康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 322)

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31ST MARCH 2012

SUMMARY

	US$ million	**For the three months ended 31 March**		
		2012	**2011**	**Change**
•	Turnover	1,927,482	2,033,912	↓ 5.23%
•	Gross margin	29.11%	26.67%	↑ 2.44 ppt.
•	Gross profit of the Group	561,055	542,527	↑ 3.42%
•	EBITDA	443,549	289,317	↑ 53.31%
•	Profit for the period	302,570	167,484	↑ 80.66%
•	Profit attributable to owners of the Company	198,318	123,035	↑ 61.19%
•	Earnings per share (US cents)			
	Basic	3.55	2.20	↑ 1.35 cents
	Diluted	3.53	2.19	↑ 1.34 cents

At 31 March 2012, Cash and cash equivalents was US$1,139.274 million and gearing ratio was 0.10 times.

2012 FIRST QUARTERLY RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2012 together with the unaudited comparative figures for the corresponding period in 2011. These unaudited condensed consolidated first quarterly financial statements have been reviewed by the Company's Audit Committee.

Condensed Consolidated Income Statement
For the Three Months Ended 31 March 2012

		For the three months ended 31 March	
		2012	**2011**
		(Unaudited)	**(Unaudited)**
	Note	*US$'000*	*US$'000*
Turnover	2	1,927,482	2,033,912
Cost of sales		(1,366,427)	(1,491,385)
Gross profit		561,055	542,527
Other revenue and other net income		211,093	24,876
Distribution costs		(329,462)	(280,560)
Administrative expenses		(55,740)	(47,072)
Other operating expenses		(19,154)	(10,045)
Finance costs	5	(5,645)	(2,737)
Profit before taxation	5	362,147	226,989
Taxation	6	(59,577)	(59,505)
Profit for the period		302,570	167,484
Attributable to:			
Owners of the Company		198,318	123,035
Non-controlling interests	3	104,252	44,449
Profit for the period		302,570	167,484
Earnings per share	7		
Basic		US 3.55 cents	US 2.20 cents
Diluted		US 3.53 cents	US 2.19 cents

Condensed Consolidated Statement of Comprehensive Income
For the Three Months Ended 31 March 2012

	For the three months ended 31 March	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	US$'000	*US$'000*
Profit for the period	302,570	167,484
Other comprehensive income		
Exchange differences on consolidation	(2,636)	18,427
Fair value changes in available-for-sale financial assets	4,163	(12,831)
Other comprehensive income for the period, net of tax	1,527	5,596
Total comprehensive income for the period, net of tax	304,097	173,080
Total comprehensive income attributable to:		
Owners of the Company	200,388	124,019
Non-controlling interests	103,709	49,061
	304,097	173,080

Condensed Consolidated Statement of Financial Position
At 31 March 2012

	Note	At 31 March 2012 (Unaudited) *US$'000*	At 31 December 2011 (Audited) *US$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		4,676,111	4,029,872
Intangible assets		7,600	—
Interest in associates		78,185	—
Prepaid lease payments		258,719	186,276
Available-for-sale financial assets		110,317	104,422
Deferred tax assets		56,660	52,176
		5,187,592	4,372,746
Current assets			
Financial assets at fair value through profit or loss		581	560
Inventories		469,740	312,562
Trade receivables	9	227,013	155,040
Prepayments and other receivables		633,120	367,814
Pledged bank deposits		6,359	9,662
Bank balances and cash		1,132,915	590,390
		2,469,728	1,436,028
Total assets		7,657,320	5,808,774
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		27,957	27,951
Reserves		2,457,744	2,071,794
Total capital and reserves attributable to owners of the Company		2,485,701	2,099,745
Non-controlling interests		940,870	586,521
Total equity		3,426,571	2,686,266
Non-current liabilities			
Long-term interest-bearing borrowings		569,371	549,382
Employee benefit obligations		14,021	14,064
Deferred tax liabilities		160,550	131,092
		743,942	694,538
Current liabilities			
Trade payables	10	1,124,214	974,113
Other payables		1,039,500	660,995
Current portion of interest-bearing borrowings		822,939	700,695
Advance payments from customers		429,898	66,501
Taxation		70,256	25,666
		3,486,807	2,427,970
Total liabilities		4,230,749	3,122,508
Total equity and liabilities		7,657,320	5,808,774
Net current liabilities		(1,017,079)	(991,942)
Total asset less current liabilities		4,170,513	3,380,804

Notes:

