康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 322)

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31ST MARCH 2013

SUMMARY

US$'000	For the three months ended 31 March 2013	2012 (Restated)	Change
• Turnover	2,648,221	1,927,482	↑ 37.39%
• Gross margin	29.27%	29.11%	↑ 0.16 ppt.
• Gross profit of the Group	775,122	561,055	↑ 38.15%
• EBITDA	294,986	444,696	↓ 33.67%
• Profit for the period	117,101	303,717	↓ 61.44%
• Profit – after excluding gain on bargain purchase	117,101	113,135	↑ 3.51%
• Profit attributable to owners of the Company	104,876	199,465	↓ 47.42%
• Profit attributable to owners – after excluding gain on bargain purchase	104,876	104,165	↑ 0.68%
• Earnings per share (US cents)			
Basic	1.88	3.57	↓ 1.69 cents
Diluted	1.87	3.55	↓ 1.68 cents

At 31 March 2013, cash and cash equivalents was US$1,433.467 million and gearing ratio was -0.03 times.

2013 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 2013 together with the restated comparative figures for the corresponding period in 2012. 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 2013

		For the three months ended 31 March (Unaudited)	
		2013	**2012 (Restated)**
	Note	*US$'000*	*US$'000*
Turnover	3	2,648,221	1,927,482
Cost of sales		(1,873,099)	(1,366,427)
Gross profit		775,122	561,055
Other revenue and other net income		25,298	211,093
Distribution costs		(503,745)	(329,462)
Administrative expenses		(86,177)	(54,593)
Other operating expenses		(15,087)	(19,154)
Finance costs	6	(10,243)	(5,645)
Share of results of associates and jointly controlled entities		1,576	—
Profit before taxation	6	186,744	363,294
Taxation	7	(69,643)	(59,577)
Profit for the period		117,101	303,717
Attributable to:			
Owners of the Company		104,876	199,465
Non-controlling interests		12,225	104,252
Profit for the period		117,101	303,717
Earnings per share	8		
Basic		US 1.88 cents	US 3.57 cents
Diluted		US 1.87 cents	US 3.55 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Three Months Ended 31 March 2013

	For the three months ended 31 March (Unaudited)	
	2013	**2012 (Restated)**
	US$'000	*US$'000*
Profit for the period	117,101	303,717
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Actuarial gain on defined benefit obligations	—	1,754
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on consolidation	11,276	(2,636)
Fair value changes in available-for-sale financial assets	7,222	4,163
	18,498	1,527
Other comprehensive income for the period, net of tax	18,498	3,281
Total comprehensive income for the period, net of tax	135,599	306,998
Total comprehensive income attributable to:		
Owners of the Company	120,092	203,289
Non-controlling interests	15,507	103,709
	135,599	306,998

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2013

	Note	At 31 March 2013 (Unaudited) US$'000	At 31 December 2012 (Restated) US$'000	At 1 January 2012 (Restated) US$'000
ASSETS				
Non-current assets				
Property, plant and equipment		5,177,787	5,001,736	4,029,872
Intangible assets		28,623	28,811	–
Interests in jointly controlled entities		71,833	63,114	–
Interests in associates		21,381	21,324	–
Prepaid lease payments		281,131	284,040	186,276
Available-for-sale financial assets		63,771	55,032	104,422
Deferred tax assets		50,893	50,774	52,176
		5,695,419	5,504,831	4,372,746
Current assets				
Financial assets at fair value through profit or loss		4,397	640	560
Inventories		456,229	478,113	312,562
Trade receivables	10	260,314	233,104	155,040
Prepayments and other receivables		389,855	418,677	367,814
Pledged bank deposits		9,460	7,673	9,662
Bank balances and cash		1,424,007	830,225	590,390
		2,544,262	1,968,432	1,436,028
Total assets		8,239,681	7,473,263	5,808,774
EQUITY AND LIABILITIES				
Capital and reserves				
Issued capital		27,969	27,964	27,951
Reserves		2,639,437	2,514,909	2,052,128
Total capital and reserves attributable to owners of the Company		2,667,406	2,542,873	2,080,079
Non-controlling interests		961,819	946,312	586,521
Total equity		3,629,225	3,489,185	2,666,600
Non-current liabilities				
Long-term interest-bearing borrowings		923,572	984,761	549,382
Other non-current liabilities		263	220	–
Employee benefit obligations		26,745	26,120	33,730
Deferred tax liabilities		167,816	178,466	131,092
		1,118,396	1,189,567	714,204
Current liabilities				
Trade payables	11	1,347,872	1,043,295	974,113
Other payables		1,114,000	1,110,292	660,995
Current portion of interest-bearing borrowings		425,002	499,711	700,695
Advance payments from customers		527,736	82,294	66,501
Taxation		77,450	58,919	25,666
		3,492,060	2,794,511	2,427,970
Total liabilities		4,610,456	3,984,078	3,142,174
Total equity and liabilities		8,239,681	7,473,263	5,808,774
Net current liabilities		(947,798)	(826,079)	(991,942)
Total asset less current liabilities		4,747,621	4,678,752	3,380,804

