



康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

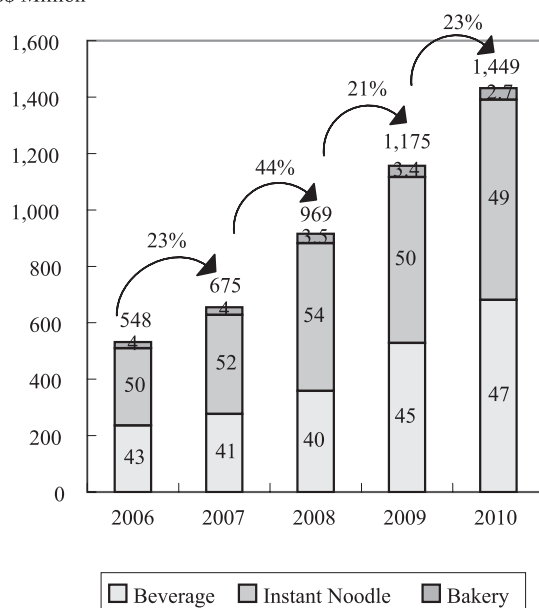
(Incorporated in Cayman Islands with limited liability)

(Stock Code :0322)



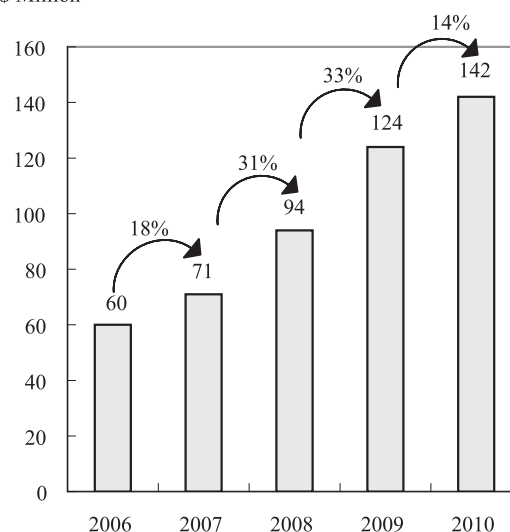
**Turnover and Percentage of Total
Turnover by Production Type for the First Quarter**

US\$ Million



Profit for the First Quarter

US\$ Million



SUMMARY

For the three months ended 31 March

US\$ million	2010	2009	Change
• Turnover	1,449,369	1,175,309	↑ 23.32%
• Gross margin	30.35%	35.37%	↓ 5.02 ppt.
• Gross profit of the Group	439,922	415,718	↑ 5.82%
• EBITDA	236,672	220,215	↑ 7.47%
• Profit for the period	141,957	124,232	↑ 14.27%
• Profit attributable to Owners of the Company	102,171	92,785	↑ 10.12%
• Earnings per share (US cents)	1.83	1.66	↑ 0.17 cents

When compared to 31 December 2009

- Cash and cash equivalents increased 119.62% to US\$1,142 million
- Advance payments from customers increased US\$390 million to US\$433 million





2010 FIRST QUARTERLY RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the “Company”) is pleased to announce the unaudited condensed consolidated first quarterly financial statements of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2010 together with the unaudited comparative figures for the corresponding period in 2009. These unaudited first quarterly financial statements have been reviewed by the Company’s Audit Committee.

Condensed Consolidated Income Statement

For the Three Months Ended 31 March 2010

		For the three months ended 31 March	
		2010 (Unaudited) US\$'000	2009 (Unaudited) US\$'000
	Note		
Turnover and revenue	2	1,449,369	1,175,309
Cost of sales		(1,009,447)	(759,591)
Gross profit		439,922	415,718
Other net income		13,219	14,434
Distribution costs		(227,421)	(207,366)
Administrative expenses		(31,051)	(27,269)
Other operating expenses		(10,241)	(23,983)
Finance costs	5	(2,489)	(6,633)
Share of results of associates		2,956	3,950
Profit before taxation	5	184,895	168,851
Taxation	6	(42,938)	(44,619)
Profit for the period		141,957	124,232
Attributable to:			
Owners of the Company		102,171	92,785
Non-controlling interests		39,786	31,447
Profit for the period		141,957	124,232
Earnings per share	7		
Basic		1.83 cents	1.66 cents
Diluted		1.82 cents	1.66 cents





Condensed Consolidated Statement of Comprehensive Income

For the Three Months Ended 31 March 2010

	For the three months ended 31 March	
	2010 (Unaudited) US\$'000	2009 (Unaudited) US\$'000
Profit for the period	141,957	124,232
Other comprehensive expense		
Net losses recognised directly in equity		
Exchange translation difference	(428)	(2,837)
Total comprehensive income for the period (net of tax)	<u>141,529</u>	<u>121,395</u>
Total comprehensive income attributable to:		
Owners of the Company	101,636	90,372
Non-controlling interests	<u>39,893</u>	<u>31,023</u>
	<u>141,529</u>	<u>121,395</u>





