康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

现代好生活+

life plus delicacy

Incorporated in Cayman islands with limited liability

Stock Code： 0322

2014

FIRST QUARTERLY REPORT

*For identification purposes only

SUMMARY

	For the three months ended 31 March		
US$'000	**2014**	**2013**	**Change**
• Turnover	2,781,769	2,648,221	↑ 5.04%
• Gross margin	30.38%	29.27%	↑ 1.11 ppt.
• Gross profit of the Group	845,100	775,122	↑ 9.03%
• EBITDA	364,186	294,986	↑ 23.46%
• Profit for the period	172,870	117,101	↑ 47.62%
• Profit attributable to owners of the Company	128,359	104,876	↑ 22.39%
• Earnings per share (US cents)			
Basic	2.29	1.88	↑ 0.41 cents
Diluted	2.29	1.87	↑ 0.42 cents

At 31 March 2014, cash and cash equivalents was US$1,880.264 million and gearing ratio was -0.08 times.

2014 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 2014 together with the comparative figures for the corresponding period in 2013. 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 2014

		For the three months ended 31 March	
		2014	2013
		(Unaudited)	(Unaudited)
	Note	*US$'000*	*US$'000*
Turnover	2	2,781,769	2,648,221
Cost of sales		(1,936,669)	(1,873,099)
Gross profit		845,100	775,122
Other revenue and other net income		32,909	25,298
Distribution costs		(513,902)	(503,745)
Administrative expenses		(82,100)	(86,177)
Other operating expenses		(27,674)	(15,087)
Finance costs	5	(10,861)	(10,243)
Share of results of associates and joint ventures		1,543	1,576
Profit before taxation	5	245,015	186,744
Taxation	6	(72,145)	(69,643)
Profit for the period		172,870	117,101
Attributable to:			
Owners of the Company		128,359	104,876
Non-controlling interests		44,511	12,225
Profit for the period		172,870	117,101
Earnings per share	7		
Basic		US 2.29 cents	US 1.88 cents
Diluted		US 2.29 cents	US 1.87 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Three Months Ended 31 March 2014

	For the three months ended 31 March	
	2014	**2013**
	(Unaudited)	**(Unaudited)**
	US$'000	*US$'000*
Profit for the period	172,870	117,101
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on consolidation	(116,808)	11,276
Fair value changes in available-for-sale financial assets	—	7,222
Other comprehensive income for the period, net of tax	(116,808)	18,498
Total comprehensive income for the period, net of tax	56,062	135,599
Total comprehensive income attributable to:		
Owners of the Company	42,251	120,092
Non-controlling interests	13,811	15,507
	56,062	135,599

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2014

	Note	At 31 March 2014 (Unaudited) US$'000	At 31 December 2013 (Audited) US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		5,364,738	5,485,100
Prepaid lease payments		317,773	318,961
Intangible assets		27,869	28,058
Interest in associates		29,956	29,050
Interest in joint ventures		75,730	80,276
Available-for-sale financial assets		29,450	24,683
Deferred tax assets		52,860	48,105
		5,898,376	6,014,233
Current assets			
Financial assets at fair value through profit or loss		718	4,952
Inventories		480,590	480,862
Trade receivables	9	300,395	260,427
Prepayments and other receivables		435,893	413,957
Pledged bank deposits		12,143	15,491
Bank balances and cash		1,868,121	1,234,399
		3,097,860	2,410,088
Total assets		8,996,236	8,424,321

	Note	At 31 March 2014 (Unaudited) US$'000	At 31 December 2013 (Audited) US$'000
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	10	27,983	27,982
Share premium		53,591	53,431
Reserves		2,843,057	2,798,879
Total capital and reserves attributable to owners of the Company		2,924,631	2,880,292
Non-controlling interests		1,059,906	1,046,095
Total equity		3,984,537	3,926,387
Non-current liabilities			
Long-term interest-bearing borrowings	11	668,076	659,643
Other non-current liabilities		208	262
Employee benefit obligations		29,280	28,186
Deferred tax liabilities		196,388	184,389
		893,952	872,480
Current liabilities			
Trade payables	12	1,314,242	1,251,710
Other payables		1,176,332	1,192,428
Current portion of interest-bearing borrowings	11	969,140	1,016,636
Advance payments from customers		587,465	108,354
Taxation		70,568	56,326
		4,117,747	3,625,454
Total liabilities		5,011,699	4,497,934
Total equity and liabilities		8,996,236	8,424,321
Net current liabilities		(1,019,887)	(1,215,366)
Total asset less current liabilities		4,878,489	4,798,867

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Three Months Ended 31 March 2014

	Attributable to owners of the Company					
	Issued capital (Unaudited) *USD'000*	**Share premium (Unaudited)** *USD'000*	**Reserves (Unaudited)** *USD'000*	**Total capital and reserves (Unaudited)** *USD'000*	**Non-controlling interests (Unaudited)** *USD'000*	**Total Equity (Unaudited)** *USD'000*
At 1 January 2013	27,964	66,656	2,449,530	2,544,150	945,035	3,489,185
Profit for the period	—	—	104,876	104,876	12,225	117,101
Other comprehensive income:						
Exchange differences on consolidation	—	—	7,994	7,994	3,282	11,276
Fair value changes in available-for-sale financial assets	—	—	7,222	7,222	—	7,222
Total other comprehensive income	—	—	15,216	15,216	3,282	18,498
Total comprehensive inome for the period	—	—	120,092	120,092	15,507	135,599
Transactions with owners of the Company:						
Contributions and distribution						
Equity settled share-based transactions	—	—	3,264	3,264	—	3,264
Shares issued under share option scheme	5	1,552	(380)	1,177	—	1,177
Total transactions with owners of the Company	5	1,552	2,884	4,441	—	4,441
At 31 March 2013	27,969	68,208	2,572,506	2,668,683	960,542	3,629,225

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Three Months Ended 31 March 2014

