



康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in Cayman Islands with limited liability)

(Stock Code : 0322)

2009

First Quarterly Report



* For identification purposes only



SUMMARY

US\$ million	For the three months ended 31 March		
	2009	2008	Change
• Turnover	1,175.309	969.073	+21.28%
• Gross margin of the Group (%)	35.37%	32.40%	+2.97 ppt.
• Gross profit of the Group	415.718	314.025	+32.38%
• EBITDA	220.215	160.293	+37.38%
• Profit for the quarter	124.232	93.680	+32.61%
• Profit attributable to equity holders of the Company	92.785	65.102	+42.52%
• Earnings per share (US cents)	1.66	1.16	+0.5 cents

At 31 March 2009, Cash and cash equivalents was US\$649.681 million and Gearing ratio was -0.17 times.

INTRODUCTION

In the first quarter of year 2009, the PRC's gross domestic product (GDP) increased by 6.1% as compared to the same period last year. The increase in GDP represented a decrease of 4.5ppt over the same period last year. PRC's consumer price index (CPI) decreased by 0.6% as compared to the same period last year. Producer price index (PPI) as a precedent index of CPI decreased by 4.6% year-on-year. The pressure of deflation and economic downturn is still persisting. However, sales amount of consumer goods in the first quarter recorded a year-on-year growth of 15.9%, representing a year-on-year increase in growth rate of 3.6ppt. Among the 6.1% GDP growth rate in the first quarter, sales of consumer goods has contributed 4.3%, which indicated that the fast-moving consumer goods industry is still able to maintain a steady growth.

Instant noodles and beverage, the principal products of Master Kong, still managed to maintain stable profitability even during economic slowdown because they are daily necessities. As a result, the Group still maintained a stable growth momentum. In the first quarter of 2009, turnover of the Group increased by 21.28% over the same period last year to US\$1,175.309 million. In the first quarter of year 2009, turnover for instant noodles, beverage and bakery increased by 11.96%, 36.74% and 17.82% over the same period last year to US\$587.695 million, US\$525.218 million and US\$39.775 million respectively. Profit attributable to equity holders of the Company sharply increased 42.52% to US\$92.785 million. The results achieved as presented in condensed consolidated income statement is the Group's historical single-quarter best record. During the period, the Group's instant noodle, Ready-To-Drink (RTD) Tea as presented in condensed consolidated income statement, mineralized water and sandwich crackers continued to maintain leading position in the PRC market.

2009 FIRST QUARTERLY RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited condensed consolidated first quarterly financial statements of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2009 together with the unaudited comparative figures for the corresponding periods in 2008. These unaudited first quarterly financial statements have been reviewed by the Company's Audit Committee.





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Condensed Consolidated Income Statement For the Three Months Ended 31 March 2009

		For the three months ended 31 March	
		2009	2008
		(Unaudited)	(Unaudited)
		US\$'000	US\$'000
	<i>Note</i>		
Turnover and revenue	2	1,175,309	969,073
Cost of sales		(759,591)	(655,048)
Gross profit		415,718	314,025
Other net income		14,434	16,423
Distribution costs		(207,366)	(163,121)
Administrative expenses		(27,269)	(23,893)
Other operating expenses		(23,983)	(21,356)
Finance costs	5	(6,633)	(9,254)
Share of results of associates		3,950	2,447
Profit before taxation	5	168,851	115,271
Taxation	6	(44,619)	(21,591)
Profit for the period		<u>124,232</u>	<u>93,680</u>
Attributable to			
Equity holders of the Company		92,785	65,102
Minority interests		31,447	28,578
Profit for the period		<u>124,232</u>	<u>93,680</u>
Earnings per share	7		
Basic		<u>1.66 cents</u>	<u>1.16 cents</u>
Diluted		<u>N/A</u>	<u>1.16 cents</u>





Condensed Consolidated Statement of Comprehensive Income

For the Three Months Ended 31 March 2009

	For the three months ended 31 March	
	2009 (Unaudited) US\$'000	2008 (Unaudited) US\$'000
Profit for the period	124,232	93,680
Other comprehensive (loss) income		
Net (losses) gains recognised directly in equity exchange translation difference	(2,837)	46,965
Total comprehensive income for the period (net of tax)	<u>121,395</u>	<u>140,645</u>
Total comprehensive income attributable to:		
Equity holders of the Company	90,372	112,067
Minority interests	31,023	28,578
	<u>121,395</u>	<u>140,645</u>





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Condensed Consolidated Statement of Financial Position