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Condensed Consolidated Statement of Financial Position

At 31 March 2010

		At 31 March 2010 (Unaudited) US\$'000	At 31 December 2009 (Audited) US\$'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		2,334,626	2,216,638
Intangible assets		6,260	6,955
Interest in associates		44,702	61,892
Prepaid lease payments		103,849	88,803
Available-for-sale financial assets		3,408	3,408
Deferred tax assets		5,379	5,379
		<u>2,498,224</u>	<u>2,383,075</u>
Current assets			
Financial assets at fair value through profit or loss		3,100	4,026
Inventories		276,657	212,923
Trade receivables	9	122,554	115,591
Prepayments and other receivables		178,503	171,889
Pledged bank deposits		11,769	9,358
Bank balances and cash		1,130,672	510,831
		<u>1,723,255</u>	<u>1,024,618</u>
Total assets		<u><u>4,221,479</u></u>	<u><u>3,407,693</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	10	27,934	27,934
Reserves		1,537,076	1,434,710
Total capital and reserves attributable to Owners of the Company		<u>1,565,010</u>	<u>1,462,644</u>
Non-controlling interests		<u>431,992</u>	<u>446,420</u>
Total Equity		<u>1,997,002</u>	<u>1,909,064</u>
Non-current liabilities			
Long-term interest-bearing borrowings	11	100,733	116,983
Other non-current payables		1,531	1,531
Employee benefit obligations		11,802	11,377
Deferred tax liabilities		69,895	60,779
		<u>183,961</u>	<u>190,670</u>
Current liabilities			
Trade payables	12	835,414	622,197
Other payables		423,617	406,210
Current portion of interest-bearing borrowings	11	314,859	218,087
Advance payments from customers		432,756	42,497
Taxation		33,870	18,968
		<u>2,040,516</u>	<u>1,307,959</u>
Total liabilities		<u>2,224,477</u>	<u>1,498,629</u>
Total equity and liabilities		<u><u>4,221,479</u></u>	<u><u>3,407,693</u></u>
Net current liabilities		<u>(317,261)</u>	<u>(283,341)</u>
Total asset less current liabilities		<u><u>2,180,963</u></u>	<u><u>2,099,734</u></u>





Condensed Consolidated Statement of Changes in Equity

For the Three Months Ended 31 March 2010

	Attributable to Owners of the Company									Capital and reserves (Unaudited) US\$'000
	Issued capital (Unaudited) US\$'000	Capital redemption reserve (Unaudited) US\$'000	Share premium (Unaudited) US\$'000	Exchange translation reserve (Unaudited) US\$'000	General reserve (Unaudited) US\$'000	Share-based payment reserve (Unaudited) US\$'000	Retained profits (Unaudited) US\$'000	Total (Unaudited) US\$'000	Non-controlling interests (Unaudited) US\$'000	
At 1 January 2009	27,934	45	330,492	163,834	177,555	750	506,593	1,179,269	331,435	1,538,638
Total comprehensive income	—	—	—	(2,413)	—	—	92,785	90,372	31,023	121,395
Transfer to general reserve	—	—	—	—	51	—	(51)	—	—	—
Recognition of equity-settled share-based payment reserve	—	—	—	—	—	250	—	250	—	250
At 31 March 2009	27,934	45	330,492	161,421	177,606	1,000	599,327	1,269,891	362,458	1,660,283
At 1 January 2010	27,934	45	330,492	163,968	228,709	3,030	708,466	1,434,710	446,420	1,909,064
Total comprehensive income	—	—	—	(535)	—	—	102,171	101,636	39,893	141,529
Recognition of equity-settled share-based payment reserve	—	—	—	—	—	730	—	730	—	730
Dividend	—	—	—	—	—	—	—	—	(54,321)	(54,321)
At 31 March 2010	27,934	45	330,492	163,433	228,709	3,760	810,637	1,537,076	431,992	1,997,002





Condensed Consolidated Cash Flow Statement

For the Three Months Ended 31 March 2010

	For the three months ended 31 March	
	2010 (Unaudited) US\$'000	2009 (Unaudited) US\$'000
Net cash from operating activities	763,114	503,936
Net cash used in investing activities	(167,062)	(103,672)
Net cash from (used in) financing activities	26,200	(135,547)
Net increase in cash and cash equivalents	622,252	264,717
Cash and cash equivalents at 1 January	520,189	384,964
Cash and cash equivalents at 31 March	<u>1,142,441</u>	<u>649,681</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	1,130,672	642,322
Pledged bank deposits	11,769	7,359
	<u>1,142,441</u>	<u>649,681</u>





Notes:

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited first quarterly financial statements. These unaudited 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 quarterly financial statements should be read in conjunction with the 2009 annual financial statements. The accounting policies adopted in preparing the unaudited quarterly financial statements for the three months ended 31 March 2010 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the impact of the adoption of the new standards, amendments and interpretations described below.