	Attributable to owners of the Company					
	Issued capital (Unaudited) *USD'000*	**Share premium (Unaudited)** *USD'000*	**Reserves (Unaudited)** *USD'000*	**Total capital and reserves (Unaudited)** *USD'000*	**Non-controlling interests (Unaudited)** *USD'000*	**Total Equity (Unaudited)** *USD'000*
At 1 January 2014	27,982	53,431	2,798,879	2,880,292	1,046,095	3,926,387
Profit for the period	—	—	128,359	128,359	44,511	172,870
Other comprehensive income:						
Exchange differences on consolidation	—	—	(86,108)	(86,108)	(30,700)	(116,808)
Total other comprehensive income	—	—	(86,108)	(86,108)	(30,700)	(116,808)
Total comprehensive inome for the period	—	—	42,251	42,251	13,811	56,062
Transactions with owners of the Company:						
Contributions and distribution						
Equity settled share-based transactions	—	—	1,969	1,969	—	1,969
Shares issued under share option scheme	1	160	(42)	119	—	119
Total transactions with owners of the Company	1	160	1,927	2,088	—	2,088
At 31 March 2014	27,983	53,591	2,843,057	2,924,631	1,059,906	3,984,537

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Three Months Ended 31 March 2014

	For the three months ended 31 March	
	2014	**2013**
	(Unaudited)	**(Unaudited)**
	US$'000	*US$'000*
Net cash from operating activities	839,955	1,008,986
Net cash used in investing activities	(188,048)	(277,207)
Net cash used in financing activities	(21,533)	(136,210)
Net increase in cash and cash equivalents	630,374	595,569
Cash and cash equivalents at 1 January	1,249,890	837,898
Cash and cash equivalents at 31 March	1,880,264	1,433,467
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	1,868,121	1,424,007
Pledged bank deposits	12,143	9,460
	1,880,264	1,433,467

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

Amendments to HKAS 27 (2011), HKFRS 10 and HKFRS 12	Investment Entities (effective for annual periods beginning on or after 1 January 2014)
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)
HK(IFRIC) – Int 21	Levies (effective for annual periods beginning on or after 1 January 2014)

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

2. Turnover

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

3. Segment information

Segment results

For the Three Months ended 31 March 2014

	Instant noodles (Unaudited) *US$'000*	Beverages (Unaudited) *US$'000*	Instant food (Unaudited) *US$'000*	Others (Unaudited) *US$'000*	Inter-segment elimination (Unaudited) *US$'000*	Group (Unaudited) *US$'000*
Turnover						
Revenue from external customers	1,149,795	1,554,294	53,163	24,517	–	2,781,769
Inter-segment revenue	14	67	36	20,700	(20,817)	–
Segment revenue	1,149,809	1,554,361	53,199	45,217	(20,817)	2,781,769
Segment results	138,637	115,115	(753)	(7,777)	(385)	244,837
Share of results of associates and joint ventures	–	4,739	(3,196)	–	–	1,543
Unallocated income (expenses), net	–	–	–	(1,365)	–	(1,365)
Profit (loss) before taxation	138,637	119,854	(3,949)	(9,142)	(385)	245,015
Taxation	(35,575)	(36,322)	169	(417)	–	(72,145)
Profit (loss) for the period	103,062	83,532	(3,780)	(9,559)	(385)	172,870

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	139,861	46,001	1,311	(81)	(1,924)	185,168
Share of results of associates and joint ventures	–	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

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

3. Segment information *(continued)*

Segment assets

	At 31 March 2014					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Segment assets	3,375,174	5,728,023	160,769	844,943	(1,248,527)	8,860,382
Interest in associates	–	26,732	3,224	–	–	29,956
Interest in joint ventures	–	54,515	21,215	–	–	75,730
Unallocated assets						30,168
Total assets						8,996,236
Segment liabilities	1,176,910	3,803,427	58,967	1,138,317	(1,195,202)	4,982,419
Unallocated liabilities						29,280
Total liabilities						5,011,699

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

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

4. Seasonality of operations

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

5. Profit before taxation

This is stated after charging:

	For the three months ended 31 March 2014 (Unaudited) *US$'000*	2013 (Unaudited) *US$'000*
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	10,861	10,243
Other items		
Depreciation	123,617	105,211
Amortisation	2,025	1,903

6. Taxation

	For the three months ended 31 March 2014 (Unaudited) *US$'000*	2013 (Unaudited) *US$'000*
Current tax – the People's Republic of China (the "PRC") Enterprise income tax		
Current period	64,520	60,363
Deferred taxation		
Origination and reversal of temporary differences, net	(2,233)	1,857
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	9,858	7,423
Total tax charge for the period	72,145	69,643

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

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

The applicable PRC enterprise income tax for the PRC subsidiaries is at the statutory rate of 25% (2013: 25%).

According to the Tax Relief Notice (Cai Shui [2011] no. 58) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of PRC with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in the Western Region are entitled to a preferential rate of 15% (2013: 15%).

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

7. Earnings per share

(a) Basic earnings per share

	For the three months ended 31 March 2014 (Unaudited)	2013 (Unaudited)
Profit attributable to ordinary shareholders (US$'000)	128,359	104,876
Weighted average number of ordinary shares ('000)	5,596,406	5,593,311
Basic earnings per share (US cents)	2.29	1.88

(b) Diluted earnings per share

	For the three months ended 31 March 2014 (Unaudited)	2013 (Unaudited)
Profit attributable to ordinary shareholders (US$'000)	128,359	104,876
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	5,596,406	5,593,311
Effect of the Company's share option scheme	18,055	18,739
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,614,461	5,612,050
Diluted earnings per share (US cents)	2.29	1.87

8. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the three months ended 31 March 2014 (2013: nil).

9. Trade receivables

The majority of the Group's sales is cash-on-delivery. The remaining balances of sales are mainly at credit terms ranging from 30 to 90 days. The aging analysis of the trade receivables (net of impairment losses for bad and doubtful debts) based on invoice date, at the end of the reporting period is as follows:

	At 31 March 2014 (Unaudited) *US$'000*	At 31 December 2013 (Audited) *US$'000*
0 - 90 days	289,708	248,538
Over 90 days	10,687	11,889
	300,395	260,427

10. Issued capital

	At 31 March 2014 (Unaudited)		At 31 December 2013 (Audited)	
	No. of shares	**US$'000**	**No. of shares**	**US$'000**
Authorised:				
Ordinary shares of US$0.005 each	7,000,000,000	35,000	7,000,000,000	35,000
Issued and fully paid:				
At the beginning of the period/year	5,596,405,360	27,982	5,592,897,360	27,964
Shares issued under share option scheme	100,000	1	3,508,000	18
At the end of the reporting period	5,596,505,360	27,983	5,596,405,360	27,982

During the reporting period, 100,000 options were exercised to subscribe for 100,000 ordinary shares of the Company at a consideration of US$119,000 of which US$1,000 was credited to share capital and the balance of US$118,000 was credited to the share premium account. US$42,000 has been transferred from the share-based payment reserve to the share premium account.

