



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)



2007  
Interim Report

\* For identification purposes only



# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## SUMMARY

US\$ million	For the six months ended 30 June		Change
	2007	2006	
• Turnover	1,502.834	1,111.329	+35.23%
• Gross margin of the Group(%)	32.71	32.93	-0.22ppt.
• EBITDA	234.828	171.712	+36.76%
• Profit for the period	145.935	102.097	+42.94%
• Profit attributable to equity holders of the Company	95.819	66.495	+44.10%
• Earnings per share (US cents)	1.71	1.19	+US0.52 cents

## INTRODUCTION

In the second quarter of the year, the PRC's gross domestic products (GDP) increased by 11.9% as compared to the same period last year, 0.8 percentage point (ppt.) higher than that of 11.1% in the first quarter of the year. The PRC's consumer price index (CPI) increased by 3.2% as compared to the same period last year. In line with the continuing rapid growth of the economy, the pressure of inflation is rising.

Traditionally, the second quarter is the low season in a year for instant noodles. Nevertheless, the sales of instant noodles increased substantially in the second quarter by 51.52% over the same period last year to US\$306 million as a result of the implementation of a more flexible marketing strategy; while the sales of beverage increased by 50.11% over the same period last year to US\$476 million as a result of an earlier market deployment, which clearly demonstrated the strong growth dynamics of the two major business segments of the Group.

In the first half of 2007 under review, the turnover of the Group increased by 35.23% over the same period last year to US\$1,503 million. Turnover for instant noodles, beverage and bakery increased by 38.87%, 36.40% and 6.57% over the same period last year to US\$658 million, US\$753 million and US\$47 million respectively. The market shares of the major products of the Group continued to increase during the period, in particular the market share of mineralized water of the Group increased sharply in June to rank first in the market, further consolidating the leading position of Master Kong in the PRC instant food and beverage market. During the period, owing to the successful implementation of an aggressive marketing strategy and an effective control of advertisement and promotion expenses, the distribution costs as a percentage of the total sales decreased by 0.74ppt. as compared to the same period last year to 19.05%. Profit before taxation was US\$ 163.511 million and the profit margin was 10.88%, increased by 46% and 0.8ppt. respectively over the same period last year.

The Group was granted the highest award in "the Election of Best Brand Enterprises in Greater China 2007" organized by Hong Kong Productivity Council in June 2007 and ranked the fifth in "the Survey of Top Taiwan Global Brands 2007" organized by Taiwan Economics Department in association with InterBrand from UK in July 2007. The brand value of Master Kong surged by 79% to US\$726 million as compared with last year. In addition, the Group was granted the award of "Rising Star" in recognition of the highest CAGR of the brand value and brand strength of Master Kong in three successive years. The above awards further demonstrate the strong market position of Master Kong Brand in Greater China.

## 2007 INTERIM RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 together with the unaudited comparative figures for the corresponding period in 2006. These unaudited interim financial statements have been reviewed by the Company's Audit Committee.





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Condensed Consolidated Income Statement

For the Six Months Ended 30 June 2007

		For the six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
		US\$'000	US\$'000
	Note		
Revenue	2	1,502,834	1,111,329
Cost of sales		(1,011,221)	(745,351)
Gross profit		491,613	365,978
Other net income		18,360	9,345
Distribution costs		(286,224)	(219,833)
Administrative expenses		(33,763)	(26,713)
Other operating expenses		(20,563)	(16,160)
Finance costs	3	(9,631)	(5,775)
Share of results of associates		3,719	5,155
Profit before taxation	4	163,511	111,997
Taxation	5	(17,576)	(9,900)
Profit for the period		145,935	102,097
Attributable to			
Equity holders of the Company		95,819	66,495
Minority interest		50,116	35,602
Profit for the period		145,935	102,097
Earnings per share	6		
Basic		1.71 cents	1.19 cents
Diluted		N/A	N/A





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Condensed Consolidated Balance Sheet At 30 June 2007