Up to the date of issue of this report, the HKICPA has issued the following new standards, amendments and interpretations which are relevant to the Group's operation and are effective for the financial year beginning on 1 January 2010:

HKFRS 2 (Amendment)	Share-based Payment (effective for annual periods beginning on or after 1 July 2009)
HKFRS 3 (Revised)	Business Combinations (effective for annual period beginning on or after 1 July 2009)
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009)
HKFRS 8 (Amendment)	Operating Segments (effective for annual periods beginning on or after 1 January 2010)
HKAS 1 (Amendment)	Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010)
HKAS 7 (Amendment)	Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010)
HKAS 17 (Amendment)	Leases (effective for annual periods beginning on or after 1 January 2010)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)
HKAS 36 (Amendment)	Impairment of Assets (effective for annual periods beginning on or after 1 January 2010)
HKAS 38 (Amendment)	Intangible Assets (effective for annual periods beginning on or after 1 July 2009)
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010)
HK(IFRIC) – Int 9 (Amendment)	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 July 2009)
HK(IFRIC) – Int 16 (Amendment)	Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009)
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)
HK(IFRIC) – Int 18	Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009)
HKICPA's annual improvements project	published in May 2009 Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 July 2009)

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the financial statements of the Group in the initial application. The adoption of the above is not expected to have a material impact on the financial statements of the Group other than disclosure changes.

2. Turnover and revenue

The Group's turnover and revenue represent the invoiced value of goods sold to customers, net of returns, discounts and Value Added Tax.





3. Segment information

Segment results

For Three Months ended 31 March 2010

	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Bakery (Unaudited) US\$'000	Others (Unaudited) US\$'000	Inter-segment elimination (Unaudited) US\$'000	Group (Unaudited) US\$'000
Turnover and Revenue						
Revenue from external customers	716,505	680,349	39,277	13,238	—	1,449,369
Inter-segment revenue	9	393	377	21,846	(22,625)	—
Segment turnover and revenue	<u>716,514</u>	<u>680,742</u>	<u>39,654</u>	<u>35,084</u>	<u>(22,625)</u>	<u>1,449,369</u>
Segment results	83,203	97,721	2,322	1,902	(720)	184,428
Finance costs						(2,489)
Share of results of associates						<u>2,956</u>
Profit before taxation						<u>184,895</u>

For Three Months ended 31 March 2009

	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Bakery (Unaudited) US\$'000	Others (Unaudited) US\$'000	Inter-segment elimination (Unaudited) US\$'000	Group (Unaudited) US\$'000
Turnover and Revenue						
Revenue from external customers	587,695	525,218	39,775	22,621	—	1,175,309
Inter-segment revenue	13	23	316	20,404	(20,756)	—
Segment turnover and revenue	<u>587,708</u>	<u>525,241</u>	<u>40,091</u>	<u>43,025</u>	<u>(20,756)</u>	<u>1,175,309</u>
Segment results	81,980	83,954	4,366	1,757	(523)	171,534
Finance costs						(6,633)
Share of results of associates						<u>3,950</u>
Profit before taxation						<u>168,851</u>

Segment result represents the profit earned by each segment without allocation of finance costs and share of result of associates. 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.





3. Segment information (continued)

Segment assets

	At 31 March 2010				Inter-segment elimination (Unaudited) US\$'000	Group (Unaudited) US\$'000
	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Bakery (Unaudited) US\$'000	Others (Unaudited) US\$'000		
Segment assets	1,489,123	2,444,928	116,710	727,305	(606,668)	4,171,398
Interest in associates						44,702
Unallocated assets						5,379
Total assets						4,221,479

	At 31 December 2009				Inter-segment elimination (Audited) US\$'000	Group (Audited) US\$'000
	Instant noodles (Audited) US\$'000	Beverages (Audited) US\$'000	Bakery (Audited) US\$'000	Others (Audited) US\$'000		
Segment assets	1,436,047	1,743,479	119,682	1,068,872	(1,027,658)	3,340,422
Interest in associates						61,892
Unallocated assets						5,379
Total assets						3,407,693

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	
	2010 (Unaudited) US\$'000	2009 (Unaudited) US\$'000
Finance costs		
Interest on bank loans and other borrowings wholly repayable within five years	2,489	6,633
Other items		
Depreciation	52,333	47,744
Amortisation	1,314	1,159





6. Taxation

	For the three months ended 31 March	
	2010 (Unaudited) US\$'000	2009 (Unaudited) US\$'000
Current tax – PRC Enterprise Income Tax		
Current period	33,823	31,081
Deferred taxation		
Origination and reversal of temporary differences, net	1,215	1,128
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	7,900	12,410
Total tax charge for the period	42,938	44,619

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

No provision for Hong Kong Profits Tax has been made as there was no assessable profit in Hong Kong for the period.

