康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

(Hong Kong Stock Code: 0322)
(TDR Code: 910322)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

	US$'000	2012	2011		Change
•	Turnover	**9,211,852**	7,866,580	↑	17.10%
•	Gross margin of the Group (%)	**29.90**	26.54	↑	3.36 ppt.
•	Gross margin	**2,754,488**	2,087,969	↑	31.92%
•	EBITDA	**1,199,917**	955,025	↑	25.64%
•	Profit for the year	**600,129**	499,704	↑	20.10%
•	Profit attributable to owners of the Company	**455,171**	419,545	↑	8.49%
•	Earnings per share (US cents)				
	Basic	**8.14**	7.51	↑	0.63 cents
	Diluted	**8.11**	7.47	↑	0.64 cents
•	Final dividend per ordinary share (US cents)	**3.22**	3.75	↓	0.53 cents

At 31 December 2012, cash and cash equivalents was US$837.898 million and gearing ratio was 0.25 times.

RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 together with the audited comparative figures for the corresponding period in 2011 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	**2012** *US$'000*	2011 *US$'000*
Turnover	4	**9,211,852**	7,866,580
Cost of sales		**(6,457,364)**	(5,778,611)
Gross profit		**2,754,488**	2,087,969
Other revenue and other net income	6	**344,767**	169,905
Distribution costs		**(1,866,012)**	(1,322,975)
Administrative expenses		**(302,040)**	(189,215)
Other operating expenses		**(74,604)**	(73,336)
Finance costs		**(32,673)**	(9,372)
Share of results of associates and jointly controlled entities		**3,966**	—
Profit before taxation	7	**827,892**	662,976
Taxation	8	**(227,763)**	(163,272)
Profit for the year		**600,129**	499,704
Attributable to:			
Owners of the Company		**455,171**	419,545
Non-controlling interests		**144,958**	80,159
		600,129	499,704
Earnings per share	10		
Basic		**US8.14 cents**	US7.51 cents
Diluted		**US8.11 cents**	US7.47 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	US$'000	*US$'000*
Profit for the year	**600,129**	499,704
Other comprehensive income:		
Exchange differences on consolidation	**28,057**	131,746
Fair value changes in available-for-sale financial assets	**3,407**	(16,733)
Reclassification adjustment relating to available-for-sale financial assets disposed of during the year	**4,656**	—
Reclassification adjustment for exchange differences released upon disposal of assets classified as held for sale	**—**	(3,847)
Other comprehensive income for the year, net of tax	**36,120**	111,166
Total comprehensive income for the year, net of tax	**636,249**	610,870
Attributable to:		
Owners of the Company	**481,891**	498,176
Non-controlling interests	**154,358**	112,694
	636,249	610,870

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 US$'000	2011 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**5,001,736**	4,029,872
Intangible assets		**28,811**	—
Interest in associates		**21,324**	—
Interest in jointly controlled entities		**63,114**	—
Prepaid lease payments		**284,040**	186,276
Available-for-sale financial assets		**55,032**	104,422
Deferred tax assets		**50,774**	52,176
		5,504,831	4,372,746
Current assets			
Financial assets at fair value through profit or loss		**640**	560
Inventories		**478,113**	312,562
Trade receivables	11	**233,104**	155,040
Prepayments and other receivables		**418,677**	367,814
Pledged bank deposits		**7,673**	9,662
Bank balances and cash		**830,225**	590,390
		1,968,432	1,436,028
Total assets		**7,473,263**	5,808,774

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**2012** US$'000	2011 US$'000
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		**27,964**	27,951
Reserves		**2,522,969**	2,071,794
Total capital and reserves attributable to owners of the Company		**2,550,933**	2,099,745
Non-controlling interests		**946,312**	586,521
Total equity		**3,497,245**	2,686,266
Non-current liabilities			
Long-term interest-bearing borrowings		**984,761**	549,382
Other non-current payables		**220**	—
Employee benefit obligations		**18,060**	14,064
Deferred tax liabilities		**178,466**	131,092
		1,181,507	694,538
Current liabilities			
Trade payables	12	**1,043,295**	974,113
Other payables		**1,110,292**	660,995
Current portion of interest-bearing borrowings		**499,711**	700,695
Advance payments from customers		**82,294**	66,501
Taxation		**58,919**	25,666
		2,794,511	2,427,970
Total liabilities		**3,976,018**	3,122,508
Total equity and liabilities		**7,473,263**	5,808,774
Net current liabilities		**(826,079)**	(991,942)
Total assets less current liabilities		**4,678,752**	3,380,804

Notes:

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 consolidated financial statements except for the adoption of the new/revised HKFRSs effective from the current year that are relevant to the Group as detailed in note 3.