		At 30 June 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
	<i>Note</i>		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,397,186	1,230,375
Intangible assets		12,472	13,371
Interest in associates		12,746	42,704
Premium for land lease		62,694	60,047
Available-for-sale financial assets		3,111	10,303
Deferred tax assets		5,379	5,379
		<u>1,493,588</u>	<u>1,362,179</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss		23,700	32,605
Inventories		159,383	111,955
Trade receivables	8	114,997	94,239
Prepayments and other receivables		145,973	75,249
Pledged bank deposits		6,266	2,244
Bank balances and cash		297,188	161,676
		<u>747,507</u>	<u>477,968</u>
<b>Current liabilities</b>			
Trade payables	9	421,117	256,797
Other payables		335,350	174,135
Current portion of interest-bearing borrowings	10	248,580	239,761
Trade receipts in advance		26,604	18,372
Taxation		6,784	6,455
		<u>1,038,435</u>	<u>695,520</u>
<b>Net current liabilities</b>		<u>(290,928)</u>	<u>(217,552)</u>
<b>Total assets less current liabilities</b>		<u>1,202,660</u>	<u>1,144,627</u>
<b>Non-current liabilities</b>			
Long-term interest-bearing borrowings	10	79,650	28,320
Other non-current payables		3,432	3,344
Employee benefit obligations		7,476	6,885
Deferred tax liabilities		9,444	8,089
		<u>100,002</u>	<u>46,638</u>
<b>NET ASSETS</b>		<u>1,102,658</u>	<u>1,097,989</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	27,943	27,943
Reserves	12	872,056	748,476
Proposed special dividend		—	59,799
Proposed final dividend		—	77,124
		<u>899,999</u>	<u>913,342</u>
<b>Total capital and reserves attributable to equity holders of the Company</b>		<u>899,999</u>	<u>913,342</u>
<b>Minority interest</b>		<u>202,659</u>	<u>184,647</u>
<b>TOTAL EQUITY</b>		<u>1,102,658</u>	<u>1,097,989</u>





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2007

	Attributable to equity holders of the Company (Unaudited) US\$'000	Minority interest (Unaudited) US\$'000	Total (Unaudited) US\$'000
As at 1 January 2006	871,982	138,391	1,010,373
Net gains recognised directly in equity			
Exchange translation difference	7,441	—	7,441
Dividend	(129,658)	(23,668)	(153,326)
Profit for the period	66,495	35,602	102,097
	<u>(55,722)</u>	<u>11,934</u>	<u>(43,788)</u>
As at 30 June 2006	<u>816,260</u>	<u>150,325</u>	<u>966,585</u>
As at 1 January 2007	913,342	184,647	1,097,989
Net gains recognised directly in equity			
Exchange translation difference	27,761	—	27,761
Dividend	(136,923)	(32,104)	(169,027)
Profit for the period	95,819	50,116	145,935
	<u>(13,343)</u>	<u>18,012</u>	<u>4,669</u>
As at 30 June 2007	<u><u>899,999</u></u>	<u><u>202,659</u></u>	<u><u>1,102,658</u></u>

## Condensed Consolidated Cash Flow Statement

For the Six Months Ended 30 June 2007

	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Net cash from operating activities	398,542	208,084
Net cash used in investing activities	(259,357)	(109,520)
Net cash from (used in) financing activities	<u>349</u>	<u>(23,696)</u>
Increase in cash and cash equivalents	139,534	74,868
Cash and cash equivalents at 1 January	<u>163,920</u>	<u>156,357</u>
Cash and cash equivalents at 30 June	<u><u>303,454</u></u>	<u><u>231,225</u></u>
<b>Analysis of the balances of cash and cash equivalents:</b>		
Bank balances and cash	297,188	222,783
Pledged bank deposits	<u>6,266</u>	<u>8,442</u>
	<u><u>303,454</u></u>	<u><u>231,225</u></u>





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Notes:

### 1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited interim financial statements. These unaudited interim 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 interim financial statements should be read in conjunction with the 2006 annual financial statements. The accounting policies adopted in preparing the unaudited interim financial statements for the six months ended 30 June 2007 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

### 2. Revenue and segment results by major products

The Group operates mainly in The People's Republic of China (the "PRC"). Revenue and contribution to the Group's profit are mainly from the PRC.