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 2012 annual financial statements. The accounting policies adopted in preparing the condensed consolidated first quarterly financial statements for the three months ended 31 March 2013 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of the new/revised standard of Hong Kong Financial Reporting Standards ("HKFRSs") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2013:

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012)
HKAS 19 (2011)	Employee Benefits (effective for annual periods beginning on or after 1 January 2013)
HKAS 27 (2011)	Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
HKAS 28 (2011)	Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013)
HKFRS 10	Consolidated financial statements (effective for annual periods beginning on or after 1 January 2013)
HKFRS 11	Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
HKFRS 12	Disclosure of Interests with Other Entities (effective for annual periods beginning on or after 1 January 2013)
Amendments to HKFRS 10, HKFRS 11, HKFRS 12	Additional transition relief — Consolidated financial statements, Joint Arrangements, Disclosures of Interests with Other Entities (effective for annual periods beginning on or after 1 January 2013)
HKFRS 13	Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)
Various HKFRSs	Annual Improvements Project — 2009-2011 Cycle (effective for annual periods beginning on or after 1 January 2013)
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013)

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 period and prior years except for HKAS 19 (2011).

2. Changes in accounting policies

HKAS 19 (2011): Employee Benefit

The new standard introduces a number of amendments to the accounting for employee benefits. Among them, HKAS 19 (2011) eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit obligations could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income under remeasurement reserve within equity. In addition, under the revised standard, all past service costs (including unvested past service costs) are required to be recognised immediately in profit or loss. The revised HKAS 19 (2011) has been effective as from 1 January 2013, and retrospective adoption is required. The effects of the adoption of these amendments are as follows:

	As previously reported *US$'000*	**Effect of the adoption of HKAS 19 (2011)** *US$'000*	**As restated** *US$'000*
Condensed consolidated income statement for three months ended 31 March 2012:			
Administrative expense	55,740	(1,147)	54,593
Profit for the period	302,570	1,147	303,717
Attributable to:			
Owners of the Company	198,318	1,147	199,465
Non-controlling interests	104,252	—	104,252
Condensed consolidated statement of comprehensive income for three months ended 31 March 2012:			
Actuarial gain recognised for defined benefit plan	—	1,754	1,754
Total comprehensive income for the year	304,097	2,901	306,998
Attributable to:			
Owners of the Company	200,388	2,901	203,289
Non-controlling interests	103,709	—	103,709
Earnings per shares for the three months ended 31 March 2012:			
Basic	US3.55 cents	US0.02 cents	US3.57 cents
Diluted	US3.53 cents	US0.02 cents	US3.55 cents
Condensed consolidated statement of financial position as at 31 December 2012:			
Employee benefit obligation	18,060	8,060	26,120
Reserves	2,522,969	(8,060)	2,514,909
– Remeasurement reserve	—	(14,288)	(14,288)
– Retained profits	1,559,147	6,228	1,565,375
Condensed consolidated statement of financial position as at 1 January 2012:			
Employee benefit obligation	14,064	19,666	33,730
Reserves	2,071,794	(19,666)	2,052,128
– Remeasurement reserve	—	(21,304)	(21,304)
– Retained profits	1,307,047	1,638	1,308,685

