, opportunities of channel diversification were captured actively, channel inventories were maintained at healthy levels, and downward shift of channels were reinforced to capture opportunities arising from urbanization to pursue product innovations continuously towards the high-end and healthy direction. Food safety was moving towards the direction of securing consumers' confidence, management systems, such as setting food safety as entry barrier and source tracing management, were implemented on continuous basis, and human resources management was implemented persistently, with a view to achieving the objectives of "safety, cost saving, higher efficiency and innovation".

Having considered that most of the Group's transactions are denominated and settled in RMB and the change in the presentation currency could also reduce the impact of any fluctuations in the exchange rate of the US Dollars against the RMB on the consolidated financial statements of the Group, and enabling the Shareholders of the Company to have a more accurate picture of the Group's financial performance, the Group has decided to change the presentation currency to RMB and will take effect from 1 January 2017.

In 2016, the Group's revenue decreased by 8.03% to US$8,371.9 million yoy, decreased by about 3% in RMB yoy, (year-on-year compared with the corresponding period in 2015). Revenue from instant noodles and beverages decreased by 10.34% and 6.49%, respectively, yoy. The overall revenue of the Group in the full year decreased yoy was less extent than the 9.44% decrease yoy recorded in the first three quarters of the year. Due to the revenue decline in the first half and rising price from raw materials in the second half, the Group's gross profit margin dropped by 0.56 ppt. to 31.30% yoy. As the Group increased advertising expenditure to enhance branding, distribution costs represented 21.70% of the turnover for the period and increased by 1.00 ppt. yoy. EBITDA of the Group in 2016 decreased by 4.09% to US$996.0 million yoy, EBITDA margin increased by 0.49 ppt. to 11.90% yoy. Profit attributable to owners of the Company during the year decreased by 31.00% to US$176.9 million, improved from the yoy declining trend recorded in the three quarters of the year. Profit margin attributable to owners was 2.11%, decreased by 0.71 ppt. yoy, earnings per share decreased by US 1.41 cents to US 3.16 cents.

INSTANT NOODLE BUSINESS

During the year of 2016, the Group's revenue from the instant noodle business was US$3,239.2 million, which dropped by 10.34% yoy, accounting for 38.69% of the total revenue of the Group. Benefited by the results from the "Back to classics" strategy and the launch of the "Premium Soup" series, the rate of decline in sale of instant noodles in the full year narrowed further as compared to the decline rate of the previous three quarters with an upward recovery trend. During the year, gross profit margin of instant noodles decreased by 1.34 ppt. to 28.78% due to rising price of palm oil and a decline in sales. As gross profit decreased and advertising expenditure increased during the year for brand building, profit attributable to owners of the Company in the overall instant noodle business decreased by 35.97% to US$175.4 million, profit margin attributable to owners decreased by 2.17 ppt. to 5.41% yoy.

According to the data from AC Nielsen, overall sales volume of the instant noodle market decreased by 5.7% while sales amount grew by 1.3% in 2016. The growth in the sales amount of instant noodles was mainly due to the persistent product premiumization and driven by the urbanization of population. The market shares of Master Kong in terms of sales volume and sales amount were 42.9% and 51.1%, respectively, decreased as compared to last year. But the market shares in terms of both sales volume and sales amount resumed a rising trend continuously since July and September, respectively.

In 2016, in addition to products from the existing upgraded "Premium Classic (豐盛經典)" series, the diversified demand from consumers was also satisfied through the products of the more high-end and high-quality soup series as well as the products from the "Return of Classics (經典重現)" series dedicated to consolidate the existing and loyal-taste consumers. On product innovations, new products were developed continuously by capturing the consumption trend and health awareness to satisfy consumer demand more precisely. To ensure market demand was fully satisfied, branding activities and communication were reinforced during 2016 to increase recognition by consumers. Meanwhile, by leveraging on the Olympic Games, hometown taste and national feeling were delivered through the "Master Kong Rio Noodles Restaurant (康師傅里約麵館)", the reputation and patriotic image of the Master Kong brand was enhanced significantly. Marketing through sports activities continued by providing "Nutritional Support for Full Course Marathon (馬拉松提供全程營養支持)" and collaborating in the "Volleyball Player Zhu Ting Caring Companionship Plan (女排朱婷的安心陪伴計劃)" to highlight the nutrition and safe diet culture promoted by Master Kong and enhance operating performance continuously.