An analysis of the Group's revenue and segment results by major products is set out below:

	Revenue For the six months ended 30 June		Segment results For the six months ended 30 June	
	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Instant noodles	657,702	473,624	42,925	29,125
Beverages	753,214	552,197	117,436	80,421
Bakery	47,477	44,551	1,012	(509)
Others	44,441	40,957	8,052	976
Total	<u>1,502,834</u>	<u>1,111,329</u>	<u>169,425</u>	<u>110,013</u>

### 3. Finance costs

	For the six months ended 30 June	
	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Interest on bank loans wholly repayable within five years	<u>9,631</u>	<u>5,775</u>

### 4. Profit before taxation

Profit before taxation is stated after charging the following:

	For the six months ended 30 June	
	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Depreciation	62,956	54,101
Amortisation	<u>1,877</u>	<u>1,888</u>





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## 5. Taxation

	For the six months ended 30 June	
	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
PRC enterprise income tax	17,576	9,900

The Cayman Islands levies no tax on the income of 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 food 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 are subjected to applicable PRC enterprise income tax rate of 15%. Also, they are 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.

## 6. Earnings per Share

The calculation of basic earnings per share is based on the net profit of US\$95.819 million (2006: US\$66.495 million) attributable to equity holders of the Company for the period ended 30 June 2007 and on the weighted average of 5,588,705,360 (2006: 5,588,705,360) ordinary shares in issue during the period. Diluted earnings per share for the periods have not been shown as the Company does not have any dilutive ordinary shares.

## 7. Dividend

The Board of Directors resolves that no dividend be paid for the six months ended 30 June 2007 (2006: nil).

## 8. Trade receivables

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

	At 30 June 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
0 - 90 days	107,316	87,742
Over 90 days	7,681	6,497
	114,997	94,239

## 9. Trade payables

The aging analysis of trade payables is as follows:

	At 30 June 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
0 - 90 days	391,705	242,801
Over 90 days	29,412	13,996
	421,117	256,797





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## 10. Interest-bearing borrowings

	At 30 June 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
Bank loans:		
Within one year	248,580	239,761
In the second year	44,400	28,320
In the third year to the fifth years, inclusive	35,250	—
	<u>328,230</u>	<u>268,081</u>
Portion classified as current liabilities	(248,580)	(239,761)
	<u>79,650</u>	<u>28,320</u>
Non-current portion	<u>79,650</u>	<u>28,320</u>

## 11. Issued capital

	Ordinary shares of US\$0.005 each No. of shares	US\$'000
Authorised:		
At 31 December 2006 and 30 June 2007	<u>7,000,000,000</u>	<u>35,000</u>
Issued and fully paid:		
At 31 December 2006 and 30 June 2007	<u>5,588,705,360</u>	<u>27,943</u>

## 12. Reserves

	Capital redemption reserve US\$'000	Share premium US\$'000	Exchange translation reserve US\$'000	General reserve US\$'000	Retained profits US\$'000	Total US\$'000
At 31 December 2006	36	332,478	36,719	108,721	407,445	885,399
Exchange translation difference	—	—	27,761	—	—	27,761
Transfer to general reserve	—	—	—	244	(244)	—
Profit for the period	—	—	—	—	95,819	95,819
Dividend	—	—	—	—	(136,923)	(136,923)
	<u>36</u>	<u>332,478</u>	<u>64,480</u>	<u>108,965</u>	<u>366,097</u>	<u>872,056</u>
At 30 June 2007	<u>36</u>	<u>332,478</u>	<u>64,480</u>	<u>108,965</u>	<u>366,097</u>	<u>872,056</u>





