



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

Third Quarterly Report

\* For identification purposes only



# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## SUMMARY

US\$ million	For the three months ended 30 September		
	2007	2006	Change
• Turnover	994.847	702.226	+41.67%
• Gross profit of the Group	330.730	239.810	+37.91%
• EBITDA	160.464	121.342	+32.24%
• Profit for the period	109.015	84.297	+29.32%
• Profit attributable to equity holders of the Company	76.489	60.675	+26.06%
• Earnings per share (US cents)	1.37	1.09	+US0.28 cents

## INTRODUCTION

In the third quarter of the year, the PRC's gross domestic products (GDP) increased by 11.5% as compared to the same period last year, 0.4 percentage point (ppt.) lower than the second quarter of the year. However, the decline in growth rate was mainly recorded in the primary industry, whereas the growth of the secondary and tertiary industries are constantly accelerating. In the first nine months, the PRC's consumer price index (CPI) increased by 4.1% as compared to the same period last year and the growth was mainly due to the rising price of food. The high prices for raw materials and energy would also squeeze manufacturers' profit.

Thanks to the implementation of a more flexible marketing strategy and the effective market deployment, in the third quarter of 2007, the turnover of the Group increased by 41.67% over the same period last year to US\$995 million. Turnover for instant noodles, beverage and bakery increased by 45.30%, 43.21% and 11.48% over the same period last year to US\$408 million, US\$525 million and US\$34 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 continued to increase sharply to rank first in the market, further strengthening the leading position of Master Kong in the PRC instant food and beverage market. Profit before taxation increased by 31.45% to US\$ 120.463 million over the same period last year.

In the first three quarters of year 2007, the Group's turnover increased by 37.72%, gross margin slightly dropped by 0.48ppt. to 32.92% and gross profit increased by 35.75%. EBITDA increased by 34.89% to US\$395 million and the profit attributable to equity holders of the Company increased by 35.49% to US\$172.308 million when compared to the same period last year.

## 2007 THIRD QUARTERLY RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited condensed consolidated third quarterly financial statements of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2007 together with the unaudited comparative figures for the corresponding periods in 2006. These unaudited third 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 and Nine Months Ended 30 September 2007

		2007		2006	
		July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
	Note				
Revenue	2	994,847	2,497,681	702,226	1,813,555
Cost of sales		(664,117)	(1,675,338)	(462,416)	(1,207,767)
Gross profit		330,730	822,343	239,810	605,788
Other net income		15,165	33,525	5,834	15,179
Distribution costs		(189,280)	(475,504)	(131,370)	(351,203)
Administrative expenses		(19,890)	(53,653)	(17,016)	(43,729)
Other operating expenses		(12,975)	(33,538)	(4,625)	(20,785)
Finance costs	3	(5,270)	(14,901)	(2,481)	(8,256)
Share of results of associates		1,983	5,702	1,491	6,646
Profit before taxation	4	120,463	283,974	91,643	203,640
Taxation	5	(11,448)	(29,024)	(7,346)	(17,246)
Profit for the period		109,015	254,950	84,297	186,394
Attributable to					
Equity holders of the Company		76,489	172,308	60,675	127,170
Minority interest		32,526	82,642	23,622	59,224
Profit for the period		109,015	254,950	84,297	186,394
Earnings per share	6				
Basic		1.37 cents	3.08 cents	1.09 cents	2.28 cents
Diluted		N/A	N/A	N/A	N/A





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2007

		At 30 September 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		1,447,460	1,230,375
Intangible assets		12,007	13,371
Interest in associates		7,237	42,704
Premium for land lease		63,731	60,047
Available-for-sale financial assets		3,693	10,303
Deferred tax assets		5,379	5,379
		<u>1,539,507</u>	<u>1,362,179</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss		39,099	32,605
Inventories		159,096	111,955
Trade receivables	8	144,386	94,239
Prepayments and other receivables		110,798	75,249
Pledged bank deposits		4,989	2,244
Bank balances and cash		294,328	161,676
		<u>752,696</u>	<u>477,968</u>
<b>Current liabilities</b>			
Trade payables	9	445,648	256,797
Other payables		255,525	174,135
Current portion of interest-bearing borrowings	10	219,551	239,761
Trade receipts in advance		23,569	18,372
Taxation		11,325	6,455
		<u>955,618</u>	<u>695,520</u>
<b>Net current liabilities</b>		<u>(202,922)</u>	<u>(217,552)</u>
<b>Total assets less current liabilities</b>		<u>1,336,585</u>	<u>1,144,627</u>
<b>Non-current liabilities</b>			
Long-term interest-bearing borrowings	10	89,904	28,320
Other non-current payables		3,202	3,344
Employee benefit obligations		7,750	6,885
Deferred tax liabilities		9,894	8,089
		<u>110,750</u>	<u>46,638</u>
<b>NET ASSETS</b>		<u>1,225,835</u>	<u>1,097,989</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	27,943	27,943
Reserves	12	963,271	748,476
Proposed special dividend		—	59,799
Proposed final dividend		—	77,124
		<u>991,214</u>	<u>913,342</u>
<b>Total capital and reserves attributable to equity holders of the Company</b>		<u>991,214</u>	<u>913,342</u>
<b>Minority interest</b>		<u>234,621</u>	<u>184,647</u>
<b>TOTAL EQUITY</b>		<u>1,225,835</u>	<u>1,097,989</u>