Subsidiaries in the PRC which engage in manufacture and sale of instant noodles, beverages and bakery products are subject to tax laws applicable to foreign investment enterprises in the PRC. Most of the subsidiaries are located at economic development zones and were entitled to a preferential PRC Enterprise Income Tax ("EIT") rate of 15% before 31 December 2007. Also, they were fully exempt from PRC Enterprise Income Tax for two years starting from the first profit-making year followed by a 50% reduction for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years ("Tax Holidays").

According to the Tax Relief Notice (Cai Shui [2001] no. 202) 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 2001 to 31 December 2010. Accordingly, certain subsidiaries located in Western Region are entitled to a preferential rate of 15% (2009: 15%).

For the PRC subsidiaries not entitled to a preferential PRC EIT, the applicable PRC EIT is at a statutory rate of 25% (2009: 25%).

Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Enterprise Income Tax (Guo Fa [2007] no. 39), enterprises previously entitled to a reduced tax rate shall have a grace period of five years regarding the tax reduction commencing on 1 January 2008; the subsidiaries which were entitled to a 15% EIT rate will be subjected to tax rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter. The subsidiaries that have been granted tax concessions under the tax preferential policies in the Grand Development of Western Region shall continue to enjoy the tax concessions until expiry.

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends distributed to foreign investors by the foreign investment enterprises established in 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, the applicable rate is 10% and deferred tax liability is only provided on those parts of post-2007 earnings that are expected to be distributable in the foreseeable future.

7. (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Company of US\$102,171,000 for the period ended 31 March 2010 (2009: US\$92,785,000) and the weighted average number of ordinary shares of 5,586,793,360 shares (2009: 5,586,793,360 shares) in issue throughout the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company of US\$102,171,000 for the period ended 31 March 2010 (2009: US\$92,785,000) and the weighted average number of ordinary shares of 5,605,802,484 shares (2009: 5,586,793,360 shares).

	For the three months ended 31 March	
	2010 No. of shares	2009 No. of shares
Weighted average number of ordinary shares at March	5,586,793,360	5,588,793,360
Effect of deemed issue of shares under the Company's share option scheme	19,009,124	—
Weighted average number of ordinary shares at March (diluted)	5,605,802,484	5,586,793,360





8. Dividend

The Board of Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: 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) is as follows:

	At 31 March 2010 (Unaudited) US\$'000	At 31 December 2009 (Audited) US\$'000
0 - 90 days	113,586	105,985
Over 90 days	8,968	9,606
	<u>122,554</u>	<u>115,591</u>

10. Issued capital

	Ordinary shares of US\$0.005 each No. of shares	US\$'000
Authorised: At 31 December 2009 and 31 March 2010	7,000,000,000	35,000
Issued and fully paid: At 31 December 2009 and 31 March 2010	5,586,793,360	27,934

11. Interest-bearing borrowings

	At 31 March 2010 (Unaudited) US\$'000	At 31 December 2009 (Audited) US\$'000
The maturity of the unsecured bank loans is as follows:		
Within one year	314,859	218,087
In the second year	45,732	71,983
In the third year to the fifth years, inclusive	55,001	45,000
	<u>415,592</u>	<u>335,070</u>
Portion classified as current liabilities	(314,859)	(218,087)
	<u>100,733</u>	<u>116,983</u>
Non-current portion		

After considering the impact of the fluctuation of exchange rate, during the period, the Group obtained new bank loans in the amount of US\$267,479,000 (2009: US\$69,651,000) which were used for purchasing of raw materials. Repayments of bank loans amounting to US\$186,957,000 (2009: US\$205,198,000) were made in line with previously disclosed repayment terms.

12. Trade payables

The aging analysis of trade payables is as follows:

	At 31 March 2010 (Unaudited) US\$'000	At 31 December 2009 (Audited) US\$'000
0 - 90 days	812,582	586,944
Over 90 days	22,832	35,253
	<u>835,414</u>	<u>622,197</u>





13. Commitments

	At 31 March 2010 (Unaudited) US\$'000	At 31 December 2009 (Audited) US\$'000
(a) Capital commitments		
Contracted but not provided for	131,830	168,497
(b) Commitments under operating lease		
At 31 March 2010, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:		
Within one year	13,603	12,950
In the second to fifth years, inclusive	16,034	19,282
After five years	5,921	5,920
	35,558	38,152

14. 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 2010 (Unaudited) US\$'000	2009 (Unaudited) US\$'000
(a) Sales of goods to:		
Associates	916	16
Companies under common control by a substantial shareholder of the Company	246	245
(b) Purchases of goods from:		
Associates	78,703	84,049
Holding companies of a minority shareholder of subsidiaries of the Company	1,006	419

15. Approval of first quarterly financial statements

The first quarterly financial statements of 2010 were approved by the board of directors on 17 May 2010.