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## 13. Commitments

	At 30 June 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
(a) <b>Capital commitments</b>		
Contracted but not provided for	33,229	137,601
(b) <b>Commitments under operating leases</b>		
At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:		
Within one year	6,141	7,640
In the second to fifth years, inclusive	19,569	16,523
Over five years	8,450	6,736
	34,160	30,899

## 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.

	2007 January to June (Unaudited) US\$'000	2006 January to June (Unaudited) US\$'000
(a) Sales of goods to:		
Associates	849	11,241
Companies under control by a substantial shareholder of the Company	5,225	4,461
(b) Purchases of goods from:		
Associates	130,708	106,329
Companies under control by a substantial shareholder of the Company	9,839	8,037
Holding companies of a minority shareholder of subsidiaries of the Company	1,065	—
(c) Processing charges by:		
An associate	—	1,148
Companies under control by a substantial shareholder of the Company	888	714
Holding companies of a minority shareholder of subsidiaries of the Company	502	337
(d) Guarantee provided for securing banking facilities by:		
An associate	7,580	3,169
Holding companies of a minority shareholder of subsidiaries of the Company	62,272	83,511





## MANAGEMENT DISCUSSION AND ANALYSIS

In the second quarter, the prices of the major raw materials of the Group, such as palm oil and PET plastic resin, continued to increase. Particularly, the price of palm oil increased by 51% as compared to the same period last year. Nevertheless, adverse impact of the surging prices of raw materials was mitigated by the efforts of the management in the effective control of production costs through continuous effective production management and capitalizing on the advantage of centralized procurement. Meanwhile, as the deferred sales growth due to seasonal factors in the first quarter came to an end, the turnover contribution from the beverage segment increased in the second quarter by 50.11% over the same period last year, and as a result of a relatively higher gross margin achieved by fully utilizing the Group's production capability, the overall gross margin of the Group increased slightly by 0.41ppt. as compared to the second quarter last year to 33.77%.

In the first half of 2007, the turnover of the Group increased by 35.23% over the same period last year to US\$1,503 million. Turnover for instant noodles, beverage and bakery increased by 38.87%, 36.40% and 6.57% over the same period last year to US\$658 million, US\$753 million and US\$47 million respectively. Thanks to the effective cost control and the substantial growth in turnover, the overall gross margin of the Group decreased by 0.22ppt. only from 32.93% in the same period last year to 32.71% in spite of the high prices of raw materials, and the gross profit increased by 34.33% to US\$491.613 million. Profit attributable to equity holders of the Company increased by 44.10% to US\$95.819 million, representing the earnings per share of 1.71 US cents.

Riding on a sound marketing strategy and through optimization of product sales mix, the Group's sales performance in high-end instant noodles was much better than the market average, with a sales growth of 41.07% in the first half of the year in spite of the stagnant overall growth of the instant noodles market. Meanwhile, the sales of Ready-to-Drink Tea and Mineralized Water maintained their strong growths. During the period, due to the successful implementation of an aggressive marketing strategy and effective control of advertisement and promotion expenses, the distribution costs as a percentage of the total sales decreased by 0.74ppt. as compared to the same period last year to 19.05%. Profit before taxation was US\$ 163.511 million and the profit margin was 10.88%, increased by 46% and 0.8ppt. respectively over the same period last year.

### Instant Noodle Business

In the first half of the year, turnover for the instant noodle business was US\$657.702 million, increased by 38.87% over the same period last year, representing 43.76% of the Group's total turnover.

The Group's marketing strategy on instant noodles is classified into 2 categories - high/mid-end noodles and low-end noodles. High/mid-end noodles are promoted under the brand of Master Kong, and the goal is to maintain the Group's high market share in this category. The low-end noodles are distributed and promoted under the brand of Fu Man Duo, and its goal is to expand the low-end noodles market share in rural and suburban areas.