11. Interest-bearing borrowings

	At 31 March 2014 (Unaudited) *US$'000*	At 31 December 2013 (Audited) *US$'000*
The maturity of the interest bearing borrowings:		
Within one year	969,140	1,016,636
In the second year	103,143	84,874
In the third year to the fifth years, inclusive	564,933	574,769
	1,637,216	1,676,279
Portion classified as current liabilities	(969,140)	(1,016,636)
Non-current portion	668,076	659,643

The interest-bearing borrowings consist of unsecured bank loans that are not pledged and notes issued by the Company on 20 June 2012 (the "Notes"). The carrying value of the Notes at the end of the reporting period is US$495,464,000 (2013: US$495,172,000) and is included in the interest-bearing borrowings with maturity in the third to fifth years. The Notes are listed on the Singapore Exchange Securities Trading Limited. The fair value of the Notes as at 31 March 2014 was US$524,020,000 (2013: US$518,060,000), which was based on the quoted market price.

During the three months ended 31 March 2014, the Group obtained bank loans in the amount of US$183,183,000 (2013: US$146,890,000) which were used for the acquisition of production facilities and working capital, and recognised amortised interest of the Notes of US$292,000 (2013: US$247,000). Repayments of bank loans amounting to US$204,395,000 (2013: US$284,277,000) were made in line with previously disclosed repayment term.

12. 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 2014 (Unaudited) *US$'000*	At 31 December 2013 (Audited) *US$'000*
0 - 90 days	1,279,482	1,214,761
Over 90 days	34,760	36,949
	1,314,242	1,251,710

13. Fair Value Measurements

(a) Financial assets and liabilities carried at fair value

The following table presents the assets and liabilities measured at fair value or required to disclose their fair value in these condensed consolidated financial statements on a recurring basis at 31 March 2014 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level of input that is significant to the entire measurement. The levels are defined as follows:

– Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

– Level 3 (lowest level): unobservable inputs for the asset or liability.

	At 31 March 2014 (Unaudited)				**At 31 December 2013 (Audited)**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Assets								
Available-for-sale								
– Private investment funds	–	–	26,065	26,065	–	–	21,275	21,275
Financial assets at fair value through profit or loss								
– Equity securities, listed in Hong Kong	–	–	–	–	4,838	–	–	4,838
– Equity securities, listed outside Hong Kong	718	–	–	718	114	–	–	114
	718	–	26,065	26,783	4,952	–	21,275	26,227
Liabilities								
Other payables								
– Derivative financial instruments	–	–	6,893	6,893	–	–	6,893	6,893

During the three months ended 31 March 2014 and year ended 31 December 2013, there was no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The details of the movements of the recurring fair value measurements categorised as Level 3 of the fair value hierarchy are shown as follows:

	At 31 March 2014 (Unaudited)		**At 31 December 2013 (Audited)**	
	Private Investment Funds	**Derivative financial instruments**	**Private Investment Funds**	**Derivative financial instruments**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At beginning of the period/year	21,275	(6,893)	16,677	(19,074)
Purchases	4,790	–	2,992	–
Total gains or (losses) recognised:				
– in profit or loss	–	–	–	12,181
– in other comprehensive income	–	–	1,606	–
At the end of the reporting period/year	26,065	(6,893)	21,275	(6,893)

13. Fair Value Measurements *(continued)*

(a) Financial assets and liabilities carried at fair value *(continued)*

	Period ended 31 March 2014 (Unaudited)		Year ended 31 December 2013 (Audited)	
	Private Investment Funds	**Derivative financial instruments**	**Private Investment Funds**	**Derivative financial instruments**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Change in unrealised gain or (losses) for the period included in profit or loss for assets and liabilities held at the end of the reporting period	–	–	–	12,181

Valuation techniques and significant inputs used in Level 3 fair value measurement

(i) Available-for-sale: Private investment funds

The fair value of the private investment funds is valued based on the fair values of the companies invested by the private funds. Included in the private investment funds, there are listed investments and unlisted investments. The fair values of listed investments are reference to quoted market price, while the fair values of unlisted investments which are valued by the respective investment managers are estimated by valuation techniques, including using price/ earnings (P/E) multiple model and discounted cash flows model. In determining the fair value of unlisted investments, it includes assumptions that are not supported by observable market prices or rates, including the expected annual growth rates, average P/E multiples of comparable companies and discount rates.

(ii) Other payables: Derivative financial instruments

The Derivative financial instruments are measured at fair value estimated based on Monte Carlo Simulation Model. The unobservable inputs used for the valuation of the Derivative financial instruments include fair value of the underlying assets, exercise price, time to maturity, US$ risk free rate, volatility of the underlying asset's price in HK$ and dividend yield.

There was no change in valuation techniques during the reporting period. The assumptions of the unobservable inputs used in Level 3 fair value measurement at the end of the reporting period were not significant different with those used in the Group's annual financial statements for the year ended 31 December 2013.

Sensitivity to changes in significant unobservable inputs

In the opinion of the directors, the impact of changes in significant unobservable inputs on the Level 3 fair value measurement and the Group's profit and other comprehensive income for the period and retained profits were not significant different with those in the Group's annual financial statements for the year ended 31 December 2013, as there was no significant change in the reasonably possible range of significant unobservable inputs for Level 3 fair value measurements as at 31 March 2014 comparing to 31 December 2013.

Valuation processes used in Level 3 fair value measurement

In estimating the fair value of an asset or a liability within Level 3 of the fair value hierarchy, the Group uses market observable-data to the extent it is available. Where Level 1 inputs are not available, the Group obtains the valuations provided by the respective investment managers for the private investment funds. For the Derivative financial instrument, the Group engages independent qualified professional valuer to perform the valuation.

The Group's finance department includes a team that reviews the valuations performed by the investment managers of the private investment funds and the independent valuer for financial reporting purposes. The team reports directly to the senior management. Discussions of valuation processes and results are held between the management, investment managers of the private investment funds and independent valuer at least once every year.