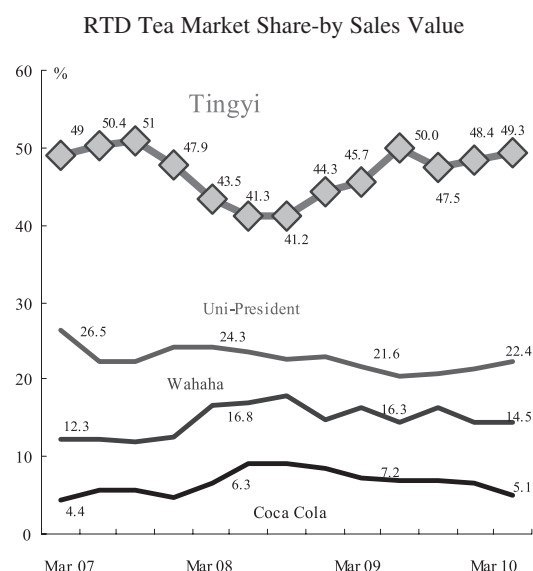
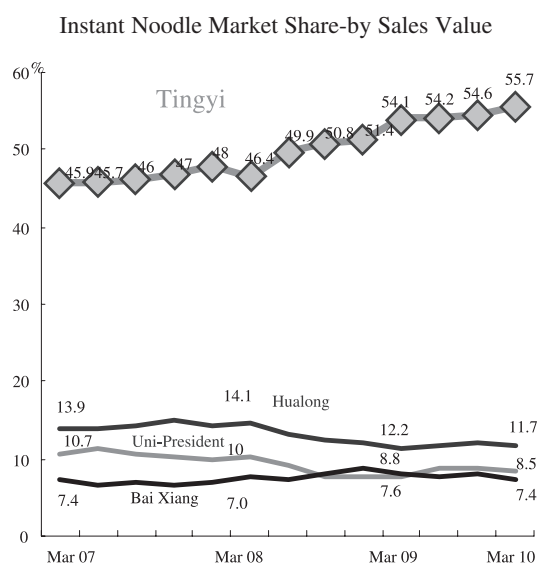


MANAGEMENT DISCUSSION AND ANALYSIS

The GDP of China increased by 11.9% year on year. During the period, the Chinese government adopted a series of policies to stimulate consumer consumption. Our group strongly believes the fast food and beverage industry in China will continue to benefit from the booming domestic demand market, the growth of rural income and the ongoing urbanization. High consumption will create a good operating platform for enterprises. However, since the second quarter of last year prices of raw materials have risen considerably, putting significant pressure on the production cost and the gross profit margin of the sector.

Benefiting from flexible sales strategy, effective sales network and continuous communication with consumers, the Group's turnover for the first quarter of 2010 increased by 23.32% year-on-year to US\$1,450 million. The growth was mainly contributed to the 21.92% increase in the sale of instant noodles and 29.54% increase from the beverage division. During the period, prices for the Group's core raw materials have recorded double digit increase when compared to the first quarter of last year and hence costs have sharply increased and margin squeezed. The Group's gross margin dropped by 5.02ppt. to 30.35% but gross profit grew 5.82% when compared to the same period of last year. Petroleum price continued to increase in the first quarter but the Group has maintained stable transportation costs through effective management. Effective control of advertising and promotion costs led to the distribution cost as a percentage of sales decreased by 1.95ppt. to 15.69%. Through the effective control of costs the Group has been able to maintain its profit in an up trend. Profit for the period increased by 14.27% to US\$141.957 million and EBITDA grew by 7.47%. Profit attributable to equity holders of the Company increased by 10.12% to US\$102.171 million and earning per share increased by 0.17 US cents to 1.83 US cents when compared to the first quarter of 2009.

In February 2010, Credit Suisse identified 27 Great Brands of Tomorrow at various stages of development that they believe will significantly outperform the market over the next three to five years as they build and leverage brand equity to grow in size, scale and profitability. Master Kong was named as one of these global 27 Great Brands. According to ACNielsen's survey in March 2010, market shares of the Group's core products instant noodle and Ready to drink (RTD) tea continued to increase and maintained their leading position.



Sources: ACNielsen SCAN TRACK EXPRESS – March 2010





Instant Noodle Business

In the first quarter of 2010, while domestic demand remained strong, consumption in some areas had not fully recovered due to the impact of the financial crisis. Some small factories withdrew from the market as they could not sustain the great cost pressure. As a result, the market has been complicated and volatile.