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's condensed consolidated quarterly financial statements. These condensed consolidated first quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed quarterly financial statements should be read in conjunction with the 2011 annual financial statements. The accounting policies adopted in preparing the condensed consolidated first quarterly financial statements for the three months ended 31 March 2012 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the new/revised standards, amendments and interpretations to Hong Kong Financial Reporting Standards ("HKFRS") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2012:

Amendments to HKFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after July 2011)
Amendments to HKAS 12	Income Taxes — Deferred tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)

The adoption of these new/revised standards, amendments and interpretations to HKFRS did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

2. Turnover

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

3. **Segment information**

Segment results

	For the Three Months ended 31 March 2012					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Turnover						
Revenue from external customers	1,029,524	817,490	59,485	20,983	—	1,927,482
Inter-segment revenue	14	68	32	25,944	(26,058)	—
Segment revenue	1,029,538	817,558	59,517	46,927	(26,058)	1,927,482
Segment results after finance costs	137,690	32,931	688	2,765	(2,509)	171,565
Gain on bargain purchase, net of direct expenses related to acquisition	—	—	—	—		190,582
Profit before taxation	137,690	32,931	688	2,765		362,147
Taxation	(42,521)	(15,541)	(556)	(959)		(59,577)
Profit for the period	95,169	17,390	132	1,806		302,570

	For the Three Months ended 31 March 2011					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (formerly "Bakery") (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Turnover						
Revenue from external customers	928,722	1,042,156	46,788	16,246	—	2,033,912
Inter-segment revenue	26	7	21	18,168	(18,222)	—
Segment revenue	928,748	1,042,163	46,809	34,414	(18,222)	2,033,912
Segment results after finance costs and Profit before taxation	107,854	117,593	1,821	187	(466)	226,989
Taxation	(30,656)	(28,363)	(300)	(186)	—	(59,505)
Profit for the period	77,198	89,230	1,521	1	(466)	167,484

Segment result represents the profit earned by each segment. Segment information is prepared based on the regular internal financial information reported to the Company's executive directors for their decisions about resources allocation to the Group's business components' and review of these components' performance.

3. **Segment information** *(continued)*

Segment assets

	At 31 March 2012					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Instant food (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Segment assets	2,545,466	5,303,126	159,016	894,376	(1,441,347)	7,460,637
Unallocated assets						196,683
Total assets						7,657,320

	At 31 December 2011					
	Instant noodles (Audited) *US$'000*	**Beverages (Audited)** *US$'000*	**Instant food formerly "Bakery") (Audited)** *US$'000*	**Others (Audited)** *US$'000*	**Inter-segment elimination (Audited)** *US$'000*	**Group (Audited)** *US$'000*
Segment assets	2,520,574	3,442,346	173,846	811,780	(1,244,754)	5,703,792
Unallocated assets						104,982
Total assets						5,808,774

Segment assets include all tangible assets and current assets with the exception of intangible assets, interest in associates, available-for-sale financial assets and financial assets at fair value through profit or loss. The identifiable assets acquired in the business combination during the period as disclosed in note 15 have been recognised in "Beverages" segment.

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	
	2012 (Unaudited) *US$'000*	**2011 (Unaudited)** *US$'000*
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	5,645	2,737
Other items		
Depreciation	83,479	66,274
Amortisation of prepaid lease payments	881	647

6. Taxation

	For the three months ended 31 March	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	US$'000	*US$'000*
Current tax – PRC Enterprise income tax		
Current period	51,969	48,683
Deferred taxation		
Origination and reversal of temporary differences, net	1,903	1,643
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	5,705	9,179
Total tax charge for the period	59,577	59,505

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

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

For the PRC subsidiaries not entitled to a preferential PRC enterprise income tax, the applicable PRC enterprise income tax is at a statutory rate of 25% (2011: 25%).

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 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 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% enterprise income tax 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 a preferential income tax rate of 15% in the Grand Development of Western Region shall continue to enjoy the preferential income tax rate until expiry.

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, the applicable rate is 10% and deferred tax liability is only provided on 50% of post-2007 earnings that are expected to be distributable in the foreseeable future.

7. Earnings per share

(a) Basic earnings per share

	For the three months ended 31 March 2012 (Unaudited)	2011 (Unaudited)
Profit attributable to ordinary shareholders (US$'000)	198,318	123,035
Weighted average number of ordinary shares ('000)	5,590,347	5,586,793
Basic earnings per share (US cents)	3.55	2.20

(b) Diluted earnings per share

	For the three months ended 31 March 2012 (Unaudited)	2011 (Unaudited)
Profit attributable to ordinary shareholders (US$'000)	198,318	123,035
Weighted average number of ordinary shares (diluted) ('000)		
Weighted average number of ordinary shares	5,590,347	5,586,793
Effect of the Company's share option scheme	23,459	20,305
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,613,806	5,607,098
Diluted earnings per share (US cents)	3.53	2.19

8. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the three months ended 31 March 2012 (2011: nil).