At each financial year end, the finance department works closely with the investment managers of the private investment funds and independent valuer to establish the appropriate valuation techniques and inputs to the valuation models, verifies all major unobservable inputs in the valuations, assesses valuations movements when compared to the prior year valuation report and holds discussions with the investment managers of the private investment funds and independent valuer. At the end of the reporting period, the finance department assessed fair values of an asset or a liability within Level 3 of the fair value hierarchy based on the valuations performed by investment managers and an independent valuer at preceding financial year end taking into account of any significant changes in the assumptions of the unobservable inputs used in fair value measurements during the reporting period.

(b) Fair values of financial assets and liabilities carried at other than fair value

In the opinion of the directors, except for the Notes as described in the note 11 to the condensed consolidated financial statements, no other financial assets and liabilities of the Group are carried at amount materially different from their fair values as at 31 March 2014 and 31 December 2013.

14. Commitments

	At 31 March 2014 (Unaudited) *US$'000*	At 31 December 2013 (Audited) *US$'000*
(a) Capital expenditure commitments		
Contracted but not provided for		
Expenditures on property, plant and equipment	316,972	235,442
Investments in private investment funds	22,675	27,464
	339,647	262,906

(b) Commitments under operating leases

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

	At 31 March 2014	At 31 December 2013
Within one year	42,926	43,723
In the second to fifth years, inclusive	82,445	82,719
After five years	42,876	50,172
	168,247	176,614

15. Related party transactions

In addition to the transactions disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions in the ordinary course of the Group's business.

	For the three months ended 31 March 2014 (Unaudited) *US$'000*	2013 (Unaudited) *US$'000*
(a) Sales of goods to:		
Companies controlled by a substantial shareholder of the Company	5,827	4,708
Associate	4,903	5,309
Joint ventures	7,987	8,316
(b) Purchases of goods from:		
A group of companies jointly controlled by the Company's directors and their dependent	116,164	122,414
Companies jointly controlled by the Company's directors	19,759	19,701
Joint ventures	431	2,832

16. Event after the reporting period

On 2 April 2014, a wholly-owned subsidiary of the Company entered into an agreement with Victory Ascent International Limited ("Vendor"), an investment holding company which is beneficially owned by Mr. Wei Ying-Chiao, an executive Director and a substantial shareholder of the Company, to acquire the entire issued share capital of Wealth City Investment Limited ("Wealth City"), from Vendor at a consideration of RMB2,483,016,850 (equivalent to approximately US$406 million). Wealth City is an investment holding company incorporated in the BVI. The sole asset of Wealth city is the entire equity interest in 上海金球名豪房地產有限公司 (Shanghai Jinqiu Minghao Real Estate Co., Ltd.) ("Shanghai Jinqiu Minghao"), a company established in the PRC. Shanghai Jinqiu Minghao, is currently the developer of a property project which comprises four office and commercial blocks and related ancillary facilities, including 818 car parking spaces, with aggregate gross floor area of approximately 140,358.31 square meters situated at Wuzhong Road, Hongqiao Town, Minhang District of Shanghai, the PRC. Details of this transaction are set out in the announcement of the Company dated 2 April 2014 and the circular of the Company dated 17 April 2014 in relation to the discloseable and connected transaction. The transaction has been approved by the independent shareholders of the Company on 14 May 2014. The whole of the property project is expected to be completed by end-March 2015.

17. Approval of first quarterly financial statements

The first quarterly financial statements of 2014 were approved by the board of directors on 19 May 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first quarter of 2014, the GDP of China increased by 7.4% on a year-on-year basis, which was also lower than the 7.7% growth in the fourth quarter of 2013. The consumer price index (CPI) increased by 2.3%, of which food prices increased by 3.5%. Factory prices of industrial manufacturers decreased by 2.0% year-on-year. During the period, the economic trend of China continued a downward trend with conservative demand in consumers.

In the first quarter of 2014, the Group's turnover increased by 5.04% year-on-year to US$2,781.769 million. Turnover of instant noodles and beverages increased by 4.07% and 6.28% respectively, and turnover of instant food products decreased by 7.29%. During the period, benefiting from the fall in the prices of certain major raw materials, optimization of product mix and rationalization in production operations, gross profit was improved. The Group's gross profit margin in the first quarter increased by 1.11 percentage points to 30.38% on a year-on-year basis, and gross profit amount increased by 9.03%. As a more conservative trend in consumption developed, the Group improved controls over operation costs and implemented effective marketing strategies, resulting in a decrease in distribution costs as a percentage of the total turnover by 0.55 percentage points to 18.47%. The EBITDA of the same period increased by 23.46% to US$364.186 million, profit attributable to shareholders increased by 22.39% to US$128.359 million, net profit margin increased by 0.65 ppt. to 4.61%, and earnings per share in the first quarter of 2014 increased by 0.41 US cents to 2.29 US cents.

FOOD BUSINESS

Instant Noodle Business

In the first quarter of 2014, the turnover of the Group's instant noodle business continued to grow at a steady rate and increased by 4.07% to US$1,149.809 million year-on-year, representing 41.33% of the Group's turnover. During the same period, the sales amount of the overall instant noodle market only grew by 1.1%, and the growth of the Group's instant noodle business continued to outperform the industry average growth rate. During the period, prices of certain raw materials increased, together with the enhancement in quality and quantity of the Group's products to benefit consumers, the gross profit margin of the instant noodle business declined by 2.13 ppt. to 28.03%, and gross profit decreased by 3.26% on a year-on-year basis. During the same period, the Group strengthened management and control over distribution expenses, resulting in an increase in profit attributable to shareholders from the instant noodle business by 5.07% on a year-on-year basis to US$103.062 million.

According to the latest market share analysis data from AC Nielsen, the market shares of Master Kong's instant noodles in terms of sales volume and sales amount were 47.7% and 57.2%, respectively, in the first quarter of 2014, representing an increase of 2.8 ppt. and 0.7 ppt. on a year-on-year basis, and continued to maintain their market leading positions.