2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceased.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

3. ADOPTION OF NEW/REVISED HKFRS

The HKICPA has issued a number of amendments to HKFRS that are first effective for the current accounting period of the Group. Of these, the changes in accounting policy relevant to the Group's financial statements are as follows:

Amendments to HKAS 12	*Deferred Tax: Recovery of Underlying Assets*
Amendments to HKFRS 7	*Disclosures- Transfers of Financial Assets*

The adoption of these amendments to HKFRS has no significant effect on the results and financial positions of the Group for the current and prior years.

4. 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.

5. SEGMENT INFORMATION

The executive directors have been identified as the chief operating decision-maker of the Group. The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Company's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The Company's executive directors consider the business principally from a product perspective as over 99% of the Group's sales and business are conducted in the PRC. Business reportable operating segments identified are instant noodles, beverages, instant food and others. The segment of others includes investment holding, logistics and supportive functions.

For the purposes of assessing the performance of the operating segments and allocating resources between segments, the executive directors assess segment result after finance costs for the year which is consistent with that in the financial statements.

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 jointly controlled entities. Segment liabilities include all liabilities with the exception of employee benefit obligations.

The investment costs and intra-group balances were previously included in segment assets and liabilities and were eliminated in full. Due to the better presentation and more accurate segment information to be reported to the executive directors, the investment costs and intra-group balances are not included in segment assets and liabilities of "Others". The comparative figures of segment assets of Others and inter-segment elimination have been restated to US$175,570,000 and US$608,544,000 respectively; and the comparative figures of segment liabilities of Others and inter-segment elimination have been restated to US$626,444,000 and US$759,956,000 respectively.

Inter-segment sales are priced at cost plus profit margin. The accounting policies of the reporting segments are the same as the Group's accounting policies.

Business segment analysis

The segment information for the years ended 31 December 2012 and 2011 are as follows:

	2012					
	Instant noodles *US$'000*	**Beverages** *US$'000*	**Instant food** *US$'000*	**Others** *US$'000*	**Inter-segment elimination** *US$'000*	**Total** *US$'000*
Turnover						
Revenue from external customers	3,959,782	4,930,961	234,044	87,065	—	9,211,852
Inter-segment revenue	874	1,410	84	96,168	(98,536)	—
Segment revenue	3,960,656	4,932,371	234,128	183,233	(98,536)	9,211,852
Segment result after finance costs	464,268	166,534	7,032	1,902	(5,669)	634,067
Share of results of associates and jointly controlled entities	—	3,966	—	—	—	3,966
Gain on bargain purchase, net of expenses related to acquisition	—	189,859	—	—	—	189,859
Profit before taxation	464,268	360,359	7,032	1,902	(5,669)	827,892
Taxation	(140,866)	(75,713)	(3,481)	(7,703)	—	(227,763)
Profit (loss) for the year	323,402	284,646	3,551	(5,801)	(5,669)	600,129
Assets						
Segment assets	2,916,279	4,328,382	188,739	573,601	(673,848)	7,333,153
Interest in associates	—	21,324	—	—	—	21,324
Interest in jointly controlled entities	—	49,404	13,710	—	—	63,114
Unallocated assets						55,672
Total assets						7,473,263
Liabilities						
Segment liabilities	968,816	3,032,460	82,951	927,777	(1,054,046)	3,957,958
Unallocated liabilities						18,060
Total liabilities						3,976,018
Other information						
Depreciation and amortisation	78,889	294,925	6,152	7,791	—	387,757
Capital expenditures	337,123	519,012	20,026	5,361	—	881,522

	2011					
	Instant noodles *US$'000*	**Beverages** *US$'000*	**Instant food** *US$'000*	**Others** *US$'000*	**Inter-segment elimination** *US$'000*	**Total** *US$'000*
Turnover						
Revenue from external customers	3,592,270	3,998,702	201,432	74,176	—	7,866,580
Inter-segment revenue	119	1,804	67	82,766	(84,756)	—
Segment revenue	3,592,389	4,000,506	201,499	156,942	(84,756)	7,866,580
Segment result after finance costs and Profit before taxation	418,044	208,460	5,862	35,459	(4,849)	662,976
Taxation	(112,220)	(49,252)	330	(2,130)	—	(163,272)
Profit for the year	305,824	159,208	6,192	33,329	(4,849)	499,704
Assets						
Segment assets	2,520,574	3,442,346	173,846	175,570	(608,544)	5,703,792
Unallocated assets						104,982
Total assets						5,808,774
Liabilities						
Segment liabilities	888,017	2,279,707	74,232	626,444	(759,956)	3,108,444
Unallocated liabilities						14,064
Total liabilities						3,122,508
Other information						
Depreciation and amortisation	53,915	254,387	4,519	8,420	—	321,241
Capital expenditures	291,835	1,119,616	17,388	6,120	—	1,434,959