High-end noodles

Based on cautious assessment and careful decision, the products of the "Classic Series (經典系列)" were relaunched in June, while branding activities and communication were reinforced to increase recognition by consumers. During the second half of 2016, the market shares of roasted, spicy and pickled mustard products resumed a continuous rising trend in a stable manner, together with the launching of premium soup new products, improvement in sales was recorded in the second half of the year.

“Roasted Beef (紅燒牛肉)” joined hands with TFBOYS and Yu Quan (羽泉) to launch the “Dream Partner Series (夢想伙伴篇)” advertising campaign for the new year, invigorated the brand image and reinforced the leadership position. Innovative eating methods launched by “Fresh Shrimp & Fish Pan (鮮蝦魚板)” were warmly welcomed by young families and children consumers, and new era of instant noodles eating was opened up. “Pickled Mustard (老壇酸菜)” cooperated with Kung Fu Panda and Wang Baoqiang to create the micro movie “Kung Fu of one bowl noodle (一碗麵的功夫)”, the promotion was deeply preferred by consumers and won a number of domestic and overseas marketing prizes. “Spicy Beef/Fried Pepper Beef/Pickled Pepper Beef/Pungent Beef (香辣牛肉/爆椒牛肉/泡椒牛肉/麻辣牛肉)” collaborated with TV drama series “iPartment (愛情公寓)” to film and produce the second season micro movie “The Legend of Spicy Heroes (辣味英雄傳)”, became a hot topic in Weibo many times and the brand energy was enhanced continuously.

Premium noodles/innovative products

In terms of product innovations, with rising consumer income and emergence of the middle-class group, consumer behavior pursued for a high-end and refined trend. In 2016, the premium healthy concept of broth was promoted and emphasized, innovative products, such as “Black and White Pepper (黑白胡椒)”, “Golden Stock (金湯)”, “Ingenuity Broth (匠湯)” and “Fresh Banquet Upgraded Version (愛鮮大餐升級版)”, with emphasis on the nutrition of compound broth and health value of compound acid, were developed and launched in the market consecutively to meet the diversified consumer demand for health and customized needs accurately. The “Black and White Pepper (黑白胡椒)” series was launched in the market in February. According to the Kantar consumer research data, the penetration rate continued to rise and the brand awareness continued to grow, average monthly sales surpassed all new products launched during the same period. Products of the “Golden Stock (金湯)” series were launched in the market in December to target at the mainstream consumer segment by promoting the product benefits in the innovative combination of nutrition in compound broth and health value in compound acids. The Golden Stock series have received warm response from consumer.

Mid-end noodles/Snack noodles

Master Kong’s mid-end noodles such as “Jin Shuang” and “Super FuManDuo”, focused on affordable and large-volume demand in the consumer market, which still secured the leading position of ranking first in the market in 2016. Snack noodle “Xiang Bao Cui (香爆脆)” expanded its operations focusing on business districts enhanced the reputation of high-end snack noodles. The “Cui Xuan Feng + Green Bean” boxed casual snack was launched in December and was a more personalized snack. Meanwhile, direct/e-commerce channels were adopted, coupled with online special promotional activities, to fit the preferences of young consumers and enhance brand awareness.

In the face of rising raw material costs, the robot 4.0 automated energy saving and consumption reduction project was promoted, and the automation and energy saving and consumption reduction project was initiated, in addition to the optimization of supply chain management in terms of cutting costs. Also, in terms of cost enhancement, continuous efforts were made in the upgrading and construction of the new second-generation plant through regional supply chain resources as well as in the effective development of qualified suppliers and management and the implementation of cost control. In terms of R&D and food safety control, not only active efforts were made in developing production technology for new products (categories) and in the discussion and distribution of equipment to ensure the successful launch of new products, but food safety verification was also enhanced continuously and traceability management was deepened to provide consumers with better and safer products. Corporate image building was actively promoted to provide consumers with safe quality assurance.