3. **Turnover**

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

4. **Segment information**

Segment results

	For the Three Months ended 31 March 2013					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Turnover						
Revenue from external customers	1,104,805	1,462,422	57,369	23,625	–	2,648,221
Inter-segment revenue	17	51	12	24,015	(24,095)	–
Segment revenue	1,104,822	1,462,473	57,381	47,640	(24,095)	2,648,221
Segment results after finance costs	139,861	46,001	1,311	(81)	(1,924)	185,168
Share of results of associates and jointly controlled entities	–	1,576	–	–	–	1,576
Profit (loss) before taxation	139,861	47,577	1,311	(81)	(1,924)	186,744
Taxation	(41,772)	(26,098)	(465)	(1,308)	–	(69,643)
Profit (loss) for the period	98,089	21,479	846	(1,389)	(1,924)	117,101

	For the Three Months ended 31 March 2012 (Unaudited)					
	Instant noodles (Restated) *US$'000*	**Beverages (Restated)** *US$'000*	**Instant food (Restated)** *US$'000*	**Others (Restated)** *US$'000*	**Inter-segment elimination (Restated)** *US$'000*	**Group (Restated)** *US$'000*
Turnover						
Revenue from external customers	1,029,524	817,490	59,485	20,983	–	1,927,482
Inter-segment revenue	14	68	32	25,944	(26,058)	–
Segment revenue	1,029,538	817,558	59,517	46,927	(26,058)	1,927,482
Segment results after finance costs	137,690	32,931	688	3,912	(2,509)	172,712
Gain on bargain purchase, net of direct expenses related to acquisition	–	190,582	–	–	–	190,582
Profit before taxation	137,690	223,513	688	3,912	(2,509)	363,294
Taxation	(42,521)	(15,541)	(556)	(959)	–	(59,577)
Profit for the period	95,169	207,972	132	2,953	(2,509)	303,717

Segment result represents the profit earned by each segment. 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.

4. **Segment information** *(continued)*

Segment assets

	At 31 March 2013					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Segment assets	2,967,425	5,070,381	174,416	741,535	(875,458)	8,078,299
Interests in jointly controlled entities	–	50,923	20,910	–	–	71,833
Interests in associates	–	21,381	–	–	–	21,381
Unallocated assets						68,168
Total assets						8,239,681

	At 31 December 2012					
	Instant noodles (Audited) *US$'000*	**Beverages (Audited)** *US$'000*	**Instant food (Audited)** *US$'000*	**Others (Audited)** *US$'000*	**Inter-segment elimination (Audited)** *US$'000*	**Group (Audited)** *US$'000*
Segment assets	2,916,279	4,328,382	188,739	573,601	(673,848)	7,333,153
Interests in jointly controlled entities	–	49,404	13,710	–	–	63,114
Interests in associates	–	21,324	–	–	–	21,324
Unallocated assets						55,672
Total assets						7,473,263

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

5. **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.

6. **Profit before taxation**

This is stated after charging:

	For the three months ended 31 March	
	2013 (Unaudited) *US$'000*	**2012 (Unaudited)** *US$'000*
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	10,243	5,645
Other items		
Depreciation	105,211	83,479
Amortisation	1,903	881

7. **Taxation**

	For the three months ended 31 March	
	2013	**2012**
	(Unaudited)	**(Unaudited)**
	US$'000	*US$'000*
Current tax – PRC Enterprise income tax		
Current period	60,363	51,969
Deferred taxation		
Origination and reversal of temporary differences, net	1,857	1,903
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	7,423	5,705
Total tax charge for the period	69,643	59,577

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 entities either incurred losses for taxation purpose or had no assessable profit subject to Hong Kong Profits Tax for the three months ended March 2013 and 2012.

The applicable PRC enterprise income tax for the PRC subsidiaries is at the statutory rate of 25% (2012: 25%).

According to the Tax Relief Notice (Cai Shui [2011] no. 58) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of PRC with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in the Western Region are entitled to a preferential rate of 15% (2012: 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 jointly controlled entities, the applicable rate is 10%. Deferred tax liability is provided on 50% of post-2007 earnings of the Group's PRC subsidiaries that are expected to be distributable in the foreseeable future. The remaining 50% of post-2007 earnings of the Group's PRC subsidiaries and the earnings of the Group's PRC associates and jointly controlled entities, which are held indirectly through PRC subsidiaries that are not expected to be distributable in the foreseeable future would be subject to additional taxation if they are distributed.