The Master Kong brand uses soy-braised beef flavor noodles as its core product, with an eye on Chinese gourmet to continue to promote the local flavors with Chinese characteristics. In addition, within Master Kong's subbrands, "Mian-Ba La Mian" continues to enhance the position as "good noodles with dedicated spirits". "The Best of Asian Series" targets at the younger generation by creating fashionable young leaders. "Your Flavors Series" was re-launched with extended regular-volume packet noodles and continues to be positioned as the No.1 fried noodle through TV and outdoor media advertisements. "Good Taste" series characterized by "delicious soup, good flavor and balanced nutrition" cater for the demands of low-mid end consumers in urban areas. In low-end noodles, "Super Fu Man Duo" series continue to target at the younger generation and to meet the demand of younger generation. "Fu Xiang Cui" snack noodle series target at the middle school and elementary students with a brand new tomato flavor to meet their changing demands.

According to ACNielsen, for June 2007, in terms of sales value, the Group maintained its top position and had 45.8% share of the overall China instant noodles market. In high-end packet noodles and bowl noodles, Master Kong had a dominant share of 68.2% and 63.4% respectively, while the market share of "Fu Man Duo" in June was 15.8%, ranking third in the low-end instant noodles market which was almost equal to that of the second ranked market players.

In face of rising commodity prices, the Group's team in charge of instant food endeavors to improve its production technology by, in addition to the introduction of highly efficient production lines, automation of production process and enhancement of the efficiency in sauce boiling, improving TPM (Total Productive Maintenance) and supply chains and applying new energy-saving technologies and methods to enhance the efficiency of production, energy saving and consumption reduction. Meanwhile, the Group plans to procure major raw materials, such as flour, from local suppliers in a centralized manner in order to reduce procurement costs. However, as the price of palm oil, the major raw material for instant noodles, continued to rise during the period, the procurement cost of the Group increased in June by 68% over the same period last year. As the high price of flour imposed heavy pressure on the Group's production cost, the gross profit margin of instant noodle business decreased by 1.23ppt.





as compared to the same period last year to 24.05%. Nevertheless, owing to the growth of sales and an effective monitoring of distribution and management costs, the profit attributable to equity holders of the Company for its instant noodle business increased by 42.66% to US\$36.697 million in the first half of 2007.

### **Beverage Business**

In the first half of the year, turnover for beverage increased by 36.40% over the same period last year to US\$753.214 million, representing 50.12% of the Group's total turnover.

Based on the comprehensive revamp of the advertising campaigns for all brands in preparation for the peak season for beverage products, the Group has fully carried out its annual above-the-line and below-the-line brand marketing activities for Master Kong's tea drinks and juice series products. For tea drinks, with the successful launch of Master Kong's 1-litre Ice Tea and Green Tea in May 2007, the Company continued to improve its performance and consolidated its leading position through the strategies of extended flavors and product differentiation. For Daily C diluted juice series, the Group increased its sales and market share through reinforced penetration into modernized channels and sub-urban areas, multi-perspective communication with consumers and frequent TV advertisements in the China Central Television and continuing to promote large PET bottled drinks. For Bottled Mineralized Water, through outdoor and TV advertisements, increased brand penetration in urban area and sub-urban area and improved communication with consumers, the Group's market share and brand recognition have improved enormously.

According to ACNielsen, for June 2007, in terms of sales value, Master Kong's market share in Ready-to-Drink Tea was 50.4%, maintaining its No. 1 position in the market. Leveraging on a leading competitive position attributable to the extended brand, flavor and package, Master Kong's juice series gained the No. 3 position in the diluted juice market with a market share of 16.2%. The sales performance of Mineralized Water was remarkable, attaining the pole position for the first time with a market share of 17.3%.

During the period, despite that the price of PET plastic resin remained at a high level, the gross margin decreased by 0.19ppt. only to 38.42% owing to better cost control, and the gross profit amount increased as a result by 35.75% over the same period last year. As such, together with an effective monitoring of distribution costs, the profit attributable to equity holders of the Company for its beverage business increased by 36.65% to US\$51.700 million in the first half of 2007.