BEVERAGE BUSINESS

In 2016, the overall revenue of the beverage business was US$4,904.1 million, dropped by 6.49% yoy, accounting for 58.58% of the Group's total revenue. Revenue has achieved yoy growth in the second half of 2016. During the year, gross profit margin of the beverage business decreased by 0.16 ppt. to 33.02% yoy, mainly due to sales decline. Because of a reduction in expenses such as compensation during the year, and the effects of depreciation in Renminbi and other currencies in last year, profit attributable to owners in the beverage business for the year amounted to US$29.26 million, representing an increase of by 65.88% yoy. Profit margin attributable to owners increased by 0.26 ppt. yoy to 0.60%.

According to the data from AC Nielsen, the growth of the beverage industry in China saw a slowdown in 2016. The sales volume and sales amount of the beverage industry in China grew by 2.7% and 4.1%, respectively, on a yoy basis in 2016. In 2016, the ready-to-drink (RTD) tea (including milk tea) of the Group's beverage business accounted for 53.2% market share in terms of sales volume and continued to secure top ranking position in the market. The fruit juice brands under Master Kong and Pepsi's Tropicana accounted for a market share of 17.9% in 2016, ranking No. 2 in the market. Market share for bottled water in 2016 was 15.1%, ranking No. 3 in the market for the time being.

According to the database of Canadean, in terms of sales volume, the overall market share of Pepsi carbonated drinks increased by 1.8 ppt. to 30.6% in 2016, as compared to the same period of last year, and the market share of Pepsi Cola increased to 48.3% in the cola carbonated drinks market in 2016 and was the No.1 brand in the market. In the juice flavor carbonated drinks market, the market share of the Mirinda brand was 36.1%.

RTD Tea

The flagship product "Master Kong Ice Tea" is the official principal partner for tournaments of the National Basketball Association (NBA) in United States and is the first non-North American sponsor for intermission shows. NBA commemorative canned products of Ice tea were released on the Shop No.1 of the e-commerce platform by taking advantage of hot events, such as NBA China Games and visits of NBA players to China. One-litre commemorative products with Mickey and Minnie dolls were launched at the opening of Shanghai Disneyland. Brand exposure was successfully created through international cooperation, and continuous efforts were made to develop timing for drinking and sales opportunities with diversified packaging. Master Kong Green Tea entered into crossover cooperation with a TV drama Noble Aspirations (青雲志), attracted the overwhelming response from a large number of young consumers. Meanwhile, grapefruit green tea based on health concept was launched and effectively increased market share and sales through the promotional campaign of lucky draw for another bottle of green tea. New products of Jasmine Fruit Tea were launched to expand the overall jasmine product market and consolidated the leadership position in this category. Nong Nong Lemon Tea (濃濃檸檬茶), a new product that stressed blending of quality tea leaves using high-end tea extraction techniques and adding fresh lemon for upgraded enjoyment, created aromatic enjoyment with enhanced taste to satisfy the market demand of young white-collar workers pursuing for rich taste and high-end enjoyment.

Bottled water

The market of bottled water was clearly divided into three price bands, low, middle and high prices. Master Kong bottled drinking water (康師傅瓶裝水) and Youyue (優悅) purified water and HanYangQuan (涵養泉)of the Group, together with Aquafina (純水樂) launched by Pepsi, emphasized on international branding background and targeted accurately at different geographical characteristics for promotions within different price bands.