At 31 March 2009

		At 31 March 2009 (Unaudited) US\$'000	At 31 December 2008 (Audited) US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		2,020,066	1,974,445
Intangible assets		9,028	9,733
Interest in associates		57,862	68,095
Prepaid lease payments		80,751	81,308
Available-for-sale financial assets		3,706	3,760
Deferred tax assets		5,379	5,379
		2,176,792	2,142,720
Current assets			
Financial assets at fair value through profit or loss		549	550
Inventories		195,101	194,904
Trade receivables	9	119,998	129,944
Prepayments and other receivables		98,118	108,434
Pledged bank deposits		7,359	4,889
Bank balances and cash		642,322	380,075
		1,063,447	818,796
Total assets		3,240,239	2,961,516
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	10	27,934	27,934
Reserves		670,564	672,676
Retained profits		469,155	376,421
Proposed final dividend		130,172	130,172
		1,297,825	1,207,203
Equity attributable to equity holders of the Company		1,297,825	1,207,203
Minority interests		362,458	331,435
		1,660,283	1,538,638
Total Equity		1,660,283	1,538,638
Non-current liabilities			
Interest-bearing borrowings	11	104,380	135,852
Other non-current payables		2,292	2,295
Employee benefit obligations		9,673	9,200
Deferred tax liabilities		53,386	39,848
		169,731	187,195
Current liabilities			
Trade payables	12	545,630	403,925
Other payables		386,049	352,475
Interest-bearing borrowings	11	327,154	431,229
Advance payments from customers		120,703	36,483
Taxation		30,689	11,571
		1,410,225	1,235,683
Total liabilities		1,579,956	1,422,878
Total equity and liabilities		3,240,239	2,961,516





Condensed Consolidated Statement of Changes in Equity

For the three Months Ended 31 March 2009

	Attributable to equity holders of the Company									
	Issued capital US\$'000	Capital redemption reserve US\$'000	Share premium US\$'000	Exchange translation reserve US\$'000	General reserve US\$'000	Share-based payment reserve US\$'000	Retained profits US\$'000	Total US\$'000	Minority interests US\$'000	Capital and reserves US\$'000
At 1 January 2008	27,943	36	332,478	93,124	135,961	—	438,119	999,718	254,034	1,281,695
Profit for the period	—	—	—	—	—	—	65,102	65,102	28,578	93,680
Other comprehensive income	—	—	—	46,965	—	—	—	46,965	—	46,965
Total comprehensive income	—	—	—	46,965	—	—	65,102	112,067	28,578	140,645
Dividend	—	—	—	—	—	—	(59,799)	(59,799)	—	(59,799)
At 31 March 2008	<u>27,943</u>	<u>36</u>	<u>332,478</u>	<u>140,089</u>	<u>135,961</u>	<u>—</u>	<u>443,422</u>	<u>1,051,986</u>	<u>282,612</u>	<u>1,362,541</u>
At 1 January 2009	27,934	45	330,492	163,834	177,555	750	506,593	1,179,269	331,435	1,538,638
Profit for the period	—	—	—	—	—	—	92,785	92,785	31,447	124,232
Other comprehensive loss	—	—	—	(2,413)	—	—	—	(2,413)	(424)	(2,837)
Total comprehensive (loss) income	—	—	—	(2,413)	—	—	92,785	90,372	31,023	121,395
Transfer to general reserve	—	—	—	—	51	—	(51)	—	—	—
Recognition of equity-settled share-based payment reserve	—	—	—	—	—	250	—	250	—	250
At 31 March 2009	<u>27,934</u>	<u>45</u>	<u>330,492</u>	<u>161,421</u>	<u>177,606</u>	<u>1,000</u>	<u>599,327</u>	<u>1,269,891</u>	<u>362,458</u>	<u>1,660,283</u>





Condensed Consolidated Cash Flow Statement

For the three Months Ended 31 March 2009

	2009 (Unaudited) <i>US\$'000</i>	2008 (Unaudited) <i>US\$'000</i>
Net cash from operating activities	503,936	314,320
Net cash used in investing activities	(103,672)	(204,252)
Net cash (used in) from financing activities	(135,547)	15,351
	<hr/>	<hr/>
Increase in cash and cash equivalents	264,717	125,419
Cash and cash equivalents at 1 January	384,964	242,892
	<hr/>	<hr/>
Cash and cash equivalents at 31 March	<u>649,681</u>	<u>368,311</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	642,322	361,910
Pledged bank deposits	7,359	6,401
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	<u>649,681</u>	<u>368,311</u>





Notes:

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited first quarterly financial statements. These unaudited first quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard No 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants. These condensed quarterly financial statements should be read in conjunction with the 2008 annual financial statements. The accounting policies adopted in preparing the unaudited quarterly financial statements for the three months ended 31 March 2009 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the impact of the adoption of the Standards and Interpretations described below.

HKFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009).