### **Bakery Business**

During the first half of the year, turnover for the bakery business reached US\$47.477 million, representing a growth of 6.57% as compared to the same period last year and accounting for 3.16% of the Group's total turnover. The sales growth was mainly derived from sales of the Group's core products such as "3+2" Sandwich Crackers, Muffin and Egg Rolls. According to ACNielsen, in June 2007, in terms of sales value, Master Kong's sandwich crackers occupied a market share of 23.4%, ranking second in the market. For the entire crackers market, the Group had a share of 8.0%, ranking third in the market. In the second half of the year, the Group will still strategically focus on the steady growth of the Group's core products such as "3+2" Sandwich Crackers, Muffin, Egg Rolls and Sweet Yolk Biscuit. Also, the Group will stick to an overall channels strategy that is based on city-centered and modernized channels and supplemented by isolated channels.

In the first half of the year, the gross margin of the bakery business was 37.18%, representing an increase of 0.48ppt. as compared to the same period last year. In spite of the rising raw material costs, gross margin grew slightly mainly due to the satisfactory outcome of continued annual sales structure adjustment and improved production process. Improved channels structure also allowed the Group to better control the Group's selling costs. As such, profit attributable to equity holders of the Company for its bakery business for the period was US\$0.978 million, increasing by US\$1.348 million from a loss of US\$0.370 million incurred during the same period last year.

### **Refrigerated Products Business**

According to ACNielsen, for May 2007, Daily C 100% Juice gained a market share of 51% in Shanghai. Yogurt products had a market share of 16% while the market share of lactic acid bacteria drinks was increased to 25%. Following the introduction of new package for yogurt products and the completion of quality improvement in the first quarter of the year, the Group launched the low fat yogurt series in April. 950ml family pack lactic acid bacteria drinks were also launched on the market in March. The Group began to advertise such products in the second quarter of the year, with a continued focus on brand power and the operation of selling channels.





## FINANCING

As of 30 June 2007, the Group's total liabilities amounted to US\$1,138.4 million, and total assets amounted to US\$2,241.1 million. The Group's total liabilities increased by US\$396.2 million as compared to US\$742.2 million as at 31 December 2006. The leverage ratio, calculated as total liabilities to total assets, increased by 10.5ppt. to 50.8% as compared to 31 December 2006. The increase was mainly because of the increase in trade payables and the growth in other payables from payments for capital expenditure use and provision for final dividend payable for the year 2006. The Group's long-term and short-term loans increased by US\$60.15 million, as compared to 31 December 2006. The Group is confident with having adequate internally generated funds for servicing the loans and capital expenditure commitments.

The Group's proportion of total borrowings denominated in US dollars, Renminbi and EURO was 43.92%, 31.95% and 24.13% respectively. The proportion between the Group's long-term loans and short-term loans was "24%:76%". In addition, the Group's transactions are mainly denominated in Renminbi. The appreciation of Renminbi against US dollars by 2.53% brought an exchange gain of US\$30.527 million during the first six months of 2007, of which US\$2.766 million and US\$27.761 million have been included in the income statement and exchange translation reserve respectively.

As of 30 June 2007, the Group had cash on hand and bank balances of US\$303 million, and no contingent liability.

### Financial Ratio

	As at 30 June 2007	As at 31 December 2006
Finished goods turnover	10.67 Days	9.92 Days
Accounts receivable turnover	12.53 Days	14.00 Days
Current ratio	0.72 Times	0.69 Times
Debt ratio (Total liabilities to total assets)	50.8%	40.33%
Gearing ratio (Net debt to equity attributable to equity holders of the Company)	0.03 Times	0.11 Times

## HUMAN RESOURCES

In matching new factories for low-end noodle and bottled water and the development for the Group's "Better Access, Broader Reach" distribution strategy, the number of the Group's staff increased to 41,572 as at 30 June 2007 (31 December 2006:32,631). The Group provides a competitive salary packages, insurance and medical benefits to employees. The Group also pay significant efforts in the management, planning and development of human resources. The good management system for human resources will enhance employees' contribution to the Group.