8. **Earnings per share**

(a) *Basic earnings per share*

	For the three months ended 31 March (Unaudited)	
	2013	**2012 (Restated)**
Profit attributable to ordinary shareholders (US$'000)	104,876	199,465
Weighted average number of ordinary shares ('000)	5,593,311	5,590,347
Basic earnings per share (US cents)	1.88	3.57

(b) *Diluted earnings per share*

	For the three months ended 31 March (Unaudited) 2013	2012 (Restated)
Profit attributable to ordinary shareholders (US$'000)	104,876	199,465
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	5,593,311	5,590,347
Effect of the Company's share option scheme	18,739	23,459
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,612,050	5,613,806
Diluted earnings per share (US cents)	1.87	3.55

9. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the three months ended 31 March 2013 (2012: nil).

10. 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 2013 (Unaudited) *US$'000*	At 31 December 2012 (Audited) *US$'000*
0 - 90 days	250,934	215,991
Over 90 days	9,380	17,113
	260,314	233,104

11. 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 2013 (Unaudited) *US$'000*	At 31 December 2012 (Audited) *US$'000*
0 - 90 days	1,316,965	1,019,916
Over 90 days	30,907	23,379
	1,347,872	1,043,295

12. Approval of first quarterly financial statements

The first quarterly financial statements of 2013 were approved by the board of directors on 20 May 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first quarter of 2013, the Gross Domestic Product (GDP) of the PRC increased by 7.7% year-on-year, which was lower than expected and the 7.9% growth in the fourth quarter of 2012. This indicated a slowing down of economic growth. In the first quarter, the increase in the Consumer Price Index (CPI) only ranged from 2.0% to 2.1% primarily due to the accelerated decline in food prices and substantial fallback of the CPI in March. The Producer Price Index (PPI) decreased by 1.6% to 1.9% year-on-year. However, the Consumer Confidence Index (CCI) picked up, indicating that the consumers remained confident of a new round of economic reform.

In the first quarter of 2013, the Group's turnover increased by 37.39% to US$2,648.221 million compared to the same period last year. Turnover for instant noodle and beverage increased by 7.31% and 78.89% respectively, while instant food slightly dropped by 3.56%. During the period, some of the major raw materials prices dropped. The Group's gross margin was improved by 0.16ppt. to 29.27%. The gross profit increased by 38.15%. Distribution costs as a percentage of sales increased by 1.93ppt. to 19.02% mainly because of the increase in advertisement and promotion spending for the Chinese New Year and preparation for the beverage high season. The Group's EBITDA and Profit attributable to owners of the Company were US$294.986 million and US$104.876 million respectively. In the first quarter of 2012, the strategic alliance between the Company and PepsiCo in the beverage business in the PRC was established and a gain on bargain purchase of US$191 million was recorded. The Group's EBITDA and profit attributable to owners of the Company increased by 16.08% and 0.68% respectively after excluding the gain on bargain purchase. With the gain, EBITDA and Profit attributable to owners of the Company decreased by 33.67% and 47.42% respectively. The Earnings per Share (EPS) in the first quarter of 2013 was 1.88 US cents.

Instant Noodles Business

In the first quarter of 2013, the growth of China instant noodle slowed down and sales value increased by 3.1% compared to the same period last year. Turnover of instant noodle business grew by 7.31% year-on-year to US$1,104.805 million and amounted to 41.72% of the Group's turnover. The sales growth for bowl noodle, high-end packet noodle and mid-end noodle were 7.32%, 4.54% and 14.50% respectively. Due to the drop in palm oil prices and better production management, production costs had been well controlled. Gross margin was improved by 0.31ppt. to 30.16% year-on-year. Profit attributable to owners of the Company grew by 3.68% to US$97.303 million.

Master Kong conducted some interactive marketing activities during the Spring Festival for Master Kong braised beef noodles to start a brand new communication of emotions and cares for the customers at the beginning of the new year. This could also stimulate the sales growth of the braised beef series. Master Kong enhanced the penetration rate and sampling promotional activities of Master Kong pickled cabbage series and the Lu Xiang series. As a result, Master Kong pickled cabbage series remained a double-digit sales growth and the Lu Xiang series continued to maintain a three-digit sales growth year-on-year respectively. The three new best-selling series of products in the southern regions, namely brittle kelp, preserved vegetables, and Daodu Cai bamboo shoots, performed better than expectation under the active promotions after being launched in the market. Master Kong "Xiang Bao Cui", which mainly targeted the traditional fried crispy noodle market, created a new sales record again. "Cui Xuan Feng ", the new fried crispy noodle brand, was launched in February 2013 and was well received by the market. Therefore, the supply was unable to meet the demand.