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Nine Months Ended 30 September 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	17,376	—	17,376
Dividend	(129,658)	(23,668)	(153,326)
Profit for the period	127,170	59,224	186,394
	<u>14,888</u>	<u>35,556</u>	<u>50,444</u>
As at 30 September 2006	<u>886,870</u>	<u>173,947</u>	<u>1,060,817</u>
As at 1 January 2007	913,342	184,647	1,097,989
Net gains recognised directly in equity			
Exchange translation difference	42,487	—	42,487
Dividend	(136,923)	(32,668)	(169,591)
Profit for the period	172,308	82,642	254,950
	<u>77,872</u>	<u>49,974</u>	<u>127,846</u>
As at 30 September 2007	<u>991,214</u>	<u>234,621</u>	<u>1,225,835</u>

## Condensed Consolidated Cash Flow Statement

For the Nine Months Ended 30 September 2007

	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Net cash from operating activities	593,195	309,989
Net cash used in investing activities	(330,136)	(188,699)
Net cash used in financing activities	(127,662)	(63,518)
Increase in cash and cash equivalents	<u>135,397</u>	<u>57,772</u>
Cash and cash equivalents at 1 January	<u>163,920</u>	<u>156,357</u>
Cash and cash equivalents at 30 September	<u>299,317</u>	<u>214,129</u>
<b>Analysis of the balances of cash and cash equivalents:</b>		
Bank balances and cash	294,328	205,080
Pledged bank deposits	<u>4,989</u>	<u>9,049</u>
	<u>299,317</u>	<u>214,129</u>





*Notes:*

**1. Basis of preparation and accounting policies**

The Directors are responsible for the preparation of the Group's unaudited third quarterly financial statements. These unaudited third 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 third quarterly financial statements should be read in conjunction with the 2006 annual financial statements. The accounting policies adopted in preparing the unaudited third quarterly financial statements for the nine months ended 30 September 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				Segment results			
	2007		2006		2007		2006	
	July to September (Unaudited)	January to September (Unaudited)	July to September (Unaudited)	January to September (Unaudited)	July to September (Unaudited)	January to September (Unaudited)	July to September (Unaudited)	January to September (Unaudited)
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Instant noodles	407,693	1,065,395	280,582	754,206	37,321	80,246	31,518	60,643
Beverages	525,035	1,278,249	366,609	918,806	76,707	194,143	52,126	132,547
Bakery	33,635	81,112	30,173	74,724	2,786	3,798	2,301	1,792
Others	28,484	72,925	24,862	65,819	6,935	14,987	6,066	7,042
Total	<u>994,847</u>	<u>2,497,681</u>	<u>702,226</u>	<u>1,813,555</u>	<u>123,749</u>	<u>293,174</u>	<u>92,011</u>	<u>202,024</u>

**3. Finance costs**

	2007		2006	
	July to September (Unaudited)	January to September (Unaudited)	July to September (Unaudited)	January to September (Unaudited)
	US\$'000	US\$'000	US\$'000	US\$'000
Interest on bank loans and other loans wholly repayable within five years	<u>5,270</u>	<u>14,901</u>	<u>2,481</u>	<u>8,256</u>







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## 4. Profit before taxation

Profit before taxation is stated after charging the following:

	2007		2006	
	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
Depreciation	36,400	99,356	27,897	81,998
Amortization	1,009	2,886	963	2,851
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 5. Taxation

	2007		2006	
	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
PRC enterprise income tax	11,448	29,024	7,346	17,246
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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\$172.308 million (2006: US\$127.170 million) attributable to equity holders of the Company for the period ended 30 September 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 nine months ended 30 September 2007 (2006: nil).