9. Trade receivables

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

	At 31 March 2012 (Unaudited) *US$'000*	At 31 December 2011 (Audited) *US$'000*
0 - 90 days	221,004	146,883
Over 90 days	6,009	8,157
	227,013	155,040

10. Trade payables

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

	At 31 March 2012 (Unaudited) *US$'000*	At 31 December 2011 (Audited) *US$'000*
0 - 90 days	1,060,166	915,284
Over 90 days	64,048	58,829
	1,124,214	974,113

11. Business combination

Business combination during the period

On 4 November 2011, the Company and PepsiCo Inc. ("PepsiCo") entered into agreements for their strategic alliance in beverage business in the PRC (the "Strategic Alliance Arrangements"). Under the Strategic Alliance Arrangements, PepsiCo's wholly-owned subsidiary, Far East Bottles (Hong Kong) Limited ("FEB") has agreed to contribute its entire equity interest in PepsiCo's non-alcoholic beverage bottling business in the PRC to Tingyi Asahi Beverages Holding Co., Ltd. ("TAB"), a non-wholly owned subsidiary of the Company, in exchange for a 9.5% direct equity interests in Master Kong Beverage (BVI) Co. Ltd. ("MKB"), which is a holding company of the Group's beverage business in the PRC. As a consequence, FEB holds 5% indirect equity interest in TAB, details of this business combination are set out in the Circular of the Company dated 20 January 2012.

On 31 March 2012 ("date of acquisition"), the Strategic Alliance Arrangements was completed. The Group has obtained the control of China Bottlers (Hong Kong) Limited ("CBL") which owns equity interest in PepsiCo's non-alcoholic beverage bottling business in the PRC by acquiring the entire equity interest and voting rights in CBL. As a result, CBL has become a wholly-owned subsidiary of TAB and an indirect non wholly-owned subsidiary of the Company.

Under the Strategic Alliance Arrangements, TAB is exclusively responsible for manufacturing, selling and distributing PepsiCo's non-alcoholic beverage bottling business in the PRC. The Group expects that the strategic alliance with PepsiCo will bring innovative new products to market faster across PepsiCo and the Company brand offerings and improve choice for consumers.

Consideration transferred

Pursuant to the Strategic Alliance Arrangements, TAB has issued 52,637 ordinary shares to MKB and MKB has issued 5,263 ordinary shares to FEB. Consequently, the issuance of shares of the Company's subsidiaries for the consideration transferred caused that the Group's effective equity interest in TAB decreased from 50.005% to 47.5125%. A deemed disposal of 9.5% equity interest in MKB as well as a deemed disposal of 2.4925% equity interest in TAB was resulted.

FEB was granted an option ("Issued Option") to increase its indirect interest in TAB from 5% to 20% on a fully diluted basis.

In addition, PepsiCo and The Concentrate Manufacturing Company of Ireland ("CMCI"), a wholly-owned subsidiary of PepsiCo (collectively, the "PepsiCo group") and TAB have entered into Framework Exclusive Bottling Agreement ("FEBA") and the Company, FEB and PepsiCo have entered into Option Agreements ("OA"). These options could be executed only when certain termination/ triggering events occur, the details are as follows:-

– PepsiCo group was granted a call option ("FEBA Call Option"). TAB is required to sell assets and/ or undertakings primarily used in the production of carbonated soft drink ("CSD") or products licensed to PepsiCo group at the aggregate book value of the assets being acquired at the date of exercise of FEBA Call Option upon the occurrence of any termination events;

– TAB was granted a put option ("FEBA Put Option"). PepsiCo group is required to buy assets and/ or undertakings primarily used in the production of CSD or products licensed from TAB at the aggregate book value of the assets being acquired at the date of exercise of FEBA Put Option upon the occurrence of any termination events;

– The Company granted FEB a put option ("OA Put Option"). The Company is required to buy all of FEB's equity interest in MKB and TAB at fair market value after the occurrence of put triggering events;

– The Company was granted a call option ("OA Call Option"). FEB is required to sell all of its equity interest in MKB and TAB at fair market value after the occurrence of call triggering events; and

– The Company was also granted a sell-down option ("Sell-Down Option"). FEB/PepsiCo is required to sell of its equity interests in TAB to the Company after the occurrence of sell-down triggering event.