According to AC Nielsen's survey in March 2013, in terms of sales volume and value of instant noodle, the Group's market share in the overall PRC market were 45.2% and 56.7% respectively, which increased by 1.8ppt. and 0.1ppt. respectively, securing the leading position in the market firmly.

Beverage Business

The beverage business showed an upward recovering trend in early 2013 after suffering downturn and adjustment for a year. All the beverage producers successively announced the increase in investment to enhance their production capacities. As a result, the beverage market was more active during the first quarter with the help of the effects of the Chinese New Year and the unexpected warm weather. Sales volume for the overall beverage market grew by 7.7% compared to same period last year. With the aid of RTD and joining of PepsiCo, in the first quarter of 2013, the turnover of the Group's beverage business increased by 78.89% year-on-year to US$1,462.422 million, representing 55.22% of the Group's total turnover. Meanwhile, because of the reduction of prices of some raw materials, such as sugar, the gross margin of beverages increased by 0.49ppt. year-on-year to 28.42%. Profit attributable to owners of the Company was US$8.593 million, which increased by 12.39% after excluding the gain on bargain purchase which derived from the business combination of the Company and PepsiCo. With the gain, Profits attributable to owners of the Company decreased by 91.65% compared to the same period in 2012.

The promotion activities for a volume upgrade of Master Kong Ready-to-drink (RTD) tea from 500 ml to 600 ml gave consumers solid benefits, boosting the sales of RTD tea during the first quarter of 2013. Meanwhile, Master Kong conducted the promotion activities of Ice Superstar for ice tea, Youth Positive Energy for green tea, and Filled with Romance for jasmine tea series, standing out its professionalism and specialization as a leader in tea drink industry. The Company also conducted a campaign activity "Big Surprise at Fragrance and Prize for Opening a Bottle" for Master Kong classic milk tea during this quarter to encourage consumers to drink as many bottles as they wish. For the juice series, Master Kong converted the essence of traditional Chinese culinary culture to an unique portfolio of product series through modern technology. Following the popularity of the Pear Juice among the consumers, Master Kong successively launched "Honey Pomelos", haw-flavoured fruit juice and bamboo cane and water chestnut juice targeting different preferences for flavours for different customers from the southern and northern regions. The more diversified production lines also provided more choices for consumers.

The Pepsi carbonated soft drink series continued to rank No.1 in terms of market share among all cola-based carbonated soft drinks. The volume expansion effect of Pepsi's capacity upgraded products in small plastic bottles, which led the growth in the overall series, continued to consolidate. The campaign "Bring Happiness Home" during the Spring Festival in 2013 won a complete victory among competitors and far outperformed them for the first time in integrated media audio coverage. The number of online views of related micro-films and music videos was higher than expected. Perfectly executed offline activities, including themed communications invested by the Company in traffic terminals mainly and key outdoor themed communications, attracted media reports which were worth over ten million in value. For the fruit-flavoured carbonated beverages, the series continued to grow at a double-digit rate, especially for Mirinda, which had an outstanding performance as a leading brand. In 2013, the Company started to use the popular spokesperson "Happy Family" to deliver its brand concept of "Happy Mirinda". For the non-carbonated beverages, the Company launched large-package size of Tropicana Fruit Grain by capturing the Spring Festival opportunity to facilitate the growth of the Tropicana brand. Lipton Milk Tea was launched in some key markets during the first quarter. Its unique taste rapidly received many positive responses from the market and consumers. Active distribution and consumer sampling activities were being launched in other markets to grasp the opportunity of rapid growth in milk tea.

According to AC Nielsen's survey in March 2013, in terms of sales volume, market share for the Group's RTD tea was 46.2%, which was No. 1 in the market. Market shares for diluted fruit juice, bottled water and carbonated drinks were 25.5%, 19.3% and 34.1% respectively, which ranked No.2 in the market.

Instant Food Business

The overall sandwich cracker market showed a recession trend during the first quarter of 2013. Under this influence, the turnover of instant food declined by 3.56% to US$57.369 million and amounted to 2.17% of the Group's turnover. During this quarter, benefiting from some favourable factors such as improvement in production equipments, price adjustment of marketing channels, and the decline of raw materials prices, the gross profit margin of instant food business increased by 0.83ppt. year-on-year to 38.17%. Under the management model of optimizing organization and reduction of redundant costs, profits attributable to shareholders of the Company increased by 645.37% year-on-year to US$0.805 million.