"Master Kong Braised Beef Noodle" executed the O2O (online to offline) sales promotion of "New hope in the New Year, win a gift pack worth million dollars" (新年新希望，贏百萬夢想禮包) with "Yu • Quan" as the ambassador and strengthened the brand theme of "Stick to your dream, support you all the way" (堅持夢想，一路挺你) by combining marketing featuring the topic of paying New Year calls online during the Spring Festival. "i PARTMENT 4" has been well-received by youngsters since it was screened and was played for more than 2.7 billion times online. By leveraging this, Master Kong Spicy Flavours Series proceeded with promotion to arrange meetings with stars combining with TV and network dissemination, which again set off a wave of eating spicy food.

For the flavour of pickled mustard, through the dissemination of the product differentiation theme of "It is cool to have the sour flavor but it is even cooler to have various extra flavours" by Master Kong, the year-on-year growth of the Pickled Mustard Series was significantly higher than that of major competing products during the first quarter of 2014. The market share of high-priced Pickled Mustard flavours continued to increase. By continuously implementing brand dissemination and promotion, Master Kong's Homemade Mushroom Lu Xiang Series maintained a high double-digit growth on a year-on-year basis and its market share continued to increase steadily, successfully overcoming competing products.

For regional brands, the integrated network campaign was officially launched. In early March, "The mission of eating will be fulfilled" (食命必達), a programme featuring food and travel led by the ambassador Hua Shao and 2moro, famous "gourmets" in Taiwan, was broadcast on the exclusive collaboration platform, Sohu Video supported by community, products and offline. With "green vegetables, white bamboo shoots, reddish meat", an image of a bowl of goluptious crisp bamboo shoots stir-fried shredded pork noodles was vividly presented, which resulted in good dissemination effects. Such campaign was a new attempt for regional brand dissemination and increased the brand awareness and brand favourability. Subsequently, Master Kong will make use of a series of programmes and videos for dissemination.

By leveraging the market trend of switching from low-end noodle to mid-end noodles in the instant noodle market, the "Jin Shuang" Series of the Group's mid-end noodles took over the low-end noodle upgrade market with fine quality noodles as the core benefit, and achieved rapid sales growth in the first quarter of 2014, which drove an increase in the market share of this mid-end noodle product and ensured its No. 1 ranking position in the market share of mid-end noodles. During the same period, the Group's fried crispy noodles strengthened efforts in the coverage of shops to seize the market share in the instant noodle snack market. In springtime of 2014, inventories of fried crispy noodles depleted rapidly during the commencement of new semester, sales growth in volumn outperformed the general market, of which sales of "Xiang Bao Cui" hit a record high level, successfully expanded the consumer base of fried crispy noodles and outperformed its competing products.

While strengthening the advantage of existing products, the Group was constantly developing innovative products. "Crispy Fatty", a new dry eating noodle product, was launched for sale in February. The new pack of the professional cooked noodle brand "Mian Ba Cooked Noodle", produced by seven-layers extension method with rich ingredients, the new product "Fresh Banquet" and the new flavour of soup noodles "Bamboo Shoot Fried Bean Curd" were launched for sale in March, which not only satisfied the different needs of consumers but also enhanced the innovative image of the Group. In particular, "Fresh Banquet" created an epoch in delicacy and attracted consumers who seldom or did not eat instant noodles with fresh and fine noodles, soup and ingredients, resulting in good market responses and a shortage.

In respect of management, the Group continued to promote mobile visit sales information system enhancement and distribution improvement projects, refined warehousing management and improved supply chain management and effectiveness. In respect of production, the Group continued to complete the plant machinery automation project to accelerate the upgrading of production capacity of plants.

Despite the sluggish general market environment, the Group actively expanded the market into tier-2 and tier-3 cities in previous periods. Together with the effective strategies of increasing service efforts and frequencies aiming at the urbanization trend, the Group's growth in instant noodle business outperformed the market growth. Looking ahead to the second quarter, the raw material palm oil prices are expected to continue rising and will bring into certain upward pressure on the costs of instant noodles. To cope with this, the Group will further strengthened the improvement in the gross profit through lean management in production costs and procurement, and strengthened management and control over promotional expenses in response to the rising raw material prices, to maintain the overall operation performance.

Instant Food Business

With a change in the diet performance of consumers, the traditional cracker market has been subject to a strong impact. According to the data of AC Nielsen, the overall cracker market continued to slow down in the first quarter of 2014. Sales of the overall cracker market declined by 0.8% on a year-on-year basis. In particular, sales of sandwich crackers declined by 8.3% year-on-year.

The sales of the Group's instant food business in the first quarter of 2014 was US$53.199 million, declined by 7.29% during the same period on a year-on-year basis, representing 1.91% of the Group's total turnover. Affected by a decline in sales of the Group's existing cracker products and the low equipment utilization rate, the gross profit margin of the instant food business dropped by 1.65 ppt. to 36.52% as compared to the same period last year, gross profit decreased by 11.28% year-on-year. In addition, the new instant food business was still in the preliminary investment period with focus on brand construction and promotion to increase product awareness to seize market shares. However, the results of the instant food business for the period was still within expectation. The instant food business recorded an overall loss of US$3.780 million in the first quarter of 2014. In future, with an increase in the awareness of new products, the results performance will gradually improve.

According to the latest retail survey data by AC Nielsen, the market share for Master Kong's egg rolls was 22.4% in terms of sales amount during the period from January to March 2014, ranking No. 1 in the market, and market share of sandwich crackers in terms of sales amount was 15.3%, ranking No. 2 in the market.

Master Kong's 3+2 Brand initiated the "3+2 Fresh New Voice Youth Group PK Contest" (3+2清爽新聲代青春組合PK賽) in the campuses of colleges and universities in five major cities which was aimed at bringing a different life for the younger generation so that the product concept of "fresh and not too sweet" of Master Kong's 3+2 sandwich crackers could be disseminated among young people. Muffin and single layer cracker joined hands with each other in the "A Li 8th Anniversary" (阿狸8周年) theme to conduct lucky draw and treasure hunt activities. This was the first time to achieve cross-border unity with cartoon characters through which multi-dimensional consumer emotion communication can be established to achieve the effect of sympathy. Meanwhile, muffin and egg roll products also combined the survey data on regional penetration rates and commenced various promotional activities to strengthen the penetration in their sales distribution channels to increase the crowd of consumers and enhance the market share.