HKFRS 8 is a disclosure Standard that has resulted in a redesignated of the Group's reportable segments, but has had no impact on the reported results or financial position of the Group.

HKAS 1 (revised 2007) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The revised Standard has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.

The following amendments and interpretations issued by HKICPA which are or have become effective and did not have any material impact on the accounting policies of the Group.

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27(Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments
HK(IFRIC) – INT 13	Customer Loyalty Programmes
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation

2. Turnover and revenue

The Group's turnover and revenue represents the invoiced value of goods sold to customers, net of returns, discounts and value added tax.





3. Segment information

For Three Months ended 31 March 2009

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

For Three Months ended 31 March 2008

	Instant noodles (Unaudited) <i>US\$'000</i>	Beverages (Unaudited) <i>US\$'000</i>	Bakery (Unaudited) <i>US\$'000</i>	Others (Unaudited) <i>US\$'000</i>	Inter-segment elimination (Unaudited) <i>US\$'000</i>	Group (Unaudited) <i>US\$'000</i>
Revenue						
Revenue from external customers	524,922	384,104	33,759	26,288	—	969,073
Inter-segment revenue/ (loss)	231	(52)	194	23,007	(23,380)	—
Segment revenue	525,153	384,052	33,953	49,295	(23,380)	969,073
Segment results	46,603	71,243	1,874	2,791	(433)	122,078
Finance costs						(9,254)
Share of results of associates						2,447
Profit before taxation						115,271

Segment result represents the profit earned by each segment without allocation of finance costs and share of result of associates. This is the measure reported to management for the purposes of resource allocation and assessment of segment performance.





3. Segment information (continued)

An analysis of the Group's assets by operating segment is set out below:

	At 31 March 2009					Group (Unaudited) US\$'000
	Instant noodles (Unaudited) US\$'000	Beverages (Unaudited) US\$'000	Bakery (Unaudited) US\$'000	Others (Unaudited) US\$'000	Inter-segment elimination (Unaudited) US\$'000	
	Segment assets	1,234,991	1,788,278	55,706	658,292	
Interest in associates						57,862
Unallocated assets						5,379
						<u>3,240,239</u>

	At 31 March 2008					Group (Audited) US\$'000
	Instant noodles (Audited) US\$'000	Beverages (Audited) US\$'000	Bakery (Audited) US\$'000	Others (Audited) US\$'000	Inter-segment elimination (Audited) US\$'000	
	Segment assets	1,215,017	1,482,103	61,109	622,049	
Interest in associates						68,095
Unallocated assets						5,379
						<u>2,961,516</u>

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

Profit before taxation is stated after charging the following:

	For the three months ended 31 March	
	2009 (Unaudited) US\$'000	2008 (Unaudited) US\$'000
Finance costs		
Interest on bank loans wholly repayable within five years	6,633	9,254
Other items		
Depreciation	47,744	37,585
Amortisation	1,159	1,057





6. Taxation

	For the three months ended 31 March	
	2009 (Unaudited) US\$'000	2008 (Unaudited) US\$'000
Current tax – PRC Enterprise Income Tax		
Current period	31,081	20,111
Deferred taxation		
Origination and reversal of temporary differences, net	1,128	480
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	12,410	1,000
	44,619	21,591
	44,619	21,591

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

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

Subsidiaries in the PRC which engage in manufacture and sale of instant noodles, beverages and bakery products are subject to tax laws applicable to foreign investment enterprises in the PRC. Most of the subsidiaries are located at economic development zones and were entitled to a preferential PRC Enterprise Income Tax ("EIT") rate of 15% before 31 December 2007. Also, they were fully exempt from PRC Enterprise Income Tax for two years starting from the first profit-making year followed by a 50% reduction for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years ("Tax Holidays"). For the PRC subsidiaries not entitled to a preferential PRC EIT, the applicable PRC EIT is at a statutory rate of 25%.

According to the Tax Relief Notice (Cai Shui [2001] no. 202) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of PRC with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2001 to 31 December 2010. Accordingly, certain subsidiaries located in Western Region are entitled to a preferential rate of 15%.

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

7. Earnings per share

The calculation of earnings per share is based on the profit attributable to equity holders of the Company of US\$92,785,000 (2008: US\$65,102,000) and the weighted average of 5,586,793,360 (2008: 5,588,705,360) ordinary shares in issue throughout the period.

The share options are not dilutive for the three months ended 31 March 2009 and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

The Company has no dilutive potential ordinary shares for the three months ended 31 March 2009.

8. Dividend

The Board of Directors resolves that no dividend be paid for the three months ended 31 March 2009 (2008: nil).