11. **Business combination** *(continued)*

The following summarises the consideration transferred and the amounts of the assets acquired and liabilities assumed, as well as the amount of non-controlling interests recognised at the date of acquisition:

	Provisional fair value *US$'000*
Consideration transferred:	
Issuance of 5% shares of TAB, at fair value	420,000
Issuance of Issued Option, FEBA Call Option, FEBA Put Option, OA Put Option, OA Call Option, Sell-Down Option ("Financial Instruments"), at fair value	27,000
Total consideration transferred	447,000

	US$'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	534,507
Prepaid lease payments	73,415
Intangible assets	7,600
Interests in associates	78,185
Deferred tax assets	4,484
Cash and cash equivalents	151,264
Trade and other receivables	170,908
Inventories	120,087
Indemnification assets	155,122
Trade and other payables	(342,448)
Bank and other borrowings	(254,616)
Deferred tax liabilities	(21,850)
Total identifiable net assets	676,658
Non-controlling interests	(11,108)
Provisional gain on bargain purchase	(218,550)
Total consideration transferred	447,000

	US$'000
Net cash flow on acquisition of subsidiaries:	
Bank and cash balances acquired from subsidiaries	151,264
Direct expenses relating to the acquisition	(27,967)
	123,297

The Financial Instruments granted under the Strategic Alliance Arrangements are measured at fair value on provisional basis. The provisional fair value of the contingent consideration is estimated with reference to share price volatilities on assumed financial multiples of companies deemed to be similar to TAB and assumed adjustments due to lack of control on TAB that market participants would consider when estimating the fair value of the contingent consideration.

The intangible assets represent exclusive rights granted to the Group for manufacturing, bottling, packaging, distributing and selling PepsiCo's CSD and Gatorade branded products on a royalty free basis under a specific trademark in the PRC, which are measured at provisional fair value and would be amortised over a straight-line basis over CCT agreements period of 39 years.

The fair value of trade and other receivables at the date of acquisition amounted to US$170,908,000. The gross contractual amounts of those trade and other receivables acquired amounted to US$173,693,000 at the date of acquisition. The best estimate at the date of acquisition of the contractual cash flows not expected to be collected amounted to US$2,785,000.

11. Business combination *(continued)*

Pursuant to the Strategic Alliance Arrangements, PepsiCo has agreed to contribute its entire equity interest in CBL with adjusted net asset value of US$600 million at the date of acquisition. Indemnification assets represent the excess of US$600 million over the adjusted net asset value of CBL as at 31 March 2012. The provisional amount of the indemnification assets is determined based on unaudited adjusted net asset value of CBL at 31 March 2012.

The Group has selected to measure the non-controlling interests at its proportionate interest in the identifiable assets and liabilities of the acquiree.

The transaction costs relating to legal and professional fees and other charges of US$27,967,000 have been excluded from the consideration transferred and have been recognised as expenses including in the Company's gain on bargain purchase of approximately US$190,582,000 within the "Other revenue and other net income" in the condensed consolidated income statement.

The gain on bargain purchase of US$218,550,000 arising from this business combination is mainly attributable to decline in fair value valuation of issuance of TAB shares. The gain from this bargain purchase was recognised in "Other revenue and other net income" in the condensed consolidated income statement.

Since the business combination, the acquired business made no contribution to revenue and results of the Group.

If the business combinations effected during the period had been taken place at the beginning of the period, the Group's revenue and profit for the period attributable to owners of the Company would have been US$2,345,076,000 and US$333,494,000 respectively. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is intended to be a projection of future results.

As at the date of this quarterly report, the Group has not finalised the fair value assessments for the consideration transferred and acquiree's identifiable assets and liabilities as at the date of acquisition due to short period of time after the completion of the acquisition. The relevant fair values of consideration transferred and net assets acquired stated above are on a provisional basis and may be subject to significant changes in future period when the valuations performed by independent valuer have been finalised.

MANAGEMENT DISCUSSION AND ANALYSIS

Affected by factors such as uptight external environment in the market during the past two quarters and the tight policies imposed in the People's Republic of China (PRC), the Gross Domestic Product (GDP) of the PRC for the first quarter of 2012 grew by 8.1% year-on-year. The growth rate dropped by 0.8 ppt. compared to the fourth quarter of last year. During the period, the Consumer Price Index (CPI) of the PRC increased by 3.8% year-on-year, with food prices increasing by 8.0% year-on-year. Producer Price Index (PPI) of the PRC also increased slightly by 0.1% year-on-year, indicating that domestic inflationary pressure remained.