As for new business cooperation, Calbee potato-made leisure food products gradually became more popular since its launching, it outperformed competing products and was ranking No. 1 in the potato chips category. Our focus will be on operations in the metropolitan areas of eastern and northern China for a steady expansion in the future to reinforce an increase in sales. Meanwhile, new business Wakodo milk powder and Kangpu frozen meat products have been officially launched to the market with a focus on brand intensification and product promotion in the key areas during the initial period and the exploration of the establishment of various network successful models.

In future, the instant food business will mainly focus on major products and refining the operations of core areas, while supporting the development of new businesses, such as Calbee potato-made leisure food products and Wakodo milk powder, through the channels and profits generated from core products such as crackers, cakes and egg rolls. The new businesses will develop reasonable and effective business models according to the product characteristics, and increase consumers' brand recognition so as to drive up the results. Meanwhile, acquisition or cooperation opportunities will be identified to strengthen the development of crackers, cakes, leisure snacks and meat product business.

BEVERAGE BUSINESS

In the first quarter of 2014, economic growth in China showed a trend of weak recovery, and consumption was conservative. Sales growth of the beverage industry for the first quarter was 6.6%. To all beverage manufacturers, how to create incentives for purchasing was a key factor for boosting sales.

In the first quarter of 2014, the turnover of the beverage business of the Group was US$1,554.361 million, increased by 6.28% year-on-year, representing 55.88% of the Group's total turnover. The growth in turnover was mainly attributable to the growth in RTD tea and bottled water, which increased by 26.30% and 33.87% respectively. During the period, major raw material prices declined year-on-year, together with rationalization in production processes and product mix, the gross profit margin increased by 3.66 ppt. year-on-year to 32.08%. In addition, with effective improvements in operation and flexible marketing strategies, the amount of profit from the beverage business attributable to shareholders of the Company increase significantly by 308.88% to US$39.387 million.

According to the latest survey data in March 2014 by AC Nielsen, it showed that based on sales volume, the market share of the Group's RTD tea products in the first quarter was 51.3%, ranking No. 1 in the market. Market share of sales in the milk tea market was 21.4%, representing a notable increase year-on-year. The market share in the diluted fruit juice market was 25.4%, ranking No. 2 in the market. Despite the intensive competition in the bottled water market, the Group's market share was maintained at 20.3%, ranking No. 2 in the market. Meanwhile, according to Canadean's latest data, the market share of the Group's carbonated drinks by sales volume in the first quarter was 34.3%, of which Cola drinks accounted for 50.5% in the market share.

For the RTD tea series, being a leading brand in the industry, Master Kong's iced red tea made a reminder of the timing to drink through its specifications and packages and united with green tea, jasmine tea and oolong tea to conduct the online and offline campaign promotion of "New life is that young" (新生活就這young) at the beginning of the spring semester so as to allow our core student groups to taste the innovative vitality brought by Master Kong's tea beverages as soon as they entered the campus! The new package of Master Kong green tea with an innovative design was launched. The new package is younger and more stylish. Master Kong's jasmine tea series even gives consumers a touching feeling of "It is romantic to always meet you" (浪漫就是總會遇見你). Oolong tea was upgraded for better tastes and increased the popularity of tea drink products among ordinary consumers with its excellent tea flavour. Classic milk tea carried the classic through to the end and conducted the "open the cap and win a prize" activity of "Happy Meeting, Another Bottle" (開心香遇 再來一瓶) to allow consumers to drink without limitations. The launch of the new product, "Yin Yang Nai Ka" milk coffee (飲養奶咖), added another new member to beverages containing milk, offering even more energetic nutrition to consumers.

For the bottled water series, being a leading brand in the bottled water market, Master Kong's mineralized water has been consistently striving to provide safe products to consumers. With a professional and attentive attitude, it conducted checks at all levels. Each bottle of water had to go through 8 processes for purification to guarantee consumers "drink safely, enjoy healthy". In addition, Master Kong's mineralized water also actively support sports and public welfare undertakings to fulfil its corporate social responsibility with actions.

Crystal Sugar Pear Juice continued the hot sales of Chinese traditional health preserving beverages. Master Kong's classic "dried tangerine peel and sour plum" was upgraded. The sour and fresh flavour of dried tangerine peel plus sour plum can cleanse the palate. New tastes can be created if it is drunk with modern delicacies. Besides, a northern flavour, Chinese wolfberry and red date, was launched to offer more choices for consumers! Master Kong's "Traditional Fruit Mix" comprising "Honey Pomelos", "Honey Dates" and "Sugar Cane and Water Chestnut" brings "Preserve physical and mental health in a relaxed way" (輕鬆養，身心漾) to consumers anytime and anywhere so that they can always maintain a relaxed state.

For western-style fruit juice, Master Kong's fruit juice has adhered to the concept of "Tasty Fruit" (好喝的水果) and offers diversified flavours – fresh orange, peach, crystal grape, apple juice, mango drink and guava, all of which are made of carefully selected finest fruits. In the meantime, A new taste pear drink (rock candy flavour) that promotes clear complexion was launched in 2014, which will lead a new fad again.

PepsiCo maintained its first position in the Cola carbonated market in terms of market share in the first quarter. The activity under the theme of "Bring Happiness Home" during the Spring Festival continued for the third consecutive year and advocated the concept of "Happy Delivery" (快樂送) by consolidating the benefits of the various brands under Pepsi such as Mirinda and Tropicana, resulting in an increase in the number of social topics by 3 times and outstanding consumer interaction. The brands were successfully activated. On the offline front, Master Kong focused on key consumption occasions and investment in transportation terminals with perfect execution to drive sales. In the summer of 2014, PepsiCo will vigorously build a football music platform and reinforce connection and interaction between products and young people by leveraging the global football and music star resources of Pepsi so as to continue to strengthen its first Cola position.

Mirinda maintained strong growth in the fruit flavoured carbonated product category. Being a leading brand, Mirinda will continue to enhance brand building under the multiple flavour platform and make use of "Happy Family" to enrich the "Happy" element in the brand to increase penetration. Besides, Mirinda will focus on using the CNY period to promote the flavour mix of large packet size products so as to increase sales and expand its leading position.