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## 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 September 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
0-90 days	137,514	87,742
Over 90 days	6,872	6,497
	<u>144,386</u>	<u>94,239</u>

## 9. Trade payables

The aging analysis of trade payables is as follows:

	At 30 September 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
0-90 days	401,861	242,801
Over 90 days	43,787	13,996
	<u>445,648</u>	<u>256,797</u>

## 10. Interest-bearing borrowings

	At 30 September 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
Bank loans:		
Within one year	219,551	239,761
In the second year	47,500	28,320
In the third year to the fifth years inclusive	42,404	—
	<u>309,455</u>	<u>268,081</u>
Portion classified as current liabilities	(219,551)	(239,761)
	<u>89,904</u>	<u>28,320</u>
Non-current portion		







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## 11. Issued capital

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

## 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	—	—	42,487	—	—	42,487
Transfer to general reserve	—	—	—	2,143	(2,143)	—
Profit for the period	—	—	—	—	172,308	172,308
Dividend	—	—	—	—	(136,923)	(136,923)
At 30 September 2007	36	332,478	79,206	110,864	440,687	963,271

## 13. Commitments

	At 30 September 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
(a) Capital commitments		
Contracted but not provided for	101,817	137,601
(b) Commitments under operating leases		
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	5,066	7,640
In the second to fifth years, inclusive	20,176	16,523
Over five years	8,564	6,736
	33,806	30,899





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## 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		2006	
	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
(a) Sales of goods to:				
Associates	682	1,531	10	11,251
Companies under control by a substantial shareholder of the Company	2,662	7,887	4,962	9,423
	<u>2,662</u>	<u>7,887</u>	<u>4,962</u>	<u>9,423</u>
(b) Purchases of goods from:				
Associates	76,971	207,679	57,398	163,727
Companies under control by a substantial shareholder of the Company	10,360	20,199	3,691	11,728
Holding companies of a minority shareholder of subsidiaries of the Company	710	1,775	1,078	1,078
	<u>710</u>	<u>1,775</u>	<u>1,078</u>	<u>1,078</u>
(c) Processing charges by:				
An associate	—	—	147	1,295
Companies under control by a substantial shareholder of the Company	876	1,764	672	1,386
Holding companies of a minority shareholder of subsidiaries of the Company	251	753	261	598
	<u>251</u>	<u>753</u>	<u>261</u>	<u>598</u>
(d) As of 30 September 2007, 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\$6.276 million and US\$21.158 million respectively (30 September 2006: US\$4.992 million and US\$26.130 million) for securing banking facilities granted to the Group.				





## MANAGEMENT DISCUSSION AND ANALYSIS

Thanks to flexible marketing strategies and effective market deployment, the Group's turnover in the third quarter of 2007 increased by 41.67% over the same period last year to US\$995 million. The turnover for instant noodles, beverage and bakery increased by 45.30%, 43.21% and 11.48% over the same period last year to US\$408 million, US\$525 million and US\$34 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 continued to increase sharply to rank first in the market, further strengthening the leading position of Master Kong in the PRC instant food and beverage markets. During the period, the prices of the major raw materials of the Group, such as palm oil, flour and PET plastic resin, remained at high levels. For the beverage business the impact of surging prices of raw materials was mitigated by effective cost control and strong turnover growth. The instant noodles, bakery, refrigerated products and other auxiliary businesses of the Group were however adversely affected by the increasing production costs. Consequently, the Group's overall gross margin decreased by 0.91ppt. as compared to the same period last year to 33.24%. The gross profit of the Group grew by 37.91% to US\$330.730 million due to a substantial growth in turnover. Profit before taxation increased by 31.45% over the same period last year to US\$120.463 million.

During the first three quarters, the Group's turnover increased by 37.72% as compared to the same period last year, while the overall gross margin declined moderately by 0.48 ppt. to 32.92% and the gross profit increased by 35.75%. Earnings before interest, taxation, depreciation and amortization (EBITDA) increased by 34.89% over the same period last year to US\$395 million and the profit attributable to equity holders of the Company increased by 35.49% to US\$172.308 million.

### Instant Noodle Business

In the third quarter of the year, turnover for the instant noodle business was US\$407.693 million, increased by 45.30% over the same period last year, representing 40.98% of the Group's total turnover.

The Group continues to adopt the marketing strategy of promotion for high/mid-end noodles under the brand of Master Kong, and the goal is to maintain the Group's high market share in this category. At the same time, 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. The Group also launched "Golden Fu Man Duo" to highlight its tastiness and add value to the Brand of Fu Man Duo.

According to ACNielsen's report for September 2007, in terms of sales value, the Group maintained its top position and had 46.0% share of the overall China instant noodles market. In high-end packet noodles and bowl noodles, Master Kong had a dominant share of 67.6% and 67.1% respectively, while the market share of "Fu Man Duo" was 18.6%, ranking third in the low-end instant noodles market which was almost equal to that of the second ranked market players.