During the first quarter of 2012, affected by the overall economic environment in the market, the Group's turnover dropped slightly by 5.23% to US$ 1,927.482 million as compared to the same period last year. During the period, selling prices for major raw materials dropped slightly, the Group's gross margin improved by 2.44 ppt. to 29.11% and gross profit grew by 3.42% to US$561.055 million year-on-year. The first quarter gross margin for the Group and the three business segments were higher than the past five quarters'.

According to the announcement of the Company on 4 November 2011 and the Circular of extraordinary general meeting on 1 January 2012, upon the completion of the Strategic Alliance Agreements, the corresponding gain on bargain purchase will be recognised in the income statement. On 31 March 2012, the Strategic Alliance Agreements was completed, and the gain on bargain purchase of US$190,582,000 from this business combination was recognized in "Other revenue and other net income" in the Condensed Consolidated Income Statement. The administrative costs to the Group's turnover increased slightly by 0.58 ppt. to 2.89%, mainly caused by the increase in labor costs and urban construction tax and education tax. Distribution costs as a percentage of sales increased by 3.3 ppt. to 17.09%. The Group's EBITDA increased by 53.31% to US$443.549 million. Profit attributable to owners of the Company increased by 61.19% to US$198.318 million and earnings per share increased 1.35 US cents to 3.55 US cents when compared to the first quarter of 2011.

For a long time, Master Kong has placed ample emphasis on the staff training and regarding talent as the cornerstone for the development of the enterprise, gaining widespread recognition from the community. Master Kong was included in the list of "Top 50 Best First Workplaces for 2011 (2011年50佳第一工作場所)" elected the "Workplace (職場)" magazine in February 2012. Meanwhile, Master Kong gained widerespect by consumers for its reputation of healthy, safe and quality products, and continued to be recognized as the Top 10 most trusted food Brands among netizens during the third session of the food industry this year. Furthermore, in March 2012, Master Kong won the title of "Most Reputable Brand of Baking for 2011 in China (2011中國烘焙最具美譽度品牌)", awarded by the Bakery Committee of the China National Food Industry Association. This series of honors had fully affirmed the value of Master Kong's brand success, long-term outlook and development potential.

Instant Noodle Business

The Group improved its production efficiency and sales network by continuously adjusting and optimizing production to maintain its profit performance. In the first quarter of 2012, turnover of instant noodle business grew by 10.85% year-on-year to US$1,029.524 million, representing 53.41% of the Group's total turnover. The sales growth of the high margin bowl noodle, high-end packet noodle and mid-end packet noodle reached 7.38%, 12.91% and 54.70% respectively. Due to the drop in raw material prices, gross margin improved by 3.8 ppt. to 29.85% year-on-year. Control of operating expenses also resulted in the improvement of profit attributable to owners of the Company by 21.90% to US$93.846 million.

According to ACNielsen's survey in March 2012, in terms of sales volume and value of instant noodle, the Group's market share in the overall PRC market increased to 43.4% and 56.6% respectively. In terms of sales value, the market share of the Group's bowl noodle and high-end packet noodle were 66.5% and 69.4% respectively, establishing them firmly in the leading position in the market .

The first quarter was the peak season for instant noodle. The major operating strategy of Master Kong was to continue to strengthen cash flow-generating products such as "Noodles with Braised Beef" and "Noodles with Spicy Beef" and reveal the ingredients of its major product, "Kaixin Bowl Noodle", to increase its competitive power. As for competing against rival products, Master Kong competed with its competitors by introducing the major brand of "Pickled Mustard" and the newly launched braised and double flavors series and met the consumers' needs for sour flavours through the innovative product of "Noodles with Sour and Spicy Beef".

As for the operation of local brands, Master Kong continued to combine the dietary habits of various regions to develop flavours with local characteristics and enriched the ingredient pack to deal with competition. In particular, sales of noodles with bamboo shoots and sliced pork in Eastern PRC increased month by month, and noodles with pickled mustard braised ribs continued to see growth in gross profit in Northeastern PRC. Moreover, conferences were organized in various areas for fried noodle, which was the key product in spring and summer . To enhance the product range and brand vigor, Master Kong plans to launch additional new flavours in the second half of the year.