Lipton Brand maintained the market shares of black tea and milk tea in key markets. The differentiated market positioning and product flavours laid a solid foundation for the comprehensive development of the brand in the second quarter. The professional sports drink brand, Gatorade, will continue with sweat locking (汗點鎖定) and sports event sponsorship to constantly enhance its professional sports drink brand image. The fruit juice brand, Tropicana, will promote product distribution and sales growth through the launch of new flavours, package upgrade and price optimization. The brand name of Aquafina Water was upgraded to Aquafina Pure Water (純水樂), with a focus on package upgrade and network construction in the second quarter to win the market share of bottled water.

During the past several quarters, the synergy of the strategic alliance between Master Kong and PepsiCo was gradually realized, with a significant growth in the operating profit of the Pepsi beverage business. Under the long-term strategy of enhancing competitiveness through improving the performance and facilitating the reform, the alliance will also strengthen frontline execution with a more aggressive plan in the next quarter to activate the operation of the end market and further achieve good results in peak seasons for beverages.

FINANCING

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

As at 31 March 2014, the Group's cash and bank deposits totaled US$1,880.264 million, an increase of US$630.374 million from 31 December 2013. In addition, the Group's total assets and total liabilities amounted to approximately US$8,996.236 million and US$5,011.699 million respectively. This showed increases in US$571.915 million and US$513.765 million respectively compared to 31 December 2013. The debt ratio increased by 2.32ppt. to 55.71% compared to 31 December 2013.

As at 31 March 2014, the Group's total borrowings decreased by US$39.063 million to US$1,637.216 million. The Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 91% and 9% respectively, as compared to 88% and 12% respectively as at 31 December 2013. The proportion between the Group's long-term borrowings and short borrowings was 41% and 59% respectively, as compared to 39% and 61% respectively as at 31 December 2013. In addition, the Group's transactions are mainly denominated in Renminbi. During the period, the depreciation in Renminbi against US dollar by 2.59% brought an exchange loss of US$126.071 million. The exchange loss of US$9.263 million and US$116.808 million has been included in the income statement and exchange transaction reserve respectively.

Financial Ratio

	As at 31 March 2014	**As at 31 December 2013**
Finished goods turnover	12.08 Days	12.90 Days
Trade receivables turnover	9.07 Days	8.23 Days
Current ratio	0.75 Times	0.66 Times
Debt ratio (Total liabilities to total assets)	55.71%	53.39%
Gearing ratio (Net debt to equity attributable to owners of the Company)	-0.08 Times	0.15 Times

HUMAN RESOURCES

As at 31 March 2014, the Group had 79,010 employees (80,541 employees at 31 December 2013). During the period, the Group continued to improve the mechanisms for selection and cultivation of personnel reserves, plan and implement talent development gateways for retaining the talent and deepening their development. At the same time, the successor echelon plan and the talent development plan continued to be implemented to enhance the cultivation of potential talents.

CORPORATE SOCIAL RESPONSIBILITY

Master Kong has consistently provided its dedicated support for the guiding principle of total quality control "from farm to table" and strict compliance with the consumer food safety principles. Master Kong invested heavily to control food safety from the source and closely monitored the upstream supply chain through tight management of the raw materials and suppliers. In addition, upholding the sustainable operation philosophy of "obtaining from the society, using on the enterprise and repaying the society", Master Kong has allocated resources in the aggregate amount of more than RMB400 million to social charitable work such as sponsoring education, fighting floods, relieving earthquakes, relieving poverty, supporting sports activities while refining the production efficiency and constantly implementing energy conservation and discharge reduction. The operation philosophy of "integrity, pragmatism, innovation" has established Master Kong's corporate culture of caring for public welfare and emphasizing talents cultivation. Furthermore, "Master Kong Creative Challenges", which has been held for five consecutive years, were held in China, Taiwan and Hong Kong, demonstrating Master Kong's support for university students to participate in community activities with actual actions and appealing to more than 150 million person-times for jointly building a better future. "Master Kong Creative Challenges" was also recognized for its innovative approach and issues of concern by winning the "Charity Communication Award in the Best Public Relations Case Competition in China" and the "PR Newswire Corporate Social Responsibility Communication Award". By upholding the philosophy of empathy, feeling how others feel, Master Kong will continue to actively participate in various community activities so as to properly fulfill its social responsibilities in education, cross-strait cultural exchange and poverty relief and disaster relief work.

Awards and Honours

On 5 February 2014, Master Kong received the "Best Brand Award for 2014" from the German Brands Association at the 11th award event held by the German Brands Association in Munich. In March, Master Kong became the ultimate winner of the "Best Product Brand" during the event of "Best Brand: Brand Rankings for 2014 in China" and also won the "Best Food and Beverage Brand" award. During the same period, according to the results of the C-BPI survey conducted by China Brand Research Center of the MIIT and Chnbrand, a research and consultation institution directly under its supervision, Master Kong's instant noodle/tea drink/bottled water were named the First Brand for four consecutive years.

PROSPECTS

In the first quarter, we made achievements in various aspects, the results was better than expectation. Our goal is very clear, look forward to the coming quarters, we will continue the operating strategy as the first quarter. For the food business, we will focus on strengthening the instant noodle business. We will develop more new products to establish Master Kong to be the pioneer for product trend. Meanwhile, we will enhance the development of instant food business through merge and acquisition, product and branding innovations, deepen market penetration, development of new marketing channels and business opportunities to provide more varieties, safer and more delicious products for consumers. For the beverage business, we will continue to consolidate the market position of major products, strengthen research, development capabilities and launch new products timely. The resources of Master Kong and PepsiCo China will be further consolidated and capture development opportunities actively through the integrated synergy of the alliance between Master Kong and PepsiCo. In the future, we will continue to refine our operations through integration between production base and supply chain, strictly control production and selling costs, product quality and productivity, and increase the consolidated synergy in a stable team.

On 14 May, the acquisition of Wealth City Investment Limited has been approved by the independent shareholders of the Company at the extraordinary general meeting. The reasons for the acquisition is to further the development of the Group on the basis of its current foundation, the Group intends to establish an operation headquarters in Shanghai to enhance the image of the Group, improve efficiency and to facilitate international contacts. Given Shanghai's strategic location at the mouth of the Yangtse River Delta in East China and its being the commercial and financial centre of the PRC and rich in human resources, the Company considers that locating its operation headquarters in Shanghai would enable the Company to effectively consolidate its internal and external resources, promote administrative efficiency, enhance the hiring of talents and their nurture, and strengthen the Group's leading position in product developments. We expect our various departments will move to the operation headquarter progressively for operation by the end of the year.