6. OTHER REVENUE AND OTHER NET INCOME

	2012	2011
	US$'000	*US$'000*
Other revenue		
Interest income	**48,405**	38,564
Dividend income	**1,595**	1,573
	50,000	40,137
Other net income		
Exchange gains, net	**6,269**	15,811
Gain on sales of scrapped materials	**26,722**	23,282
Government grants	**35,978**	28,521
Gain on disposal of a non-wholly owned subsidiary and an associate previously classified as assets held for sale	**—**	39,175
Gain on bargain purchase, net of expenses related to acquisition	**189,859**	—
Others	**35,939**	22,979
	294,767	129,768
	344,767	169,905

7. PROFIT BEFORE TAXATION

	2012	2011
This is stated after charging:	*US$'000*	*US$'000*
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	**36,904**	12,871
Less: Borrowing costs capitalised into property, plant and equipment at weighted average capitalisation rate of 2.43% (2011: 1.32%)	**(4,231)**	(3,499)
	32,673	9,372
Other items		
Depreciation	**380,845**	317,544
Amortisation of prepaid lease payments	**6,346**	3,697
Amortisation of intangible assets	**566**	—

8. TAXATION

	2012	2011
	US$'000	*US$'000*
Current tax – PRC enterprise income tax		
Current year	**185,520**	143,516
Under/(over) provision in prior year	**8,082**	(5,446)
	193,602	138,070
Deferred taxation		
Origination and reversal of temporary differences, net	**13,683**	1,438
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**20,478**	23,764
	34,161	25,202
Total tax charge for the year	**227,763**	163,272

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

Hong Kong Profits Tax has not been provided as the Group entities either incurred losses for taxation purpose or had no assessable profits subject to Hong Kong Profit Tax for the years ended 2012 and 2011.

Pursuant to the State Council Circular on the Implementation of the Transitional Concession Polices 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% enterprise income tax rate will be subject to tax rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter.

Subsidiaries in the PRC which engage in manufacture and sale of instant noodles, beverages and instant food products are subject to tax laws applicable to foreign investment enterprises in the PRC. Most of the subsidiaries are located at state-level economic development zones and were entitled to a preferential PRC enterprise income tax 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.

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% (2011:15%).

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

9. DIVIDENDS

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

	2012	2011
	US$'000	*US$'000*
Final dividend proposed after the end of the reporting period of US3.22 cents (2011: US3.75 cents) per ordinary share	**180,091**	209,629

At meeting held on 18 March 2013, the directors recommended the payment of final dividend of US3.22 cents per ordinary share. The proposed final dividend has not been recognised as dividend payables in the consolidated statement of financial position, but will be reflected as an appropriation of retained profits for the year ending 31 December 2013.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is as follows:

(a) Basic earnings per share

	2012	2011
Profit attributable to ordinary shareholders (US$'000)	**455,171**	419,545
Weighted average number of ordinary shares ('000)	**5,591,945**	5,588,567
Basic earnings per share (US cents)	**8.14**	7.51

(b) Diluted earnings per share

	2012	2011
Profit attributable to ordinary shareholders (US$'000)	**455,171**	419,545
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	**5,591,945**	5,588,567
Effect of the Company's share option scheme	**19,952**	24,949
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	**5,611,897**	5,613,516
Diluted earnings per share (US cents)	**8.11**	7.47

11. TRADE RECEIVABLES

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

	2012	2011
	US$'000	*US$'000*
0 – 90 days	**215,991**	146,883
Over 90 days	**17,113**	8,157
	233,104	155,040

12. TRADE PAYABLES

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

	2012	2011
	US$'000	*US$'000*
0 – 90 days	**1,019,916**	915,284
Over 90 days	**23,379**	58,829
	1,043,295	974,113

13. CAPITAL EXPENDITURE COMMITMENTS

	2012	2011
	US$'000	*US$'000*
Contracted but not provided for:		
Expenditures on properties, plant and equipment	**327,823**	290,319
Investments in jointly controlled entities	**12,240**	—
Investments in private investment funds	**32,537**	41,504
	372,600	331,823

MANAGEMENT DISCUSSION AND ANALYSIS

In 2012, the global economy recovery remained sluggish while the European debt crisis continued. The global economy grew slightly, but continued operating at below par, and the economic recovery slowed down significantly. Against this serious international situation, PRC suffered obvious downward pressure with GDP for 2012 increased by only 7.8%, below 8% for the first time in 8 years. The corresponding CPI increased by 2.6%, compared with the last year. This increase in CPI was 2.8% lower than that of the last year.

In 2012, the Group's turnover was US$9,211.852 million, an increase of 17.10% compared to that of 2011. The growth rates for turnover of instant noodles, beverages and instant foods were 10.23%, 23.31% and 16.19% respectively. In the fourth quarter, the Group's turnover was US$1,732.912 million, 13.82% higher than the same period last year. The performance in the fourth quarter was below forecast due to (1) when compared to 2011, the later China New Year holiday did not benefit fourth quarter sales; (2) improper hostile attacks by a direct competitor using Diaoyu Islands incident, to incite consumers to boycott the Company's products; and (3) planned maintainance of a lower level of inventory for Ready-to-drink (RTD) tea to prepare for the promotion of 100ml capacity upgrading on tea drinks in January 2013. During the year, the Group's gross margin increased by 3.36 ppt. to 29.90% when compared to same period last year, benefiting from the drop in cost of raw materials, optimizing organizational efficiency and enlarged economies of scale.