Master Kong bottled drinking water adjusted its strategies in 2016 and returned to the low-priced market to seize market shares with full force, fruitful result was reflected in the third quarter with significant growth recorded. In addition to strengthening operation by fulfilling specifications continuously, family packs consumption in cartoons were promoted. Since Youyue (優悅) purified water with nano-level of purification and clarity was launched in April, its healthy branding was enhanced by the "2016 Youyue • Li Ning 10 km Running League (2016年優悅·李寧10公里路跑聯賽)" and its market share kept on rising and gradually established branding awareness in the mid-priced bottled water market. Meanwhile, the manufacturing plant for the production of Youyue purified water received NSF and IBWA international certifications, giving perfect support to enhance the international image of the Youyue brand. In addition to pricing strategy, Pure Joy of Water (純水樂) also leveraged on the extensively distributed production network of Master Kong to fully realize economies of scale.

Carbonated drinks

On carbonated drinks, Pepsi/Mirinda/7-up highly consolidated online and offline resources through the marketing activities of “Bring Joy Home (把樂帶回家)” during the Lunar New Year. Pepsi/Mirinda capitalized on the heat wave upon the opening of Shanghai Disneyland and created the nationwide Disneyland marketing activities of “Dream for Now, Open the Cap to Win Millions of Surprises (渴望就現在,揭蓋贏億份驚喜)”, the participation rate of consumers reached historical new peak level and increased the brand preference effectively.

Juice drinks

The Chinese style juice drink, “Rock Candy Pear”, continued to fulfill specifications and develop the catering channels effectively and increase sales. The Traditional Fruit Mix Sour Plum (傳世清飲酸梅湯) was strong in product strength and deeply preferred by consumers. And by penetrating operations continuously in business districts and focusing on medium size packaging and sales to secure the leadership position among Chinese style fruit juices. In the western fruit juice product series, in addition to continuous growth led by honey grapefruit and new product Mango Xiaolao (芒果小酪), the Master Kong juice drinks also continued to launch new products such as Fragrant Laichi (香凝荔枝) and Passionfruit (金橙百香果). Tropicana (果繽紛) leveraged on Jolin Tsai (蔡依林) as its spokesperson to launch the brand marketing activities “Colorful Blend (混出繽紛)” and obtained active feedbacks from consumers and additional growth was achieved.

Milk drinks/Lactic acid bacteria drinks

After PepsiCo and Starbucks, Master Kong also entered into strategic cooperation with the internationally renowned brand, Ovaltine, in 2017. Besides consolidating market channels in a gradual and orderly manner, stable and solid foothold was established to make full preparation for operations in future, and a comprehensive range of categories was actively developed within the beverage business of Master Kong. The market expansion and planning of milk drinks implied that the beverage business of Master Kong would be able to satisfy more demand and experiences from consumers in many aspects, such as beverage flavor, nutrition and health. The strength of Master Kong in milk drinks brand combination was also reinforced through strategic partnership with international brands, and the brand combination could meet the channel partners’ one-stop service needs.

The segment of lactic acid bacteria drinks collaborated with Wei Chuan (味全) to promote its key LPF room temperature lactic acid bacteria beverage “Happy Days of Digestive Tract (天天腸快樂)”. As the market for room temperature milk products in China continued to grow, we focused promotions in Shanghai and first-tier cities in Eastern China, and successfully established market presence in several cities with value at tens of millions of yuan, and also became the No.1 brand of room temperature lactic acid bacteria beverage in Shanghai and Jiangsu, creating a new growth point of beverage business.

Coffee drinks

Brand exposure was created successfully in the cooperation with international strategic partner Starbucks, and full green light was given in the third quarter of 2016 to proceed with the launching of bottled Frappuccino in the market of mainland China and the launching received positive response from the market.

After two batches of voluntary retirement in April and October 2016,and was the end of 3 years integration period, Pepsi Beverage's sales team has stabilized. In 2016, the experience and skills of the sales team continued to be enhanced. Team skills were reinforced and team morale was stabilized. In response to the attributes and competitive environment of the carbonated industry, Pepsi Beverage commenced channel strategy adjustment and operation in 2016 to increase distribution efficiency, strengthen channel management, have full control over channels and improve the quality of end-consumer services.