9. Trade receivables

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

	At 31 March 2009 (Unaudited) US\$'000	At 31 December 2008 (Audited) US\$'000
0 - 90 days	113,084	117,008
Over 90 days	6,914	12,936
	<u>119,998</u>	<u>129,944</u>

10. Issued capital

	Ordinary shares of US\$0.005 each No. of shares	US\$'000
Authorised: At 31 December 2008 and 31 March 2009	<u>7,000,000,000</u>	<u>35,000</u>
Issued and fully paid: At 31 December 2008 and 31 March 2009	<u>5,586,793,360</u>	<u>27,934</u>

11. Interest-bearing borrowings

	At 31 March 2009 (Unaudited) US\$'000	At 31 December 2008 (Audited) US\$'000
Bank loans:		
Within one year	327,154	431,229
In the second year	78,994	58,870
In the third year to the fifth years, inclusive	25,386	76,982
	<u>431,534</u>	<u>567,081</u>
Portion classified as current liabilities	<u>(327,154)</u>	<u>(431,229)</u>
Non-current portion	<u>104,380</u>	<u>135,852</u>

After considering the impact from the fluctuation of exchange rate, during the period, the Group obtained new bank loans in the amount of US\$69,651,000 (2008: US\$196,692,000) which were used for capital expenditures and purchasing of raw materials. Repayments of bank loans amounting to US\$205,198,000 (2008: US\$121,542,000) were made in line with previously disclosed repayment terms.





12. Trade payables

The aging analysis of trade payables is as follows:

	At 31 March 2009 (Unaudited) US\$'000	At 31 December 2008 (Audited) US\$'000
0 - 90 days	525,774	371,817
Over 90 days	19,856	32,108
	<u>545,630</u>	<u>403,925</u>

13. Commitments

	At 31 March 2009 (Unaudited) US\$'000	At 31 December 2008 (Audited) US\$'000
(a) Capital commitments		
Contracted but not provided for	96,950	86,152
	<u>96,950</u>	<u>86,152</u>
(b) Commitments under operating lease		
At 31 March 2009, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:		
Within one year	13,494	13,249
In the second to fifth years, inclusive	20,629	24,913
Over five years	2,164	2,650
	<u>36,287</u>	<u>40,812</u>

14. Related party transactions

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

	For the three months ended 31 March 2009 (Unaudited) US\$'000	2008 (Unaudited) US\$'000
(a) Sales of goods to:		
Companies under control by a substantial shareholder of the Company	245	98
	<u>245</u>	<u>98</u>
(b) Purchases of goods from:		
Associates	84,049	77,263
Companies under control by a substantial shareholder of the Company	—	7,987
Holding companies of a minority shareholder of subsidiaries of the Company	419	796
	<u>84,468</u>	<u>86,046</u>
(c) Processing charges by:		
Companies under control by a substantial shareholder of the Company	—	1,224
Holding companies of a minority shareholder of subsidiaries of the Company	237	294
	<u>237</u>	<u>1,518</u>
(d) As of 31 March 2009, an associate and the holding companies of a minority shareholder of subsidiaries of the Company have provided guarantees to the Group's bankers for US\$4,388,000 and US\$1,774,000 respectively (2008: US\$4,393,000 and US\$1,775,000 respectively) for securing banking facilities granted to the Group.		

15. Approval of first quarter financial statements

The first quarter financial statements of 2009 were approved by the board of directors on 25 May 2009.





MANAGEMENT DISCUSSION AND ANALYSIS

Benefiting from flexible marketing strategy and effective market deployment, the Group's first quarter's turnover increased by 21.28% to US\$1,175.309 million, as compared to the same period last year. Under stable low prices of major raw materials such as palm oil, PET resin and sugar during the period, coupled with the Group's effective production management and optimized product mix, the Group's overall gross margin grew by 2.97ppt. to 35.37% and gross profit increased 32.38% as compared to the same period last year. During the period, despite the Group has adopted a more active marketing strategy, the overall distribution cost was well controlled. The distribution cost as a percentage of total sales increased slightly by 0.81ppt. to 17.64%. Finance costs decreased by 28.32% and the Group's profit before taxation increased by 46.48% to US\$168.851 million. During the period, income tax for the first quarter increased by US\$23.028 million to US\$44.619 million due to the change of PRC Enterprise Income Tax Law. Thanks to the overall efficient operation in the first quarter, net profit of the Group increased to US\$92.785 million and net profit margin grew by 1.17ppt to 7.89% year-on-year. The results achieved as presented in condensed consolidated income statement is the Group's historical single-quarter best record.

Instant Noodles Business

In the first quarter, turnover for the instant noodle business was US\$587.695 million, increased by 11.96% year-on-year and representing 50.00% of the Group's total turnover. As a result of the sharply decreased palm oil price during the period and improvements in production efficiency, gross margin for instant noodle increased by 5.19ppt. to 32.27% and gross profit grew by 33.40% year-on-year. Through successful marketing strategies and effective control of operating costs, profit attributable to equity holders of the Company was US\$57.693 million, an increase of 69.58%.