In 2012, the Group effectively controlled its marketing and logistics expenses by means of strategic advertisement that enhanced its brand as the leader in the PRC market. Due to the intense competition and increase in media promotion expenses, the Group's distribution costs as a percentage of total sales, increased by 3.44 ppt, to 20.26% as compared to 2011's 16.82%. Administrative costs as a percentage of total sales also increased by 0.87 ppt. to 3.28% mainly due to the increase in labour cost and finance costs increased by US$23.301 million to US$32.673 million mainly due to (1) the issue of a five year long term notes to fund capital expenditure and (2) after the business combination, the increased bank borrowings of Pepsi. During the year, the Group maintained a stable and healthy finance structure with strong cash flows. Income tax increased from US$163.272 million in 2011 to US$227.763 million in 2012, resulted an effective tax rate of 27.51% which represented an increase of 2.88 ppt. when compared to the previous year. The increase was attributed to the expiry of the tax preferential treatment of most of the Company's PRC subsidiaries. In 2012, earnings before interest, tax, depreciation and amortization (EBITDA) was US$1,199.917 million, the Group's profit for the year was US$600.129 million and the profit attributable to owners of the Company was US$455.171 million, increases of 25.64%, 20.10% and 8.49% respectively when compared to the previous year. Earnings per share was US 8.14 cents, an increase of US 0.63 cents from last year.

On 31 March 2012, the strategic alliance between the Company and PepsiCo in the beverage business in the PRC was formally established. After the completion, PepsiCo indirectly held 5% interest of Tingyi-Asahi Beverages Holding Co., Ltd. ("TAB") (a company that holds the Group's beverage business) and the bottling assets in the PRC previously held by PepsiCo are owned by TAB. And the Company is exclusively manufacture, sell and distribute of PepsiCo non-alcoholic drinks in China. Details for the business combination may refer to the Company's announcement and circular made on November 4, 2011, March 31 2012 and January 20, 2012 respectively. A gain on bargain purchase of US$189.859 million from this business combination was recognized in "Other revenue and other net income" in the Condensed Consolidated Income Statement.

Instant Noodle Business

In 2012, turnover for instant noodle business amounted to US$3,959.782 million, an increase of 10.23% from the previous year, and represented 42.99% of the Group's total turnover. Turnover for the high gross margin bowl noodles and high-end packet noodles increased by 7.17% and 11.84% respectively. Gross margin increased by 2.77ppt. to 30.01% due to the drop of main raw material prices such as palm oil and the effective control of production cost. Profit attributable to owners of the Company from the instant noodle business grew by 5.72% from last year to US$320.992 million.

According to AC Nielsen's latest report in December 2012, Master Kong's December sales volume and value of instant noodles reached 43.8% and 56.0% of the market share, with 2.9ppt and 0.3ppt growth respectively and they continued to be No.1 in the market. In May 2012, Master Kong hosted the 8th World Instant Noodles Summit in Tianjin. The Group's Chairman Mr. Wei Ing-Chou was elected the Director General of the World Instant Noodles Association, enhancing the Group's corporate image and influence in the instant noodle industry.

Master Kong enriched the noodle ingredients and launched new packaging for its four major popular products, started promotional events under the "Ingredients New Experience" theme, publicized widely the product upgrade information, improved the product vitality and strengthened the leadership of its popular brands. For Master Kong pickled mustard series bucket, the ingredients in pickled packs have been increased by 50% to enhance market competitiveness. To reward consumers with more practical benefits and promote growth, Master Kong launched a promotional activity for its "Pickled" series and "Lu Xiang" series, for which consumers can enjoy a free ham sausage for every bowl noodle. Sales of the pickled series increased by 40% in the fourth quarter, and the Lu Xiang Series increased by 127% on a quarter-on-quarter basis. While strengthening cash flow-generating products, we developed new products actively, and launched three new tastes in the market to enrich the choice of consumers, and to cater for the tastes of regional consumers. For abundant pack products, brittle kelp and beef noodle, preserved vegetable and pork ribs noodle, Daodu Cai bamboo shoots and beef noodle have been launched in the market with mass production in late December 2012.

"Treasures", "Jin Shuang La Mian", "Hao Zi Wei" and "Super Fumanduo" medium-priced noodle underwent upgrades and changes to enhance their market competitiveness. The original tastes have obvious competitive advantages, and the new tastes have also been recognized by the market, with an increase of 28% for the full year. As for the new fried crispy noodle product, "Xiang Bao Cui", after being launched in the market in August 2011, its sale volume has achieved new records repeatedly, with an increase of 102% for the full year.