As for the medium-price range noodle products, the four brands: "Zhen Pin", "Jin Shuang LaMian", "Hao Zi Wei" and "Super Fumanduo" continued to act as a strategic purpose which successfully prevented threat from competing products whilst fully meeting the needs of the middle-class in the market. "Xiang Bao Cui", a new brand of fried crispy noodles, has repeatedly recorded new highs in sales since its launch in August 2011.

As for production management, Master Kong improved its product sales through automated operation of the integrated box production process and the renovation of the facilities for "Xiang Bao Cui", ensuring the timely supply of products during the Spring Festival and peak seasons, and successfully achievingthe target goal for the first quarter. Meanwhile, the Group implemented control over costs by optimizing the efficiency of the supply systems comprising transportation, loading and unloading, and the integrated development of suppliers to increase profits. The Group also planned to improve its plant and equipment, enhance personnel knowledge and skills training during the slack season for production so to be well prepared for the following peak season. Recently, the new plant in Hangzhou has entered the stage of equipment installation. The new second-generation instant noodle factories, which will be successfully completed in various areas, will also bring in even greater benefits for brand marketing, quality enhancement and cost reduction.

Beverage Business

During the period, the global economy was still experiencing a downturn. The domestic economy of the PRC also suffered a continued slowdown in the growth rate. With the continuance of inflationary pressure, implementation of economic control measures was not an easy task. Under such fast-changing and unstable environment, the development of the beverage industry was faced with great challenges.

Affected by the unfavourable factors of the external environment and seasonal fluctuation and moving of distributor's inventory, the turnover of the beverage business for the first quarter decreased by 21.56% year-on-year to US$817.490 million, representing 42.41% of the Group's total turnover. Meanwhile, because of selling prices of raw material remaining at high levels and an increase in packaging, transportation and labor costs, the profit margin of the beverage industry was affected. During the period, the gross margin of beverages increased by 0.78 ppt. year-on-year to 27.93%. When compared to the fourth quarter 2011, the gross margin was increased by 8.46 ppt. During the period, early preparations for marketing before the coming peak season resulted in a year on- year increase in selling expenses. This, together with an increase in depreciation charges, led to a decrease of 82.77% in profits year-on-year to US$7.646 million. However, profits increased by US$35.505 million when compared to the fourth quarter 2011.

All along, Master Kong has been in the forefront of the beverage market in the PRC by virtue of the product characteristics such as good quality and diverse flavours. According to ACNielsen's survey in March 2012, in terms of sales volume, market share for Master Kong's RTD tea was 45.8% and bottled water was 20.6%, ranking it No.1 in the market. By using duo brands Fresh Daily C and Master Kong as well as the innovative drink "New Taste for Traditional Drink" series to develop the market, the Group's juice drinks have gained 19.7% market share, ranking it No. 2 amongst the diluted juice market.

Despite owning almost half of the market share in tea drinks, Master Kong still continues to proceed with product innovation and flavour improvement. Under the concept of pursuing fashion, health and innovation, Master Kong has strived to bring diversified products with the best quality to consumers to lead the trend in the market. In 2012, Master Kong and Tencent QQ Platform had jointly launched the event of "Play Together In Taiwan (玩轉台灣-10000人大搜查)" to express its appreciation for the support and care of consumers over the years. The event attracted a lot of attention and young consumers responded enthusiastically.

Competition in the bottled water market is becoming increasingly intense. However, through high-quality products, advanced production equipment, perfected and stable production capacity and technology; and the production layout being adjacent to markets and large-scale operations, as well as operating under the concept of energy conservation and carbon reduction, Master Kong bottled water has maintained its leading position in the market.

With the continued improvement of its product lines and the launch of new products and new flavours, Master Kong continues to take a differentiated route. The launch of the new flavours of Master Kong's fruit juices such as Fresh Orange, Apple Juice and "Fresh Daily C" Grapefruit has brought better choices and experience for consumers. Meanwhile, by following the healthy concept of "New Taste for Traditional Drink", Master Kong is committed to tapping innovative opportunities in tradition and allows many distinctive traditional food cultures to continue and regain exuberant vitality through the preparation processes of a new era. Following the launch of the "New Taste for Traditional Drink" series, Sour Plum Juice and Wild Jujube Juice, Master Kong launched the Pear Juice which was well-received by consumers, with sales rising continuously.

As for the "U-Joymore" lactic acid drinks, apart from the fresh flavour, lemon flavour and jujube flavour, Master Kong plans to launch the pineapple flavour this year so that consumers can experience various soft drinks with diverse tastes.