Turnover for instant noodles grew by 21.92% year-on-year to US\$716.505 million, representing 49.44% of the Group's total turnover. During the period, the growth in sales of the high margin bowl noodle and high-end packet noodle of 23.52% and the Group's efficient production management have helped to offset the increases in production costs. Due to the sharp price increase of over 30% for palm oil gross margin has decreased by 4.54ppt. to 27.73% but gross profit grew by 4.75% year-on-year. Profit attributable to equity holders of the Company increased by 3.46% to US\$59.688 million.

According to ACNielsen's survey in March 2010, in terms of sales volume and value of instant noodle, the Group's market share in the overall PRC market increased to 42.6% and 55.7% respectively. In terms of sales value, market share for the Group's bowl noodle and high-end packet noodle were 69.7% and 72.7% respectively, establishing them firmly in the No.1 position for more than ten years. The Group's mid-end noodle also gained a 70.2% market share being No.1 in the market.

Master Kong's classic instant noodles products such as "Noodles with Braised Beef" continued to be its major products that are well received by customers all over the country. To extend its strategy of vitalizing regional cultures of food and drinks, Master Kong launched new flavours with regional features, which has successfully drove further sales. During the period, "Guangdong Noodles" was launched in South China and gained popularity quickly. Through marketing with box and bag packaging, Master Kong also secured the leading position in the mixed fried noodle market segment. With "microwave noodle cooking" as the theme of its annual promotion, "Mianba La Mian" managed to satisfy the demand of customers for quality noodles. "Jin Shuang La Mian" and "Hao Zi Wei" have also made their foray in the medium/low-end market segments. In the low-priced noodle market segment, "Fumanduo" was designated as the primary brand. In respect of the medium-priced "Super Fumanduo", cost effectiveness was enhanced and further consolidated its leading position as a young brand. Sales of bowl noodles also increased gradually after its launch. The continued launching of snack noodles with new flavours and the improved and refined product introductions have been effective in helping to further develop the Group's instant noodles market.

On 11 March 2010, the Group's three instant noodles companies were awarded the 2009 TPM Excellence Prize in Kyoto, Japan. This prize was not only recognition of Master Kong's quality and technology but also confirmation of its contribution to energy conservation and emission reduction, and helped in enhancing customers' confidence in the Group.

Beverage Business

The weather in China was quite abnormal in the first quarter of 2010 but this did not slow down the marketing activities of the sector. Various beverage manufacturers launched "One More Bottle" lucky draw events during the period, which triggered an early start of the "war" in the highly competitive beverage market. As the increase in raw material prices has become a barrier for profits in the sector, all major manufacturers have increased their investments in equipments with higher performance to improve productivity.

Turnover for beverage grew by 29.54% year-on-year to US\$680.349 million, representing 46.94% of the Group's total turnover. During the period, the growth in sales of the core product RTD tea of 39.57% and the improved production efficiency and energy conservation measures have eased some of the production cost pressure. However, prices of the major raw material, PET resin and sugar increased sharply by more than 30% and 50% over the same period last year. As a result, the gross profit margin of beverages decreased by 5.54ppt. year on year to 32.56% but gross profit grew by 10.69%. Profit attributable to equity holders of the Company increased by 25.03% to US\$38.437 million.

According to ACNielsen's survey in March 2010, in terms of sales volume, Master Kong's RTD tea's market share in the overall PRC market increased to 51.3%. Market share of Master Kong bottled water was 19.8%, ranking it No.1 in the market. By using duo brands Fresh Daily C and Master Kong, the Group's juice drinks have gained 15.5% market share, ranking it amongst the top 3 in the diluted juice market.





In response to the festive demand during the Chinese New Year, the Group strengthened the promotion of the family pack and brought Master Kong beverages to home. RTD tea succeeded in boosting sales by establishing a young and vigorous brand image and organized the “One More Bottle” lucky draw. In addition, Master Kong achieved remarkable results in the first quarter by extending the effect of the “One More Bottle” lucky draw event in respect of fruit juice held at the end of 2009. The addition of new products such as the blackcurrant, pineapple and pomegranate flavours led to further increases in the sales of fruit juice drinks. With the effective national distribution networks, the demands of any provinces for bottled water could be met more quickly so and the Group was able to response quickly to market demand and capture any opportunities in the market under the fast-changing environment.

Beverage enterprises in China have faced problems such as shortage of resources and the exacerbation of environmental pollution. Therefore, green production has gradually becoming a target for many enterprises. Master Kong has fulfilled its social responsibility by taking the lead in promoting the concepts of water saving, energy conservation, consumption reduction and emission reduction and actively driving the “green revolution” in the beverage industry, but at the same time, the Group has maintained effective control over costs.

Bakery Business

Turnover for bakery decreased slightly by 1.25% year-on-year to US\$39.277 million, representing 2.71% of the Group’s total turnover. During the period, gross margin decreased by 2.54ppt. to 37.82%, mainly due to the price increase of raw material and high labor cost. Gross profit dropped by 7.46% year-on-year and profit attributable to equity holders of the Company was US\$1.881 million, a decrease of US\$1.894 million. The decrease was mainly due to the increase investments in advertising and promotion expenses.