During the period, the Group continued to use the strategy of marketing "Master Kong" brand as high-end noodles in maintaining the existing market share of high-end noodles and at the same time capturing the middle and lower-end markets with its improved "Fumanduo" brand.

On the basis of four major products, Master Kong fulfilled consumers' primary desires for delicious taste and continued to provide products with different packages and flavors for consumers in different times and different places. The Group also developed instant noodles with domestic flavor to satisfy the demand for delicious tastes of different regions and different food cultures. "La Xuan Feng" (Spicy Whirlwind) continued to appeal to young people through publicity spokesman and school functions; "Mianba" emphasized the perfect combination of texture and taste of noodles. "Shi Mian Ba Fan" further consolidated Master Kong's leading position in the mixed fried noodle market segment through free trials and media promotion. "Jin Shuang La Mian" and "Hao Zi Wei", on the other hand, are for the middle price market to meet the needs of middle and lower classes consumers in the cities.

The upgraded package of "Gold Mark Fumanduo", a middle-end brand with selling price of RMB 1.5, was launched in the market with regional flavors to establish a new standard of delicious taste. The "Super Fumanduo" bowl noodles, launched at RMB 2.5, recorded significant increase in sales volume, continued its positioning towards the campus groups and secured the Group's leading position in the middle-price noodle market. The low-price brands "Fumanduo" and "Fumanduo Yi Wan Xiang", with their new colorful packaging, captured the festival gift market and enhanced the brand's closeness to consumers and as a result, gained sales growth in the tier secondary cities. The RMB1.0's "Fried Noodle" has created a new RMB1.0 mixed fried noodles product segment, capturing the RMB1.0 noodles market through differentiation. During the period, the baked egg tomato and beef flavors "Fumanduo Xiang Cui Mian" drove the overall sales growth for snack noodle.

According to ACNielsen's survey in March 2009, in terms of sales value and volume of instant noodle of the Group's market share in the overall PRC market increased to 51.4% and 38.5% respectively and established firmly the No.1 position.

On production, projects such as TPM, WMS, ISO22000 and ISO9000 have enhanced the productivity of existing manufacturing plants and improved the quality of product management. The introduction of higher efficiency production lines in instant noodles and power bags which improved both of the productivity and gross profits.





Beverage Business

In the first quarter of the year, turnover for the beverage business was US\$525.218 million, an increase of 36.74% year-on-year and representing 44.69% of the Group's total turnover. The favorable effect of declining raw materials prices during the first quarter was offset by the significant growth in the sales volume of mineralized water which had comparatively lower gross margin, and the adoption of an active marketing strategy which benefited consumers directly during the period. As a result, gross margin for beverage business decreased 0.33ppt. to 38.10% and gross profit increased by 35.58% to US\$200.115 million. Although the current financial crisis has a global impact, its effect on the fast-moving consumer goods industry, however, was relatively limited due to substantial demand from consumers. This, together with the Group's active operating strategy to enhance its influence in the market, has enabled the Group to maintain its current stable operation and profits. In the first quarter, profit attributable to equity holders of the Company was US\$30.743 million, an increase of 10.89% year-on-year.

Master Kong's RTD tea series continued to maintain its strong leading position in the tea drink market of the PRC. In 2009, led by Tao Zhe as the spokesman, the "Ice Strength Frontier Band Contest" for the flagship product Master Kong ice tea, commenced throughout the country, and brought the product closer to its young consumers through music. During the period, both the flavor and packaging of Master Kong green tea have been improved with "naturalness", "sweetness" and "healthiness" highlighted, volume enlarged from 500ml to 550ml but the selling price remained unchanged, thus benefiting consumers directly with a more value for money product. The Honey Jasmine Tea continued to be popular among consumers, and became another sales driver in the tea beverage market. During the period, Master Kong's tea series commenced a nationwide promotional lucky draw activity of "One More Bottle", once again leading the growth of the overall tea drink market.

In the first quarter of 2009, new packages of 550ml and 330ml of Master Kong mineralized water were launched with new designs that are more convenient to consumers. The series of internet ambushes of last year has affected the sales volume of mineralized water, but sales has improved steadily during the first quarter of the year and recorded a year-on-year increase of 45.74% during the period. The "Innovative Public Welfare for Water Proposal Competition" activities organized by the Group ended in February 2009. It was the first solving water pollution and water shortage proposal competition in the PRC. The activities have aroused the awareness of "environmental protection" in PRC's high schools and attracted nearly 1,300 proposals. The winning organization will be awarded a fund of RMB0.5 million to support the initiation of their proposals and exploring any solutions for solving water resources problem of the PRC. The activities will also enable consumers to appreciate the social responsibility highly regarded and recognised by Master Kong.