The beverage market in the PRC is developing rapidly with an increasingly rich product range. Beverages have developed from serving the sole purpose of quenching thirst into today's pursuit of delicious, nutritional, healthy and new fashionable drinks. In a fast-paced modern life, milk tea, being a leisure drink, has been increasingly well-received by more and more young consumers for its mellow taste and rich nutrition. To meet the demand of consumers for diversified flavours and enrich the Group's product range, Master Kong's Classical Tea with Milk has been launched with the two flavours of "aromatic and concentrated" and "condensed milk", combining seamlessly the aromatic flavour of tea with the concentrated and creamy flavor of milk. It has been welcomed and well-received by consumers once it was launched in April.

Strategic Alliance with PepsiCo.

Reference is made to the announcement of the Company dated 4 November 2011 and the circular of the Company dated 20 January 2012 regarding the establishment of the strategic alliance between the Company and PepsiCo Inc. in the non-alcoholic beverage business in the PRC. On 31 March 2012, the Strategic Alliance Arrangements was completed. Following its completion:

1. Masker Kong Beverages (BVI) Co., Ltd.(MKB), which is an investment holding company of the Group that holds the Group's interest in Tingyi-Asahi Beverages Holding Co., Ltd. (TAB), is owned as to 90.5% by the Company, and as to 9.5% by Far East Bottlers (Hong Kong) Limited (FEB), an investment holding company of PepsiCo;

2. TAB, which is an investment holding company that holds the Group's beverage business, is owned as to 52.5% by MKB, as to 30.4% by AI Beverage Holding Co., Ltd. (AIB) and as to 17.1% by Ting Hsin (Cayman Islands) Holding Corp. (Ting Hsin);

3. FEB will therefore have an indirect 5% interest in TAB; and

4. China Bottlers (Hong Kong) Limited (CBL), which holds PepsiCo's bottling assets in the PRC, become a wholly-owned subsidiary of TAB and an indirect non wholly-owned subsidiary of the Company.

Under the strategic alliance, TAB, together with the Pepsi Bottlers, will be exclusively responsible for manufacturing, bottling, packaging, selling and distributing PepsiCo's carbonated soft drinks and Gatorade branded products in the PRC, and PepsiCo retains branding and marketing responsibilities.

TAB will also co-brand its juice products under the Tropicana brand under a license from PepsiCo. TAB, together with the Pepsi Bottlers, will have the exclusive right to manufacture and distribute PepsiCo's non-carbonated beverage products (excluding dairy products) in the PRC. In addition, PepsiCo will provide access to its global beverage innovation pipeline.

The strategic alliance with PepsiCo is expected to bring a variety of important benefits, including:

1. bringing innovative new products to market faster across PepsiCo and the Company brand offerings and improving customers' choices;

2. improving operating efficiency and reducing costs by combining local and global expertise in manufacturing and distribution;

3. providing better localised service to PepsiCo's national retail and food service customers in the PRC through the Company's distribution expertise;

4. supporting new opportunities to develop local economies in interior and western PRC;

5. extending the national distribution of PepsiCo's carbonated soft drink and non-carbonated beverage brands; and

6. increasing the investment made in PepsiCo's brand portfolio and marketing in the PRC.

Instant food business

In the first quarter of 2012, turnover for instant food business increased by 27.14% year-on-year to US$59.485 million, representing 3.09% of the Group's total turnover. Gross margin improved by 3.36 ppt. to 37.34% and gross profit increased 39.72% year-on-year. Profit attributable to owners of the Company was US$108 thousand, a decrease of US$1.520 million when compared to same period last year. The decrease was mainly due to the increase of labor cost and urban construction tax.

According to ACNielsen's survey in March 2012, in terms of sales value, Master Kong's sandwich crackers had a market share of 21.6% and ranked No.2 in the sandwich cracker market. Market share for Master Kong's egg rolls were 24.5% and ranked No.1 in the market.

Master Kong will expand the growth of sandwich crackers through implementing quality improvement, packaging improvement and continuous publication of the new theme "Enjoy the Happy Youth" in the coming quarter. Meanwhile, Master Kong will make European-style cakes with stuffing the key product for launch and take positive efforts to replenish and promote shop goods so as to drive the overall development of Muffin Cake. Besides, Master Kong will make use of various strategic partnership models to enrich the number of product types and enlarge the investment in core production technologies.

On April 9, 2012, a subsidiary of the Company, Calbee and Itochu entered into a Joint Venture Agreement to engage in the manufacturing and sales of snack food products. The Joint Venture will further strengthen the snack food business of the Group in the PRC.