As for logistics, we adopted standardized integration in factory management, shipment management, distribution center management, the integration of transportation, loading and unloading, the optimization of the supply chain and the establishment and management of distribution centers and improved the distribution speed, so as to ensure smooth distribution during the Spring Festival, and improved the competitiveness of logistics. As for production management, Master Kong completed the automated operation of the integrated box production process and the equipment reform of "Xiang Bao Cui" to promote standardized operation. New suppliers of raw materials were identified and existing manufactures were integrated to reduce production costs. Automated equipment and photographic detection equipment were continuously developed and standardized to ensure that there was no defect in the launch of promotional items. As for cost management, Master Kong continuously promoted gross profit-improvement projects and strived to reduce costs through optimizing supply efficiency (inclusive of transportation, loading and unloading, supplier integration and development). New second-generation instant noodle factories in various regions will be completed successively in the future, which will bring more contribution to brand marketing, improvement of quality and decrease in costs.

Beverage Business

During the year, the overall growth of the beverage industry in the PRC slowed down. According to AC Nielsen, in December 2012, in terms of sales volume, the overall growth of the beverage industry was 9.1% in 2012, which was slightly higher than that of GDP but the lowest growth since 2000. At the same time, the trend of consumption of beverages favoured new taste and affordability, while consumers' requirements have been changing to development-and-enjoyment-oriented consumption, which indicates that consumers are more concerned about food safety and function preference and the beverage industry is entering an era of health and quality. Master Kong and PepsiCo, as two leading companies in the beverage industry have entered into a strategic alliance that provided a better platform for integrating innovation and R&D capabilities and capitalizing on the synergies of costs, brands and resources to better compete in the changing market conditions of sluggish economic environment and intensified competition from competitors. 2012 was a year of historic significance to Master Kong and PepsiCo, and also affirmed Master Kong's leading position in the beverage industry in the PRC.

In 2012, turnover for beverage business increased by 23.31% to US$4,930.961 million as compared to last year, representing 53.53% of the Group's total turnover. During the year, gross margin of beverage business increased by 3.95ppt. to 29.62% mainly due to the decrease in costs of key raw materials such as PET resin and sugar. Profit attributable to owners of the Company from the beverage business was US$137.942 million, an increase of 78.75% from last year. The profit growth was mainly due to the gain on bargain purchase from the strategic alliance with PepsiCo. After non-controlling interest, US$95 million was attributable to owners of the Company from the beverage business.

According to the latest study by AC Nielsen in December 2012, in terms of sales volume, Master Kong's RTD tea had a market share of 47.5% in December, which again was the leader in the market. Market shares for the Group's bottled water, diluted juice and carbonated drink (CSD) in December were 20.6%, 27.0% and 33.9% and ranking them No. 2 respectively in the market.

Master Kong Beverage, RTD tea, bottled water and fruit juice remained as the major products and continued to consolidated their leading positions.

For RTD tea, thanks to the penetrating concept of healthy diet, saw a sharp rise in sugar-free beverages represented by tea drinks made from tea-leaves. In light of this, Master Kong introduced the Teahouse series to attract consumers with the genuine flavor of tea. The Teahouse series has four different flavors, namely Green tea, Jasmine Tea, Oolong tea and Tie Guan Yin tea. For the milk tea, in the winter, we launched a special campaign to promote our milk tea series as a hot drink with a more fragrant flavor, by making more efforts to promote the time for drinking milk tea and enhance the ultimate brand name.

For Bottled water, we set up more production facilities for mineralized water, in order to benefit from economies of scale, reduced costs and reinforced our core competitive strengths through ultra-large production scale and efficient distribution networks. For natural water, we continue to build Master Kong brand with glycol, natural and pollution-free. Meanwhile, we are actively looking for natural water sources in China to set up more resource bases.

For Fruit juice, we innovated and refined our products constantly under our duo brands strategy – "Master Kong Juice" and "Fresh Daily C". Master Kong launched a haw-flavored fruit juice after the Pear Juice, which posted a new sales record in the PRC market in the year. Meanwhile, we introduced a Chinese traditional health preserving beverage series called "Traditional Fruit Mix" in response to the demand in the market. So far, we have launched "Honey Pomelos" and other new products will be introduced gradually. This not only diversified the offerings of traditional beverages, but also enriched the choices for consumers.

For Pepsi Beverage, upon establishment of the strategic alliance, the Company promptly adjusted its organizational and operational pattern by re-establishing a bottling plant-oriented streamlined team guided by the concept of headquarter serving the front line, and delegating appropriate responsibilities and powers to our front line staff. We have maintained the stability of our staff team, raised the morale of our staff and achieved a smooth transition.