While the competition in the fruit juice market turned out to be even keener, the concept of trendy and healthy life style is still leading the market. Advocating the idea of "vivid innovation" under the image of "Doctor Juice", Master Kong juice has added new flavors to enrich product items and has actively promoted the sales of family sizes.

According to ACNielsen's survey in March 2009, in terms of sales value and volume, market share of Master Kong RTD Tea increased to 45.7% and 47.7% respectively and continued to hold firmly the No.1 position in the market. Bottled water gained 17.3% and 19.3% market share respectively. Indicating severe competition between the top and the second ranked players have started. The Group's "Fresh Daily C" and "Master Kong" with their diversified product offerings built a broad market for Master Kong and gained 14.3% and 16.5% market share respectively, ranking No.3 in the diluted juice market.

Bakery Business

In the first quarter of 2009, turnover of the bakery business was US\$39.775 million, an increase of 17.82% year-on-year and represented 3.38% of the Group's total turnover. During the period, gross margin increased 2.12ppt. to 40.36% and gross profit increased by 24.34% compared with the same period of last year. Profit attributable to equity shareholders increased by 81.75% to US\$3.775 million. The improved performance was mainly due to: (1) continuous improvement in production efficiency; (2) significant sales growth from its key product "3+2" sandwich crackers and (3) the refined and accurate sales strategy as well as the effective control of the marketing expense.

According to ACNielsen's survey in March 2009, Master Kong ranked second in the sandwich cracker market and had respective market shares of 27.2% and 26.0% in sales value and volume. Bakery business will continue to expand with the growth of core products, modernization of traditional foods, increased sales items and strengthened core production technologies through different modes of co-operations.





Refrigeration Business

In the first quarter, refrigeration business continued to develop smoothly. Daily C fresh juice, Wei Chuan yogurt and Wei Chuan active lactobacillus drinks maintained stable sales growth in the Great Shanghai area.

On 7 November 2008, the Company and Wei Chuan (BVI) Co., Ltd. entered into an agreement, pursuant to which Wei Chuan (BVI) has conditionally agreed to acquire from the Company the entire equity interest in Hangzhou Wei Chuan Foods Co., Ltd. at a consideration of RMB73.960 million. Hangzhou Wei Chuan is a wholly-owned subsidiary of the Company and principally engaged in the manufacture and sale of refrigeration products. Completion shall be conditional upon the approval from the relevant authorities which are imposed to regulate the parties in connection with the execution of the agreement and the transaction.

FINANCING

As of 31 March 2009, the Group's total liabilities amounted to US\$1,579.956 million, and total assets amounted to US\$3,240.239 million. The Group's total liabilities increased by US\$157.078 million as compared to US\$1,422.878 million as at 31 December 2008. The debt ratio, calculated as total liabilities to total assets, increased by 0.71ppt. to 48.76% as compared to 31 December 2008. The increase in debt ratio was because trade payables have increased mainly for capital expenditures and purchasing of more raw materials due to the increase in activities. Meanwhile, advance payments from customers also increased. The Group's long-term and short-term bank loans decreased by US\$135.547 million, as compared to 31 December 2008. The Group's proportion of the total borrowings denominated in foreign currency and Renminbi was 79% and 21% respectively. The proportion between the Group's long-term loans and short-term loans was 24% and 76%. In addition, the Group's transactions are mainly denominated in Renminbi. The depreciation of Renminbi against US dollars by 0.11% brought an exchange loss of US\$4.627 million during the first three months of 2009, of which US\$1.790 million and US\$2.837 million have been included in the income statement and exchange translation reserve respectively.

The Group continued to maintain its sound liquidity. As of 31 March 2009, the Group had bank balances and cash of US\$649.681 million, and no contingent liability.

Financial Ratio

	As at 31 March 2009	As at 31 December 2008
Finished goods turnover	10.69 Days	9.45 Days
Trade receivables turnover	9.57 Days	10.44 Days
Current ratio	0.75 Times	0.66 Times
Debt ratio (Total liabilities to total assets)	48.76%	48.05%
Gearing ratio (Net debt to equity attributable to equity holders of the Company)	-0.17 Times	0.15 Times





HUMAN RESOURCES

The number of the Group's staff was 48,439 as at 31 March 2009 (31 December 2008: 49,089). During the period, the Group continued to create more value of its personnel and maintained a human resources direction for its long-term resources, including the recruitment, training, deployment and retention of talents, the Group shall be better equipped to cultivate and retain talents for its continuous development.