According to ACNielsen’s survey in March 2010, in terms of sales value, Master Kong had market shares of 26.5%, ranking it second in the sandwich cracker market. Market share for Master Kong egg rolls was 25.8%, ranking it No.1 in the market. Bakery business will continue to expand with the growth of core products, increased sales items and the strengthening of core production technologies through different modes of co-operations.

FINANCING

At 31 March 2010, the Group’s total liabilities amounted to US\$2,224.477 million, and total assets amounted to US\$4,221.479 million. The Group’s total liabilities increased by US\$725.848 million as compared to US\$1,498.629 million as at 31 December 2009. The debt ratio, calculated as total liabilities to total assets, increased by 8.71ppt. to 52.69% as compared to 31 December 2009. The increase in debt ratio was because of (1) the sharp increase of advance payments from customers in the high season of beverage and (2) the increase of trade payables for purchasing of more raw materials due to the seasonal demand. The Group’s bank loans increased by US\$80.522 million to US\$415.592 million as compared to 31 December 2009. The loans were mainly used for capital expenditures and working capital. The Group’s proportion of the total borrowings denominated in foreign currency and Renminbi were 91% and 9% respectively, as compared with 87% and 13% respectively as at 31 December 2009. The proportion between the Group’s long-term loans and short-term loans was 24% and 76%, as compared with 35 % and 65 % respectively as at 31 December 2009. In addition, the Group’s transactions are mainly denominated in Renminbi. During the period, there has been no significant impact on the Group arising from the insignificant fluctuation of exchange rate.

The Group continued to maintain its sound liquidity. As of 31 March 2010, the Group had bank balances and cash on hand of US\$1,142.441 million, and no contingent liability.

Financial Ratio

	As at 31 March 2010	As at 31 December 2009
Finished goods turnover	10.48 Days	10.22 Days
Trade receivables turnover	7.39 Days	8.82 Days
Current ratio	0.84 Times	0.78 Times
Debt ratio (Total liabilities to total assets)	52.69%	43.98%
Gearing ratio (Net debt to equity attributable to equity holders of the Company)	-0.46 Times	-0.13 Times





PROSPECTS

The economy of China will continue to grow and consumption growth will maintain its strong momentum. This momentum will benefit the instant food and beverage industry. However, given the complicated and fast changing market in 2010, it is apparent that competition is getting more and more intense. As in the past, the Group has put its focus on the development of instant food and beverages, and has timely introduced flexible market strategies and high-quality new products to further develop the market. As for the instant noodle industry, Master Kong will put more efforts in the sustainable development of the industry and strive to lead other instant noodle manufacturers to expand and vitalize the instant noodle market as a whole. In the beverage market, there has been an increasing number of manufacturers with growing homogeneity of products. We will continue to implement the refined marketing strategy to effectively subdivide the market and establish suitable target markets so as to further consolidate our brand image and market share.

Facing the increases in prices of raw materials, we shall maintain proper control over costs, refine the production process and optimize the product mix to ease the pressure from decreasing gross profits. Meanwhile, the strong domestic demand in China will directly drive the flourishing of the instant food and beverage market. Through sales growth and the enhancement of production capacity, the Group will be able to maintain reasonable profits amidst high prices of raw materials.

As at the end of the first quarter, payments for goods received by the Group in advance increased significantly by US\$390 million as compared with the end of last year. Such good results achieved before the peak season for beverages indeed gave a strong impetus to the management team! The management firmly believes with its business foundation established in the China market, good reputation and sound financial structure, the Group will definitely surpass its rivals and will finally develop Master Kong into the largest instant food and beverage manufacturer in the world.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

Throughout the period ended 31 March 2010, the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that:

1. there is no separation of the role of chairman and chief executive officer. Mr. Wei Ing-Chou currently assumes the role of both the Chairman and the Chief Executive Officer of the Company;
2. all Independent Non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company’s Articles of Association; and
3. Mr. Wei Ing-Chou, the Chairman of the Board of the Company does not need to retire by rotation.

However, at present, the chairman of each of the Company’s subsidiaries is responsible for the operation of the respective subsidiaries. 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.