In respect of marketing strategy and access strategy, Pepsi Beverage adopted a more aggressive approach. In the third quarter, it launched the strategy of "more value for the same price" by offering additional 100ml for every 500ml of carbonated drinks and additional 25% for every 1 liter of fruit juice, which helped to attract consumers amid a stagnant market. According to Canadean, Pepsi performed better than its competitors recently with a growth rate of 10ppt. higher than that of its competitors in a quarter, the first time in its history. In respect of access strategy, Pepsi Beverage made more active efforts to exert its competitive edges in the distribution and the pipeline price of products in small packages. The activity under the theme of "Bring Happiness Home" during the Spring Festival won an overwhelming victory over competitors for the second consecutive year and received good responses from consumers. In respect of brand strategy, Pepsi Beverage continued to implement a fully integrated marketing strategy based on music, with a view to reinforcing its leading position and influence as an iconic brand for youngsters and leading the long term sustained development of cola products.

Mirinda is the top brand among fruit flavored carbonated beverages. It aims to meet the demands of various consumers and lead the development of beverages in the same category via a combination of flavors. The newly launched juicy peach and ebony flavored products will help it to achieve a more comprehensive flavor-based regional coverage, enhance its competitive edges and consolidate its leading position. 7-Up has become a significant contributor to our results by leveraging on its flexible value strategies which comprise the psychological value strategy of "adding positive energy for daily life" and the consumer value strategy of "most worth sharing". Mountain Dew is very popular among the daring youngsters by virtue of its fashionable design and unique brand proposition. It maintained rapid growth with prominent potentials by upholding a coherent promotion strategy to capture the attention of the youngsters.

Tropicana has hit consumers' core demand for juice drinks with a target that "Fresh delicious fruits are natural nourishing and can inject vigor into you" and started using new celebrity spokesperson Cai Yilin to establish the themed campaign of "Enjoying Tropicana for blooming vigor". In terms of products, Tropicana has established a double product line strategy of Tropicana Fruit Grain and Tropicana Fruit Fun to satisfy consumers' demand for fruit juice with and without fruit grains. The new product, Tropicana Fruit Fun Golden Orange Kiwi Fruit Juice, has been successfully introduced in September 2012.

Milk tea was the most rapidly growing beverage product in 2012. To capture this business opportunity, Pepsi Beverage has successfully introduced Lipton English Milk Tea to build its unique English positioning and leverage on the differentiated package and price positioning to gain the choice of consumers. "Lipton for a while and then starting out" will definitely give rise to a new milk tea tornado.

Sports drink market continued to maintain double-digit rapid growth. By keeping focused on Sports drink, Gatorade will seize strategic sports pipelines and sports groups, fully extend new drinking crowds and consolidate loyal consumer groups to establish its leading position in the functional drink market through the taste, package and brand-new communication platform, the expansion of market distribution, making full use of the influence of "Showdown in heart" and capitalizing on the world's leading NBA platform and sports assets.

Master Kong continued to propel the healthy sustainable development of the industry and offered safe, reassuring, nutritious, healthy and delicious products to consumers by insisting on scientific and technological innovation and strictly controlling food safety. Meanwhile, with an aim to guide the healthy sustainable development of the beverage industry, we have put more emphasis on construction resources and energy saving, strengthened water resource reuse and cut energy consumption to set ourselves an example to continuously pass positive energy to enterprises, the society and the pubic. For the purpose of energy saving, we have introduced rinse-free technology such that water consumption during production has been decreased significantly. At the same time, we have further improved production processes such that the usage of electricity in bottle production and the emission of carbon in logistics and transportation has been reduced. For production efficiency improvement, through improved production processes and equipment, we have enhanced resource utilization and achieved remarkable results. With outstanding performance achieved in energy saving and emission reduction and sustainable development, a total of 35 companies have been granted the award "2012 Outstanding Enterprises in the Chinese Beverage Industry for Water and Energy Saving" from China Beverage Industry Association.

In future, Master Kong will put greater efforts in consumer communication and brand building. In 2013, the package of RTD tea will be changed with a capacity upgrade from 500ml to 600ml in order to reward consumers for their long-term favorite and support. For the development of continuous sources of natural mineral water, we have recently found appropriate water sources in Eastern China and Southern China and planned to accelerate investment and plant construction in 2013 in order to bring them rapidly to market and consumers. As for Pepsi Beverage, it will increase market investment to expand its scale and brand. We will leverage fully on the leading position and resources over all products in the beverage industry arising from the alliance and firmly capture the advantage of channels and terminals to actively deploy new growth points.

Instant Food Business

Turnover of the instant food business in 2012 amounted to US$234.044 million, representing an increase of 16.19% compared to last year, and 2.54% of the Group's total turnover. During the period, gross margin increased by 2.81ppt. to 39.01% mianly due to prices for major raw material decreased and upgrading of production facilities. Gross profit for instant food business increased by 25.20%. During the period, the Group invested in brand building and restructed sales channel for instant food business. Profit attributable to owners of the Company from Instant Food Business was US$3.587 million, a decreased of 44.45% year-on-year.