In supply chain management, the beverage business continued to enhance the systems and processes, from procurement of raw materials for products to sales and production planning in factories, and further enhancement was also extended to channel inventory management and optimization of segments. Facing the challenge of rising raw material prices, all factories reduced operating cost by continuing "energy saving and carbon reduction", while emphasizing on environmental protection. In order to enhance inspection capabilities for food safety projects, two quality inspection centers were established for the beverage business and the centers were equipped with international advanced testing devices, equipment, facilities and professional inspection technicians. Both laboratories received CNAS (China National Accreditation Service for Conformity Assessment) certification, indicating that the two laboratories of our beverage business were recognized at the national level.

INSTANT FOOD BUSINESS

According to the data from Nielsen, overall sales volume of the biscuit market for the full year of 2016 decreased by 1.1% yoy, sales amount increased slightly by 0.2% yoy, of which sales volume of sandwich crackers decreased by 2.0% while sales amount decreased by 2.1% yoy. In terms of sales amount, the market share of Master Kong egg rolls was 18.1% and ranked No. 1 in the market. The market share of sandwich crackers was 11.7% and ranked No. 2 in the market.

During the year, the instant food business focused on its own core operation of cakes and crackers, consolidated distribution channels, optimized the design of supply chain, which led to obvious improvement in operating results. In 2016, revenue of the instant food business grew by 0.21% to US$137.1 million yoy and amounted to 1.64% of the Group's revenue. Benefited from the fine production mode, gross profit margin grew by 2.80 ppt. to 36.63% yoy. Due to the increase of gross profit and cost saving, as a result, a reduction of overall losses in the year of 2016 to a loss of US$10.77 million, improved by 49.60% yoy.

On product innovations, the high-end new product, bite size wafer sandwich crackers, were launched and developed into gift pack products to seize a share of the gift market in the festive season. In operation planning, the Company focused on long-term strategic planning, acted as distributor for the biscuit products of the international renowned brand, McVitie's, parts of in parts of mainland China to satisfy the demand for imported biscuits from consumers and channel customers.

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 December 2016, the Group's cash and bank deposits totalled US$1,473.2 million, an increase of US$449.5 million from 31 December 2015. A sufficient amount of cash holding was still maintained. As at 31 December 2016, the Group's total assets and total liabilities amounted to approximately US$8,137.5 million and 4,667.8 million respectively. This showed a decline in US$344.0 million and an increase in US$80.59 million respectively compared to 31 December 2015. The debt ratio increased by 3.27 ppt. to 57.36% compared to 31 December 2015. Gearing ratio was 0.32 times, 0.17 ppt. lower than the ratio on 31 December 2015.

As at 31 December 2016, the Group's total interest bearing borrowings decreased by US$139.6 million to US$2,310.0 million. At the end of the year, the Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 72% and 28% 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 43% and 57% 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 year, Renminbi depreciated against US dollar by 6.96%, due to the fluctuation of exchange rate, brought realized/unrealized exchange losses of US$12.81 million in the Group's income statement from January to December 2016.

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$17.64 million have been recognised as expenses during the year ended 31 December 2016.

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 year ended 31 December 2016, the Group has committed for the payment of US$4.24 million arising from the Compensation Plan and such payment has been recognized as expenses by the Group.

FINANCIAL RATIO

	For the year ended 31 December	
	2016	2015
Finished goods turnover	**11.43 Days**	10.87 Days
Trade receivables turnover	**10.11 Days**	9.46 Days
Current ratio	**0.72 Times**	0.68 Times
Debt ratio (Total liabilities to total assets)	**57.36%**	54.09%
Gearing ratio (Net debt to equity attributable to owners of the Company)	**0.32 Times**	0.49 Times

HUMAN RESOURCES

As at 31 December 2016, the Group had 65,182 employees. Among them, 12 employees were holders of doctoral degrees, 370 employees were holders of master's degrees, 34,929 were graduates of bachelor's degrees and post-secondary education, accounting for 53.6% of the Group's total number of employees; 29,871 employees had education qualifications below post-secondary level, accounting for 45.8% of the Group's total number of employees. In respect of talent development, Master Kong nurtures talents and promotes optimization of the strategic talent development mechanism persistently to focus on the cultivation of high-level talents, and firmly believes in choosing the right persons and provides them with proper training to nurture outstanding talents for the perpetual operation of the corporate business.