## PROSPECTS

As the national economy of China continues to grow rapidly and the urbanization in China speeds up, the consumption structure upgrades, with huge potential in the domestic demand market. However, the pressure of inflation is rising. According to the National Bureau of Statistics of China, the CPI for urban citizens in the PRC grew by 3.2% in the first half of 2007 as compared with the same period last year. Although the growth rate returned to a more moderate level in July 2007 under the macroeconomic control by the state government, a rising trend of prices is expected to be inevitable in the second half of 2007.

In view of the increased prices of raw materials and the higher transportation and wage costs due to energy-related factors, the Group had to make adjustments from 10% to 16% to the ex-factory prices for low-end packet noodles and mid-high end packet noodles on 1 July, in order to cope with the adverse impact of rising costs. Following such adjustments, the sales of the Group's products remained stable. Such reasonable price adjustments made by the Group would be acceptable to consumers in the market. Despite the impacts of the intense competition in instant noodles market and the beverage market, the Group will adhere to its marketing plans and cost control objectives and capitalize on its own competitive advantages and make timely adjustments to its development strategy to improve the quality of management and transform the competitive advantages into strength.

With the support of the Group's customers, the Group achieved remarkable results in the first half year. The management strongly believes that by leveraging on the business foundation established by the Group in the China market, good reputation, sound financial structure and the operating philosophy of "Integrity, Pragmatism, Innovation" together with the Group's spirit of "Human Orientation, Concentrated Operation, Factualism and Innovation", the Group will further strengthen the leading position of its products in the China market with sustained and steady growth in its results.





## CORPORATE GOVERNANCE

### Compliance with the Code on Corporate Governance Practices

Throughout the period ended 30 June 2007, 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 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. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Kazuo Ogawa. The latest meeting of the Committee was held to review the results of the Group for this period.

### Remuneration and Nomination Committee

The committee comprises three Independent Non-executive Directors, Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Kazuo Ogawa.

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.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES

As at 30 June 2007, the interests and short positions of the Directors and Chief Executive 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	
	Personal interests	Corporate interests (Note)
Wei Ing-Chou	13,242,000	1,854,827,866
Wei Ying-Chiao	—	1,854,827,866
Wu Chung-Yi	—	1,854,827,866

*Note:* These shares are held by and registered under the name of Ting Hsin (Cayman Islands) Holding Corp. (“Ting Hsin”). Ting Hsin is beneficially owned as to approximately 55.10% by Ho Te Investments Limited, as to approximately 27.91% by Wu Chung-Yi through Gishin Venture Capital Inc. and as to the remaining 16.99% by unrelated third parties. Ho Te Investments Limited is beneficially owned as to 25% by Wei Ing-Chou, 25% by Wei Ying-Chiao, and the remaining 50% is owned by Wei Yin-Chun and Wei Yin-Heng (brothers of the above two directors) in equal proportion.

At no time during the three months ended 30 June 2007 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 30 June 2007, none of the Directors and Chief Executive 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.





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Chief Executive of the Company, as at 30 June 2007, the persons or companies (not being a Director or Chief Executive of the Company) who had interests or short positions in the Share of underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any number of the Group were as follows:

### Long positions in Shares

Name of Shareholder	Number of shares	Shareholder's interests
Ting Hsin (Cayman Islands) Holding Corp.	1,854,827,866	33.1889%
Sanyo Foods Co., Ltd.	1,854,827,866	33.1889%
Shyh Shiunn Investment Corporation	465,107,784	8.3200%

Save as disclosed above, as at 30 June 2007, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

## 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. Kazuo Ogawa are Independent Non-executive Directors of the Company.

By Order of the Board  
**Wei Ing-Chou**  
*Chairman*

Tianjin, PRC, 20 August 2007

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