According to AC Nielsen's survey in December 2012, in terms of sales value, Master Kong's egg rolls gained a market share of 27.8% in December and ranked No. 1 in the market. Sales growth for egg rolls increased 34.7% year-on-year due to upgrading production lines and expanding capacity. In December, Master Kong ranked No. 2 in the sandwich cracker market with market share of 22.8%. The Group's crackers gained 7.6% market share in the China cracker market and ranked No.2. For Master Kong snack food wafer stick, because of the successful promotion, sales grew by 112.04% year-on-year.

In 2013, instant food business will focus on improving the industrial layout and profit structure to strengthen brand investment and consumer promotion in respect of core products such as sandwich crackers, muffins and egg rolls, and reasonably control marketing expenses by adopting an accurate sales strategy. In addition, we will increase profitability by matching with the strategy of operating various instant food products, actively cooperating with strategic partners and develop innovative instant leisure food products.

Kale (Hangzhou) Food Limited, a joint venture established by us, Calbee and Itochu, is expected to commence production in March 2013 and will introduce leisure puffed food made of potato and shrimp in major regions at the initial stage.

FINANCING

The Group continued to maintain a stable and healthy finance structure through the effective control of trade receivables, trade payables, cash and inventories. In the volatile financial market, the Group believe it to be appropriate to maintain sufficient cash balances. At 31 December 2012, the Group's cash and bank deposits totalled US$837.898 million, an increase of US$237.846 million from the previous year. The Group's total assets and total liabilities amounted to approximately US$7,473.263 million and US$3,976.018 million respectively, representing increases of US$1,664.489 million and US$853.510 million respectively when compared to 31 December 2011. The debt ratio decreased by 0.56 ppt. to 53.20% as compared with the same period in 2011.

On 20 June 2012, the Company issued a five year US$500 million 3.875% per annum Notes. The Company has used the proceeds of the Notes to finance capital expenditures and the strategic alliance arrangement of the Group and PepsiCo, to repay certain bank loans and for working capital and other general corporate purposes.

At the end of 2012, the Group's total borrowings increased by US$234.395 million to US$1,484.472 million. The borrowings were mainly used for production facilities and working capital. The Group's proportion of the total borrowings denominated in foreign currencies and Renminbi was 88% and 12% respectively, as compared with 94% and 6% respectively last year. The proportion between long-term loans and short-term loans was 66%: 34%, as compared with 44%: 56% for 2011. The Group's transactions were mainly denominated in Renminbi. During the year, the exchange rate between Renminbi and US dollars maintained stable and had no significant impact on the Group.

Financial Ratio

	For the year ended 31 December	
	2012	2011
Finished goods turnover	**12.11/Days**	8.87/Days
Trade receivables turnover	**7.69/Days**	6.56/Days
Current ratio	**0.71**	0.59
Gearing ratio (Net debt to equity attributable to owners of the Company)	**0.25/Times**	0.31/Times
Debt ratio (Total liabilities to total assets)	**53.20%**	53.76%

QUALITY ASSURANCE

Master Kong has consistently implemented the philosophy of whole-process safety and quality control. A full range of multi-level food safety firewall has been formed by improving the source control mechanism, strictly implementing feed control, maintaining the safety of system design, carrying out production process hazard management, executing strict finished product inspection and perfecting the verification mechanism and paying attention to food safety in the circulation field. From the most upsteam product design to end-sales, we have established a rigorous risk prevention and inspection management mechanism in every aspect to ensure food safety.

PRODUCTION SCALE

In order to realize fast, automatic and labour saving production, Master Kong has been expanding production scale and optimizing production equipment continuously in order to improving efficiency and support the leadership position of the Group in the domestic food industry in terms of production efficiency. As of 31 December 2012, the Group had 119 production plants and 607 production lines in operation.

For instant noodles business, Hangzhou new plant and Jiangbei plant in Chongqing, whose construction was completed at the end of 2012, were put into production successively. In addition, Nanjing plant and Wuhan plant are under design. For beverage business, we continued to expand water plant distribution, during the year, we have completed the construction of plants in Langfang, Baotou and Wujiang and commenced production. More water factories will be put into operation in 2013. The new Pepsi plant in Zhengzhou has been formally opened in October 2012 and is the first Pepsi beverage plant opened upon the strategic alliance between Master Kong and Pepsi. This factory has been equipped with carbonated beverage and non-carbonated beverage production lines, which is important for the Group to further explore development opportunities in central and western regions. The instant food business continued to optimize the production equipment such that the automatic improvement for the egg roll equipment has been completed during the period, and new production lines are planned to meet the production and sales needs. Tianjing plant phase II is expected to commence production in the first quarter of 2013 and various types of new leisure food will be introduced in the future.

HUMAN RESOURCES

As at 31 December 2012, the Group employed 79,419 (2010: 64,309) employees. The increase of employee was due to the strategic Alliance with PepsiCo. Employees from Pepsi became members of Master Kong.