According to AC Nielsen's survey in March 2013, in terms of sales value, market share for Master Kong's egg rolls was 24.4%, ranking No. 1 in the market. The Group's cracker was No.2 in the overall cracker market which has gained 6.7% market share. Master Kong sandwich cracker had a market share of 19.6%, ranking No. 2 in the sandwich cracker market.

Calbee (Hangzhou) Food Co., Ltd, a jointly controlled entity of the Group, commenced production in March 2013 and introduced leisure puffed food products made of potatoes and shrimps in major regions at the initial stage. Currently it focuses on the distribution and display of new products and stimulates channel penetration and sales through new promotional models.

FINANCING

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

As at 31 March 2013, the Group's cash and bank deposits totaled US$1,433.467 million, an increase of US$595.569 million from 31 December 2012. In addition, the Group's total assets and total liabilities amounted to approximately US$8,239.681 million and US$4,610.456 million respectively. This showed increases in US$766.418 million and US$626.378 million respectively compared to 31 December 2012 (restated). The debt ratio increased by 2.64ppt. to 55.95% compared to 31 December 2012.

As at 31 March 2013, the Group's total borrowings decreased by US$135.898 million to US$1,348.574 million. The Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 93% and 7% respectively, as compared to 88% and 12% respectively as at 31 December 2012. The proportion between the Group's long-term borrowings and short borrowings was 68% and 32% respectively, as compared to 66% and 34% respectively as at 31 December 2012. In addition, the Group's transactions are mainly denominated in Renminbi. During the period, the exchange rate between Renminbi and US dollar remained stable and thus had no significant impact on the Group.

Financial Ratio

	As at 31 March 2013	**As at 31 December 2012 (Restated)**
Finished goods turnover	12.28 Days	12.11 Days
Trade receivables turnover	8.38 Days	7.69 Days
Current ratio	0.73 Times	0.70 Times
Debt ratio (Total liabilities to total assets)	55.95%	53.31%
Gearing ratio (Net debt to equity attributable to owners of the Company)	-0.03 Times	0.25 Times

HUMAN RESOURCES

As at 31 March 2013, the Group had 79,300 employees (79,437 employees at 31 December 2012). During the period, the Group continued to improve the mechanisms for selection and cultivation of personnel reserves, plan and implement talent development gateways for retaining the talent sand deepening their development. At the same time, the successor echelon plan and the talent development plan continued to be implemented to enhance the cultivation of potential talents.

PROSPECTS

According to the data released by the China Federation of Logistics & Purchasing and the Service Industry Survey Center of the National Bureau of Statistics of China on 1 May, China's Purchasing Managers' Index (PMI) for the manufacturing sector was 50.6%, a drop of 0.3% compared to the previous month. The performance was weaker than the seasonal one. From October 2012 to this moment, the PMI was fluctuating between 50% and 51%, showing that the national economy at a "L" bottom and it needed new growth momentum to virtually bottom up. Facing weak external demand and keen competition in the food and beverage industry, The Group will continue to create first-class products and promote the food culture for contributing to society and serve our customers wholeheartedly.

In respect to the instant noodles business, our growth will keep faster then the industry growth. In respect to strategies, we will put our focuses on enhancing attractiveness of our products, pinpointing marketing, and deepening our distribution networks. We will keep sharpening our products: producing nutritional, delicate and multifarious products to cater for needs of different customers. We will strengthen the penetration of product coverage and food sampling promotions to ensure that consumers can enjoy our Master Kong Instant Noodles immediately. We will also consolidate and deepen the communications and relationships with our customers and manufacturers to make sure we can respond to consumers' demands instantly and carry out modifications fast to achieve win-win benefits.

In respect to instant food business, we will increase our penetration in the distribution markets in both first and second tier cities and expand our market coverage by leveraging on our modern channel in the next quarter. This can consolidate the leading role of our egg roll segment. In view of the declining trend of sandwich cracker sales, we are going to introduce new flavours to generate new topics among consumers. This can attain the goal of reviving its brand and boosting its sales. Furthermore, we will have in-depth communications with consumers through large-scale consumer and school promotional activities.