PROSPECTS

On review of 2016, we had overcome a difficult year by insisting product upgrading and organization transformation. Looking ahead in 2017, the packaged food industry is currently facing challenges in the macroeconomic environment, including the slowdown in economic growth and rising raw material costs, as well as opportunities arising from rapid development in urbanization and emergence of the middle class. At the 25th anniversary of Master Kong's instant noodles, the Group will continue to lead the instant noodle industry to trading up as our own mission. After the discussion and the approval of the board of directors, management team has been planning and are in the progress of disposal of under-utilized assets to enrich the future cash flow. The Group will also manage and control expenses with better efficiency. Facing the emergence of middle-class group, the Group will satisfy the diversified demand from consumers with multiple price tiers. To fulfill the needs of consumers, we will further develop and innovate products, consolidate hero products, prepare to capitalize on urban population and plan for high-end products to cater for the demand from middle-class.

The Group will leverage on the opportunities arising from urbanization and emergence of the middle class by keeping closer to actual demand of consumers to satisfy the requirements of different beverage opportunities and scenarios. More interactions with consumers will be conducted through new media and new technologies to further penetrate and refine channels and provide quality products and services for consumers together with channel partners to enhance growth in results. Food safety will also be strictly assured and the management system will be optimized continuously. Scientific consumer education programmes will be enhanced continuously and sports marketing will be implemented to enhance the confidence and brand equity among consumers.

2017 will be a year of both opportunities and challenges, as well as a year of growth and changes. The Group has a strong foundation and a stable operation team, facing fast changes in the general environment of the market and demand of consumers, apart from focusing on strengthening our existing competitive advantages, we also need to ensure the sustainable development of businesses. In the process of generation change and transformation in the Group, continuous enhancement in capabilities and reorganization in the organization structure will be complemented with simplified management and continuous optimization of process to cater for existing and future business needs of the Group. We will focus on long-term development opportunities and strive to bring stable business development and solid growth to the Group.

CORPORATE GOVERNANCE

We have, throughout the year ended 31 December 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.

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 2016. 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 this year.

Internal Control and Risk Management

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

The audit committee will assist the Board to review the design and operational effectiveness of the risk management and internal control system of the Group. Under the supervision of the Board, the Company has established a clear structural organization and responsibility and authorization. As of 31 December 2016, we completed the improvement and compliance control of internal control diagnosis and approval authorization including finance and operation. According to the review of internal control and audit department, we have not identified any material deficiency in internal control and risk management.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. 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 year ended 31 December 2016.

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

Date of grant	Number of share options granted	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
4 July 2016	10,148,000	4 July 2021 to 3 July 2026	$7.54	–	4,300,000

For the period of twelve months ended 31 December 2016, 1,630,000 options had been exercised under the Share Option Scheme. Weighted average exercise price was HK$9.36 and the weighted average market closing price before the date of exercise was HK$9.53.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 28 June 2017. 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 AND CLOSURE OF REGISTER OF MEMBERS

The Board has recommended the payment of a final dividend of US1.58 cents per ordinary share of the Company in respect of the year ended 31 December 2016. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on or about 19 July 2017.

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

The register of members of the Company will be closed from 26 June 2017 to 28 June 2017 (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 4:30pm on Friday, 23 June 2017.

(2) To qualify for the final dividends

The register of members of the Company will be closed from 5 July 2017 to 7 July 2017 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to qualify for the final 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 4:30pm on Tuesday, 4 July 2017.

BOARD OF DIRECTORS

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

By Order of the Board
Wei Ing-Chou
Chairman

Shanghai, the PRC, 27 March 2017

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

* *For identification purpose only*