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

Code provision A.4.1

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

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

Directors' responsibility for the financial statements

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

Audit Committee

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

Remuneration and Nomination Committee

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

Internal Control

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

Compliance with the Model Code

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE OPTION SCHEME

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

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

For the period of three months ended 31 March 2014, 100,000 options had been exercised under the Share Option Scheme. Weighted average exercise price was HK$9.28 and the weighted average market closing price before the date of exercise was HK$22.15.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER IN SHARES

As at 31 March 2014, the interests and short positions of the Directors and Chief Executive Officer in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(a) Long position in Shares and underlying Shares

Name of Directors	Number of ordinary shares Personal interests	Corporate interests (Note 1)	Percentage of the issued share capital	Number of underlying shares held under share options (Note 2)
Wei Ing-Chou	13,242,000	1,854,827,866	33.59%	12,038,000
Wei Ying-Chiao	—	1,854,827,866	33.14%	—

(b) Long position in shares of associated corporation

Name of Directors	Name of associated Corporation	Number of shares of the associated corporation (Note 3)	Percentage of the issued share capital (Note 3)	Nature of interest (Note 3)
Wei Ing-Chou	Tingyi-Asahi Beverages Holding Co. Ltd.	180,008 shares	17.10%	Corporate
Wei Ying-Chiao	Tingyi-Asahi Beverages Holding Co. Ltd.	180,008 shares	17.10%	Corporate

Note:

1. These 1,854,827,866 shares are held by and registered under the name of Ting Hsin. Ting Hsin is beneficially owned as to approximately 44.08% by Ho Te Investments Limited ("Ho Te"), as to approximately 30.24% by Rich Cheer Holdings Limited ("Rich Cheer"), as to 25.00% by China Foods Investment Corp., an independent third party which was incorporated by Itochu Corporation and Asahi Breweries, Ltd., and as to the remaining 0.68% by unrelated third parties. Ho Te and Rich Cheer were owned as to 100% by Profit Surplus Holdings Limited ("Profit Surplus"). Profit Surplus is the trustee of a unit trust, which is in turn held by four discretionary trusts in equal proportions. HSBC International Trustee Limited is the trustee of each of the above four discretionary trusts, the settlors and discretionary objects of the above four discretionary trusts are as follows:

   — Wei Chang Lu-Yun is the settlor of one of the above discretionary trusts with Wei Chang Lu-Yun and Wei Ing Chou as discretionary objects;

   — Lin Li-Mien is the settlor of one of the above discretionary trusts with Lin Li-Mien and Wei Ying-Chiao as discretionary objects;

   — Wei Hsu Hsiu-Mien is the settlor of one of the above discretionary trusts with Wei Hsu Hsiu-Mien and Wei Yin-Chun as discretionary objects; and

   — Wei Tu Miao is the settlor of one of the above discretionary trusts with Wei Tu Miao and Wei Yin-Heng as discretionary objects.

2. Wei Ing-Chou is also personally interested in 13,242,000 shares and holds 12,038,000 share options (2,000,000 share options are exercisable for the period from 21 March 2013 to 20 March 2018 at an exercise price of HK$9.28 per share, 2,816,000 share options are exercisable for the period from 23 April 2014 to 22 April 2019 at an exercise price of HK$9.38 per share and 2,200,000 share options are exercisable for the period from 1 April 2015 to 31 March 2020 at an exercise price of HK$18.57 per share. 2,264,000 share options are exercisable for the period from 12 April 2016 to 11 April 2021 at an exercise price of HK$19.96 per share, 1,368,000 share options are exercisable for the period from 26 April 2017 to 25 April 2022 at an exercise price of HK$20.54 per share and 139,000,000 share options are exercisable for the period from 27 May 2018 to 26 May 2023 at an exercise price of HK$20.16 per share) under the share option scheme of the Company passed by an extraordinary general meeting of the Company held on 20 March 2008. Wei Chang Lu-Yun, being the spouse of Wei Ing-Chou, is also deemed to be interested in the shares and the underlying shares held by Wei Ing-Chou.

3. These 180,008 shares are held by and registered under the name of Ting Hsin. Please refer to note 1 for the shareholding structure of Ting Hsin.

Save as disclosed above, at no time during the year ended 31 March 2014 there were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in or any other body corporate.

Save as disclosed in this paragraph, as at 31 March 2014, none of the Directors and Chief Executive Officer had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

Substantial Shareholders and Other Persons' Interests in Shares

So far as was known to any Director or Chief Executive Officer of the Company, as at 31 March 2014, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to the kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long position in the Shares and the underlying Shares

Name of shareholder	Capacity	Number of shares held	% of the issued share capital
Ting Hsin (see note 1)^	Beneficial owner	1,854,827,866	33.14
Ho Te Investments Limited (see note 1)^	Interest of controlled company	1,854,827,866	33.14
Rich Cheer Holdings Limited (see note 1)^	Interest of controlled company	1,854,827,866	33.14
Profit Surplus Holdings Limited (see note 1)^	Trustee of a unit trust	1,854,827,866	33.14
HSBC International Trustee Limited (see note 1)^	Trustee of discretionary trusts	1,854,827,866	33.14
Wei Yin-Chun (see note 1)^	Beneficiary of a discretionary trust	1,854,827,866	33.14
Wei Yin-Heng (see note 1)^	Beneficiary of a discretionary trust	1,854,827,866	33.14
Wei Chang Lu-Yun (see notes 1 & 2)^	Settlor and beneficiary of a discretionary trust/Interest of spouse	1,878,717,866	33.59
Lin Li-Mien (see note 1)^	Settlor and beneficiary of a discretionary trust/Interest of spouse	1,854,827,866	33.14
Wei Hsu Hsiu-Mien (see note 1)^	Settlor and beneficiary of a discretionary trust/Interest of spouse	1,854,827,866	33.14
Wei Tu Miao (see note 1)^	Settlor and beneficiary of a discretionary trust/Interest of spouse	1,854,827,866	33.14
Sanyo Foods Co., Ltd.	Beneficial owner	1,854,827,866	33.14

^ Note 1 and 2 are set out on page 23.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in register required to be kept under section 336 of the SFO as at 31 March 2014.

BOARD OF DIRECTORS

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

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 19 May 2014

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