In respect to beverages, with the approach of summer time, different campaigns will start strongly and gradually. For non-carbonated beverages, we will commence the "Master Kong Ice Red Tea in campus", in which we will invite famous singers to sing with university students; we will also start the promotional campaign "open and have a surprise" for the green tea; we will begin another promotional campaign "win a prize and nourish your throat" for "crystal sugar" series. Through these campaigns, we can master our reputation within the industry and strengthen the bridges between consumers and us. In order to grasp the peak period, we are going to release brand new products such as "lemonade with crystal sugar" and "sour jujube with honey" to enrich the tasting experiences of consumers. With respect to sales network, we will strengthen our cooperation with different retail partners to explore a new mode of road. We will also make good use of different equipments to optimize the procedures of sales management to achieve good business achievement. For carbonated beverages, in the following season, apart from advertisements on different products, we will also focus on the packaging. At the same time, in order to maintain close interactions with consumers, the "Pepsi Acoustic Music Campaign" and "Gatorade 3-on-3 basketball competition" will be launched soon. We will also maintain good connections with corporations from other industries to upgrade our promotional campaigns in order to endeavour to gain trust from consumers. With respect to selling strategies, we will continue to put more emphasis on conquering and exploring markets of peripheral cities. We will strengthen relationships with our honourable customers. We have to execute our plans with the fastest speed.

CORPORATE SOCIAL RESPONSIBILITY

Besides pursuing self corporate development continuously, The Group is also committed to contributing to society and achieving sustainable operation of its corporate branding. The "Master Kong Creative Challenges" event, which has been launched for four consecutive years, has become an annual significant event of the Group. During the six-month public welfare event, over 1,000 students from the China and Taiwan competed with one another to put the ideas of public benefit into practice through innovative ideas. On the proven of its proven track record over the past years, the US PepsiCo, also has supported the "Master Kong Creative Challenges" by participating in it since 2013. They worked together with the Group to provide teenagers with a platform to interact with the world through public welfare events. Adhering to the corporate operating philosophy of "innovation", the "Master Kong Creative Challenges" event will adopt a brand-new mode of operation to fulfill its obligation of contributing to society.

On 22 March 2013, when the 21st World Water Day and the 26th China Water Week were held, the China Beverage Industry Association launched the National Healthy Drinking Water Charity Event 2013, advocating the principles of "drinking and using water healthily and wisely". This event was fully supported by the Group. The main purposes of this event were to spread the message of "drinking water scientifically and healthily", raise the general public's awareness of saving water and establish a good habit of drinking and using water.

On 20 April 2013, an earthquake of magnitude 7.0 hit Lushan Country, Ya'an City, Sichuan Province. Two hours after the earthquake, the Group emergency vehicle fleet carrying instant noodles was sent from Chonhqing to the quake-stricken zones and immediately supplied instant noodles to the victims on that night. We also delivered relief supplies such as Master Kong instant noodles, mineral water, and Pepsi purified ice to the quake-stricken zones to assist local civil affairs authorities to perform post-disaster relief work.

CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Old Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was amended and revised as the Corporate Governance Code (the "CG Code") which became effective on 1 April 2012. We have, throughout the period ended 31 March 2013, complied with the code provisions of the Old Code and the CG Code as and when they were/are applicable and in force, except for the deviations from code provisions A.2.1 and A.4.1. The reasons for these deviations are explained below.

Code provision A.2.1

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

Code provision A.4.1

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

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

Directors' responsibility for the financial statements

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

Audit Committee

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

Internal Control

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

Compliance with the Model Code

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE OPTION SCHEME

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

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

For the period of three months ended 31 March 2013, 980,000 options had been exercised under the Share Option Scheme. Weighted average exercise price was HK$9.32 and the weighted average market closing price before the date of exercise was HK$20.50.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the website of the Stock Exchange and the Company's website www.masterkong.com.cn in due course.

BOARD OF DIRECTORS

As at the date of this report, Mr. Wei Ing-Chou, Mr. Takeshi Ida, Mr. Ryo Yoshizawa, Mr. Wei Ying-Chiao, Mr. Wu Chung-Yi and Mr. Junichiro Ida are Executive Directors of the Company. Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada are Independent Non-executive Directors of the Company.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 20 May 2013

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