On May 17, 2012, a subsidiary of the Company and Prima Meat Packers Ltd. entered into the Joint Venture Agreement for the establishment of the Joint Venture to engage in the processing of poultry and meat products. The Joint Venture will further strengthen the frigh-end meat business of the Group in the PRC.

FINANCING

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

As at 31 March 2012, the Group's cash and bank deposits totaled US$1,139.274 million, an increase of US$539.222 million from 31 December 2011. In addition, the Group's total assets and total liabilities amounted to approximately US$7,657.320 million and US$4,230.749 million respectively, representing increases of US$1,848.546 million and 1,108.241 million respectively when compared to 31 December 2011. The debt ratio increased by 1.49 ppt. to 55.25% compared with 31 December 2011.

As at 31 March 2012, the Group's total borrowings increased by US$142.233 million to US$1,392.310 million. The Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 80% and 20% respectively, as compared with 94% and 6% respectively as at 31 December 2011. The proportion between the Group's long-term loans and short-term loans was 41% and 59%, as compared with 44% and 56% respectively as at 31 December 2011. In addition, the Group's transactions are mainly denominated in Renminbi. During the period, the exchange rate between Renminbi and US dollars maintained stable and had no significant impact on the Group.

Financial Ratio	**As at 31 March 2012 Proforma *(Note)***	**As at 31 March 2012**	**As at 31 December 2011**
Finished goods turnover	11.65 Days	13.41 Days	8.87 Days
Trade receivables turnover	7.32 Days	9.02 Days	6.56 Days
Current ratio	0.66 Times	0.71 Times	0.59 Times
Debt ratio (Total liabilities to total assets)	55.91%	55.25%	53.76%
Gearing ratio (Net debt to equity attributable to owners of the Company)	0.07 Times	0.10 Times	0.31 Times

Note:
The financial ratios on performa basis are calculated on the basis of excluding the financial effect of the business combination, including the assets and liabilities being acquired and gain on bargain purchase.

Human Resources

As at 31 March 2012, the Group employed 79,147 (2011: 64,309) employees. Master the cultivation and development of talents as one of the Group's mission, focusing on long-term accumulation of human resources and training. And constantly to improve the talent development strategies in the selection, training, deployment and retention of talents in order to enhance the Group's competitiveness.

During the period, the Group continued to perfect the personnel recruitment and training mechanism, develop reserves human of recruitment channel, planning and implementation talent development; while have carried out successor Echelon plans and talent development plans, found and training potential talent, and constantly perfect education training system, to pragmatic of attitude design courses, makes education training system and talent development system effective convergence, upgrade serving personnel led force and management force.

Master Kong has consistently placed emphasis on personnel training, development and reserve and believes making talents as the cornerstone for the development of the enterprise is one of the core competitive strengths that enable the Group to grow rapidly.

PROSPECTS

During the period, being faced with a still complicated domestic and international economic environment, the PRC government restructured the economic structure through a series of policies and measures such as public market operation. The growth of GDP continued to slow down, hitting a new low in the recent three years. However, the growth of the industrial added value and the total retail sales of social consumer goods has turned strong since March, demonstrating the domestic driving force for domestic economic growth remains strong. Meanwhile, a more general increase in wages, structural tax reduction, medical insurance system and the gradual establishment of the social benefit network will have a stimulating effect on increasing the overall consumption level, which will provide a wider growth space for the consumer product market in China to facilitate the flourishing development of the instant food and beverage markets.

Being confronted with the increasingly intense challenges in the food and beverage industry and the pressure from inflation and increasing labor costs, the Group, on the basis of strengthening its existing leading position, will grasp the trend of market consumption to continuously enhance production technologies, improve supply chain management, increase production efficiency and optimize the marketing system. Meanwhile, through forming strategic alliances with its partners, actively developing new markets, optimizing the product mix and enhancing product research and development and innovation, the Group will create more healthy food products that meet the demand of consumers to maximize the interests of our shareholders.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

Throughout the period ended 31 March 2012, 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 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.

Directors' responsibility for the financial statements

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

Audit Committee

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

Remuneration and Nomination Committee

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

Internal Control

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

Compliance with the Model Code

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE OPTION SCHEME

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

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

For the period of three months ended 31 March 2012, 1,240,000 options had been exercised under the Share Option Scheme. Weighted average exercise price was $9.35 and the weighted average market closing price before the date of exercise was $23.38.

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

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

BOARD OF DIRECTORS

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

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 28 May 2012

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