The Group implemented a uniform system of recruitment and before-job training for new staff so as to build key resource forces for the Group's future development. To speed up training on key staff in the PRC, systematic training for one year were offered on aspects such as self management, supervision management and corporate management to enhance the staff's managerial ability and leadership. The Group also adopted a retention strategy and paid key employees under an annual salary system to encourage them to grow with the Group.

We recognize that talented employees are one of Master Kong's core competitive edges. Hence, we will continue to put significant emphasis on staff training, development and retention.

PROSPECTS

Despite various uncertainties brought about by the current economic condition in the PRC and the endemic H1N1 influenza, their impact on consumer demand for daily necessities such as instant foods and beverages is limited. Instead, there must exist certain opportunities amid the crises. Accordingly, we will adhere to our long-term development plan and seize opportunities to continue to full play our own advantages. While enhancing the professionalized and scale development of instant noodles, beverage and bakery businesses, we will enrich our products timely in order to meet further demands from customers. Looking forward, the Group will continue to focus on developing instant foods and beverages businesses, and to strive for our goal of becoming the "largest Chinese instant food and beverage producer in the world".

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

Throughout the period ended 31 March 2009, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

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

However, at present, the chairman of each of the Company's subsidiaries is responsible for the operation of the respective subsidiaries. Due to the need of business development considerations, Mr. Wei Ing-Chou is required to act as the chairman of certain subsidiaries. Except for these subsidiaries, the Chief Executive Officer of the Group has not act as the Chairman of other subsidiaries. In practice, there is effective separation of the roles between the Chairman of the Company's subsidiaries and the Chief Executive Officer of the Group. Mr. Wei Ing-Chou has been in charge of the overall management of the Company since the listing of the Company in 1996. Although Mr. Wei Ing-Chou does not need to retire by rotation and assumes the role of both the Chairman and the Chief Executive Officer of the Company, the Company considers that such arrangement at this stage helps to promote the efficient formulation and implementation of the Company's strategies which will enable the Group to further develop its businesses effectively. With the above balancing mechanism of chairman of subsidiaries and the supervision of the Board and the independent non-executive directors, the interests of the shareholders are adequately and fairly represented.

Directors' responsibility for the financial statements

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





Audit Committee

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





INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER IN SHARES

As at 31 March 2009, the interests and short positions of the Directors and Chief Executive Officer in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares

Name of Directors	Number of ordinary shares		Number of underlying shares held under share options
	Personal interests	Corporate interests <i>(Note)</i>	
Wei Ing-Chou	13,242,000	2,044,827,866	2,000,000
Wei Ying-Chiao	—	2,044,827,866	—

Note:

- These 2,044,827,866 Shares are held by and registered under the name of Ting Hsin. Ting Hsin is beneficially owned as to approximately 55.10% by Ho Te Investments Limited (“Ho Te”), as to approximately 37.80% by Rich Cheer Holdings Limited (“Rich Cheer”) and as to the remaining 7.10% by unrelated third parties. Ho Te is owned as to 51% (in the form of ordinary shares) by Profit Surplus Holdings Limited (“Profit Surplus”) and as to 49% (in the form of non-voting preference shares) by Wei Ing-Chou, Wei Ying-Chiao, Wei Yin-Chun and Wei Yin-Heng, respectively in equal proportions. Rich Cheer is owned as to 51% (in the form of ordinary shares) by Profit Surplus and as to 49% (in the form of non-voting preference shares) by Wei Chang Lu-Yun (the spouse of Wei Ing-Chou), Lin Li-Mien (the spouse of Wei Ying-Chiao), Wei Hsu Hsiu-Mien (the spouse of Wei Yin-Chun) and Wei Tu Miao (the spouse of Wei Yin-Heng), respectively in equal proportions. Profit Surplus is the trustee of a unit trust, which is in turn held by four discretionary trusts in equal proportions. HSBC International Trustee Limited is the trustee of each of the above four discretionary trusts, the settlors and discretionary objects of the above four discretionary trusts are as follows:
 - Wei Chang Lu-Yun is the settlor of one of the above discretionary trusts with Wei Chang Lu-Yun and Wei Ing Chou as discretionary objects;
 - Lin Li-Mien is the settlor of one of the above discretionary trusts with Lin Li-Mien and Wei Ying-Chiao as discretionary objects;
 - Wei Hsu Hsiu-Mien is the settlor of one of the above discretionary trusts with Wei Hsu Hsiu-Mien and Wei Yin-Chun as discretionary objects; and
 - Wei Tu Miao is the settlor of one of the above discretionary trusts with Wei Tu Miao and Wei Yin-Heng as discretionary objects.
- Wei Ing-Chou holds 2,000,000 share options (which are exercisable for the period from 21 March 2013 to 20 March 2018 at an exercise price of HK\$9.28 per Share) under the share option scheme of the Company passed by an extraordinary general meeting of the Company held on 20 March 2008.