During the period, the Group continued to perfect the mechanism in respect of personnel recruitment, selection and cultivation, extend and improve the selection channel and method for the manpower reserve and plan and implement talent development gateways. At the same time, the Group continued to propel the successor echelon plan and the talent development plan to identify and cultivate potential talents. In addition, the Group continued to improve the education training system and adhered to the practical attitude to plan, design and implement training programs so as to effectively link the education training system to the talent development system with an aim to enhance the leadership and management capability of the existing personnel. At the same time, the Group has planned and implemented a series of staff caring activities, which continuously helped to improve the corporate image of the Group.

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 year ended 31 December 2012, 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.

Audit Committee

The Audit Committee currently has three Independent Non-executive Directors, Mr. Lee Tiong-Hock, Mr. Hsu Shin-Chun and Mr. Hiromu Fukada.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, the preperation of financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditor in matters within the scope of the group audit. Four meetings were held during the financial year ended 31 December 2012.

Scope of Work of Mazars CPA Limited

The figures contained in the preliminary announcement of our Group's results for the year have been agreed by our Group's auditor, Mazars CPA Limited, to the amounts set out in our Group's consolidated financial statements for the year ended 31 December 2012. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Mazars CPA Limited on the preliminary announcement.

Model Code for Directors' Securities Transactions

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 standards as set out in the Model Code throughout the review period.

PROSPECTS

The economy of the PRC is expected to recover modestly in 2013, and the new leadership will continue to implement moderately loose monetary policies, whose reform intention will render the market mechanism more mature. Consumption, investment and export are expected to maintain steady growth, especially consumption. As the income of urban and rural residents (especially the income of migrant workers) continues to grow rapidly, the social security system is further strengthened, and the income distribution policy has been constantly adjusted. The marginal spending power of residents will continue to be improved, and there remains huge development space for the PRC consumer goods market.

Although we went through severe challenges from the market and hostile attacks from competitors in 2012, Master Kong always bases itself on the PRC market to constantly challenge itself and exceeds itself. In early 2013, we completed organization reforms to divide our business into two dedicated teams, namely food and beverage divisions. These two divisions are striving for growth with assistance from each other in the vast market. The beverage division continues to reduce cost through the integration of resources from Master Kong and PepsiCo as well as the integration of production facilities and supply chains, and achieves synergies while maintaining team stability through upgrading brand marketing, strict control of production and distribution costs, product quality and production efficiency leveraging on a large international company's experience. The food division will focus on the consolidation of the instant noodle business to strengthen the development of instant food. Through the innovation of products and brands, we will deeply explore network opportunities to provide consumers with richer, safer and more delicious products. The system process of the structure after reform will be more streamlined for bringing its execution capabilities into full play and more accurately and rapidly reacting to changes in the market.

Under a rapidly changing market situation, the Group will consistently uphold the principle of "integrity, pragmatism, innovation", and will be committed to the development of innovative products and the optimization of the product mix to develop new types and new tastes reacting to consumers' demand; constantly improve the management of product types to promote brand competitiveness; continue to improve food safety /quality management to constantly enhance product quality; energetically implement fast, aggressive and accurate market operation, optimize the marketing system with a focus on the front line to rapidly satisfy consumers' demand to increase sales; constantly expand the network , more closely cooperate with network partners and concentrate on developing new networks to increase sales. On the other hand, the Group will continuously improve production technologies, strengthen supply chain management and maintain stable gross margins by enhancing efficiency and production capability and reasonably regulating the unit cost. Under the joint efforts of its excellent operation teams and all employees, and the support from consumers and network partners, the Group will constantly strengthen the recognition and reputation of the "Master Kong" brand, and expand the influence of the brand to further strengthen its leadership in the PRC market in terms of each products and to drive sustainable and solid growth in the future so as to bring returns to the society and its shareholders with better performance.

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 year.

SHARE OPTION SCHEME

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

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

For the period of twelve months ended 31 December 2012, 2,784,000 options had been exercised under the Share Option Scheme. Weighted average exercise price was $10.74 and the weighted average market closing price before the date of exercise was $22.67.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 7 June 2013. The notice of the Annual General Meeting will be published on the Company's website and sent to the shareholders of the Company in due course.

PROPOSED FINAL DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has recommended the payment of a final dividend of US3.22 cents per ordinary share of the Company in respect of the year ended 31 December 2012. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on or about 10 July 2013.

CLOSURE OF REGISTER

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

The register of members of the Company will be closed from 5 June 2013 to 7 June 2013 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the Annual General Meeting. All transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on Tuesday, 4 June 2013.

(2) To qualify for the final dividends

The register of members of the Company will be closed from 17 June 2013 to 19 June 2013 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to qualify for the final dividends. All transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on Friday, 14 June 2013.

As at the date of this announcement, Mr. Wei Ing-Chou, Mr. Takeshi Ida, Mr. Ryo Yoshizawa, Mr. Wei Ying-Chiao, Mr. Wu Chung-Yi and Mr. Junichiro Ida are executive directors of the Company. Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada are independent non-executive directors of the Company.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, the PRC, 18 March 2013

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

* *For identification purposes only*