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 two Independent Non-executive Directors, Mr. Lee Tiong-Hock and Mr. Hsu Shin-Chun. 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 two Independent Non-executive Directors, Mr. Hsu Shin-Chun and Mr. Lee Tiong-Hock. 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





INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER IN SHARES

As at 31 March 2010, 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:

Long position in Shares and underlying Shares

Name of Directors	Number of ordinary shares		Number of underlying shares held under share options
	Personal interests	Corporate interests (Note)	
Wei Ing-Chou	13,242,000	1,854,827,866	4,816,000
Wei Ying-Chiao	—	1,854,827,866	—

Long position in shares of associated corporation

Name of Directors	Name of associated Corporation	Number of shares of the associated corporation	Nature of interest (Note 3)
Wei Ing-Chou	Tingyi-Asahi Beverages Holding Co. Ltd. (previously known as “Tingyi-Asahi-Itochu Beverages Holding Co. Ltd.”)	1,000 shares	Corporate
Wei Ying-Chiao	Tingyi-Asahi Beverages Holding Co. Ltd. (previously known as “Tingyi-Asahi-Itochu Beverages Holding Co. Ltd.”)	1,000 shares	Corporate

Note:

- 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 47.02% by Ho Te Investments Limited (“Ho Te”), as to approximately 32.26% by Rich Cheer Holdings Limited (“Rich Cheer”), as to 20% by Itochu Corporation, an independent third party and as to the remaining 0.72% by unrelated third parties. Ho Te is owned as to 51% (in the form of ordinary shares) by Profit Surplus Holdings Limited (“Profit Surplus”) and as to 49% (in the form of non-voting preference shares) by Wei Ing-Chou, Wei Ying-Chiao, Wei Yin-Chun and Wei Yin-Heng, respectively in equal proportions. Rich Cheer is owned as to 51% (in the form of ordinary shares) by Profit Surplus and as to 49% (in the form of non-voting preference shares) by Wei Chang Lu-Yun (the spouse of Wei Ing-Chou), Lin Li-Mien (the spouse of Wei Ying-Chiao), Wei Hsu Hsiu-Mien (the spouse of Wei Yin-Chun) and Wei Tu Miao (the spouse of Wei Yin-Heng), respectively in equal proportions. 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 holds 4,816,000 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 and 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) under the share option scheme of the Company passed by an extraordinary general meeting of the Company held on 20 March 2008.
3. These 1,000 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 2010 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 2010, 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 2010, 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 be 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 (<i>see note 1</i>)	Beneficial owner	1,854,827,866	33.20
Ho Te Investments Limited (<i>see note 1</i>)	Interest of controlled company	1,854,827,866	33.20
Rich Cheer Holdings Limited (<i>see note 1</i>)	Interest of controlled company	1,854,827,866	33.20
Profit Surplus Holdings Limited (<i>see note 1</i>)	Trustee of a unit trust	1,854,827,866	33.20
HSBC International Trustee Limited (<i>see note 1</i>)	Trustee of discretionary trusts	1,854,827,866	33.20
Wei Yin-Chun (<i>see note 1</i>)	Beneficiary of a discretionary trust	1,854,827,866	33.20
Wei Yin-Heng (<i>see note 1</i>)	Beneficiary of a discretionary trust	1,854,827,866	33.20
Wei Chang Lu-Yun (<i>see notes 1 & 2</i>)	Settlor and beneficiary of a discretionary trust/Interest of spouse	1,872,885,866	33.52
Lin Li-Mien (<i>see note 1</i>)	Settlor and beneficiary of a discretionary trust/Interest of spouse	1,854,827,866	33.20
Wei Hsu Hsiu-Mien (<i>see note 1</i>)	Settlor and beneficiary of a discretionary trust/Interest of spouse	1,854,827,866	33.20
Wei Tu Miao (<i>see note 1</i>)	Settlor and beneficiary of a discretionary trust/Interest of spouse	1,854,827,866	33.20
Sanyo Foods Co., Ltd.	Beneficial owner	1,854,827,866	33.20





Notes:

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 47.02% by Ho Te Investments Limited ("Ho Te"), as to approximately 32.26% by Rich Cheer Holdings Limited ("Rich Cheer"), as to 20% by Itochu Corporation, an independent third party and as to the remaining 0.72% by unrelated third parties. Ho Te is owned as to 51% (in the form of ordinary shares) by Profit Surplus Holdings Limited ("Profit Surplus") and as to 49% (in the form of non-voting preference shares) by Wei Ing-Chou, Wei Ying-Chiao, Wei Yin-Chun and Wei Yin-Heng, respectively in equal proportions. Rich Cheer is owned as to 51% (in the form of ordinary shares) by Profit Surplus and as to 49% (in the form of non-voting preference shares) by Wei Chang Lu-Yun (the spouse of Wei Ing-Chou), Lin Li-Mien (the spouse of Wei Ying-Chiao), Wei Hsu Hsiu-Mien (the spouse of Wei Yin-Chun) and Wei Tu Miao (the spouse of Wei Yin-Heng), respectively in equal proportions. 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 4,816,000 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) 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.

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 2010.

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 and Mr. Lee Tiong-Hock are Independent Non-executive Directors of the Company.

By Order of the Board
Wei Ing-Chou
 Chairman

Tianjin, PRC, 17 May 2010

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