Save as disclosed above, at no time during the three months ended 31 March 2009 there were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in or any other body corporate.

Save as disclosed in this paragraph, as at 31 March 2009, none of the Directors and Chief Executive Officer had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.





SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to any Director or Chief Executive Officer of the Company, as at 31 March 2009, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long position in the Shares and the underlying Shares

Name of shareholder	Capacity	Number of shares held	% of the issued share capital
Ting Hsin (<i>see note 1</i>)	Beneficial owner	2,044,827,866	36.60
Ho Te Investments Limited (<i>see note 1</i>)	Interest of controlled company	2,044,827,866	36.60
Rich Cheer Holdings Limited (<i>see note 1</i>)	Interest of controlled company	2,044,827,866	36.60
Profit Surplus Holdings Limited (<i>see note 1</i>)	Trustee of a unit trust	2,044,827,866	36.60
HSBC International Trustee Limited (<i>see note 1</i>)	Trustee of discretionary trusts	2,044,827,866	36.60
Wei Yin-Chun (<i>see note 1</i>)	Beneficiary of a discretionary trust	2,044,827,866	36.60
Wei Yin-Heng (<i>see note 1</i>)	Beneficiary of a discretionary trust	2,044,827,866	36.60
Wei Chang Lu-Yun (<i>see notes 1 & 2</i>)	Settlor and beneficiary of a discretionary trust	2,060,069,866	36.87
Lin Li-Mien (<i>see note 1</i>)	Settlor and beneficiary of a discretionary trust	2,044,827,866	36.60
Wei Hsu Hsiu-Mien (<i>see note 1</i>)	Settlor and beneficiary of a discretionary trust	2,044,827,866	36.60
Wei Tu Miao (<i>see note 1</i>)	Settlor and beneficiary of a discretionary trust	2,044,827,866	36.60
Sanyo Foods Co., Ltd.	Beneficial owner	1,854,827,866	33.20

Notes:

- These 2,044,827,866 Shares are held by and registered under the name of Ting Hsin. Ting Hsin is beneficially owned as to approximately 55.10% by Ho Te Investments Limited ("Ho Te"), as to approximately 37.80% by Rich Cheer Holdings Limited ("Rich Cheer") and as to the remaining 7.10% by unrelated third parties. Ho Te is owned as to 51% (in the form of ordinary shares) by Profit Surplus Holdings Limited ("Profit Surplus") and as to 49% (in the form of non-voting preference shares) by Wei Ing-Chou, Wei Ying-Chiao, Wei Yin-Chun and Wei Yin-Heng, respectively in equal proportions. Rich Cheer is owned as to 51% (in the form of ordinary shares) by Profit Surplus and as to 49% (in the form of non-voting preference shares) by Wei Chang Lu-Yun (the spouse of Wei Ing-Chou), Lin Li-Mien (the spouse of Wei Ying-Chiao), Wei Hsu Hsiu-Mien (the spouse of Wei Yin-Chun) and Wei Tu Miao (the spouse of Wei Yin-Heng), respectively in equal proportions. Profit Surplus is the trustee of a unit trust, which is in turn held by four discretionary trusts in equal proportions. HSBC International Trustee Limited is the trustee of each of the above four discretionary trusts, the settlors and discretionary objects of the above four discretionary trusts are as follows:
 - Wei Chang Lu-Yun is the settlor of one of the above discretionary trusts with Wei Chang Lu-Yun and Wei Ing-Chou as discretionary objects;
 - Lin Li-Mien is the settlor of one of the above discretionary trusts with Lin Li-Mien and Wei Ying-Chiao as discretionary objects;
 - Wei Hsu Hsiu-Mien is the settlor of one of the above discretionary trusts with Wei Hsu Hsiu-Mien and Wei Yin-Chun as discretionary objects; and
 - Wei Tu Miao is the settlor of one of the above discretionary trusts with Wei Tu Miao and Wei Yin-Heng as discretionary objects.
- Wei Ing-Chou is also personally interested in 13,242,000 Shares and holds 2,000,000 share options (which are exercisable for the period from 21 March 2013 to 20 March 2018 at an exercise price of HK\$9.28 per Share) under the share option scheme of the Company passed by an extraordinary general meeting of the Company held on 20 March 2008. Wei Chang Lu-Yun, being the spouse of Wei Ing-Chou, is also deemed to be interested in the Shares and the underlying Shares held by Wei Ing-Chou.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in register required to be kept under section 336 of the SFO as at 31 March 2009.





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. Michio Kuwahara are Independent Non-executive Directors of the Company.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 25 May 2009

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