Riding on the new record in operating results posted in the third quarter and in view of the rising prices of palm oil and flour, the Group's team in charge of instant food has laid emphasis on improving the production speed, automation and efficiency of its production system by introducing high speed powder packing machines and sauce packing machines so as to constantly improve TPM (Total Productive Maintenance) and supply chain. Meanwhile, the Group has made continuous endeavors to reduce its production costs through cooperation with professional companies in environmental protection, energy-saving and consumption-reducing to boost its on-site production capacity and reduce its expenditures on overhead and excessive consumption of raw materials.

In the third quarter, in spite of the heavy pressure arising from increasing prices of raw materials on the Group's production, for example, the purchasing price of palm oil grew by 17% over the previous quarter, or 68% as compared to the same period last year, the gross margin of the Group's instant noodles business only declined slightly by 0.16 ppt. to 26.50%, thanks to the optimization of product sales mix and better cost control. The gross profit increased by 44.45% as compared to the same period last year, and the profit attributable to equity holders of the Company increased by 10.93% to US\$30.753 million.





## Beverage Business

In the third quarter of the year, turnover for beverage increased by 43.21% over the same period last year to US\$525.035 million, representing 52.78% of the Group's total turnover.

Currently, the marketing strategy for beverage products is focusing on three major categories of soft drinks, i.e. tea, juice and mineralized water, with an aim to gain a leading position in the non-carbonated soft drink market. 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, juice series and mineralized water products and posted a new record in the turnover of beverage products in the third quarter. With the launch of new-type bottles of 1.25-litre for Ice Tea, Green Tea and Juice series, the Group has reinforced its efforts to promote large PET bottled drinks and continued to improve its performance and strengthen its leading position through product differentiation. Meanwhile, the Group has boosted its sales and market share through constant communication with consumers to promote brands by means of TV advertisements, outdoor media and ground advertisements. For mineralized water, through various community activities to promote its brand image of serving the public, such as "Water for Policemen", the Group's market share and brand recognition have improved enormously.

According to ACNielsen's report for September 2007, in terms of sales value, Master Kong's market share in Ready-to-Drink Tea was 51.0%, maintaining its No. 1 position in the market. Leveraging on a leading competitive position attributable to extended brand, Master Kong's juice series gained the No. 3 position in the diluted juice market with a market share of 16.0%. The sales performance of mineralized water was remarkable, becoming the No. 1 brand in the market with a market share of 18.6%.

In the third quarter, the prices of PET resin and other raw materials remained at high levels, resulting in an increase in cost of raw materials. Nevertheless, through various measures to strengthen internal management, such as the implementation of 5S and Total Productive Maintenance, the Group has effectively controlled its cost while maintaining a rapid growth. Furthermore, the Group has made continuous efforts to improve the efficiency of its production system by enhancing its on-site production capabilities by constantly optimizing its on-site management system, reducing failure rate and excessive consumption and improving the quality of its products. Thanks to the effective cost control maintained by the production system, the gross profit margin of the beverage business in the quarter increased by 0.74 ppt. over the same period last year to 37.85%. Gross profit increased significantly by 46.04% over the same period last year to US\$198.713 million. Profit attributable to equity holders of the Company during the period also increased by 48.93% to US\$36.220 million.

## Bakery Business

During the third quarter of the year, turnover for the bakery business reached US\$33.635 million, representing a growth of 11.48% as compared to the same period last year and accounting for 3.38% 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 and Egg Rolls. According to ACNielsen's report for September 2007, in terms of sales value, Master Kong's sandwich crackers occupied a market share of 23.7%, ranking second in the market. For the entire crackers market, the Group had a share of 8.4%, ranking third in the market. In the fourth quarter 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 channel strategy that is based on city-centered and modernized channels and supplemented by isolated channels.

In the third quarter of the year, the gross margin of the bakery business was 38.88%, representing a drop of 1.04ppt. as compared to the same period last year. In spite of the rising raw material costs, gross margin only dropped 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 increased by 26.74% to US\$2.993 million from US\$2.361 million during the same period last year.





## Refrigerated Products Business

In the third quarter, the Group continued to make great efforts in brand effects and sales channels in Shanghai by increasing its investment in advertising promotion. However, due to the Group's pulling out from the markets in Beijing and Guangzhou, sales revenue from refrigerated products business in the third quarter declined slightly by 1.42% as compared to the same period last year.

On products development, a brand new series of 180G cup-packaged yogurt with barley grains has been launched in September and are well received by the market with good sales performance. According to ACNielsen's report for August 2007, Daily C 100% Juice gained a leading position in Shanghai with a market share of 51%; and the market share of Wei Chuan lactobacillus drinks in the refrigerated products market has increased to 30% while the market share of yogurt products was 15%, both ranking second in the local market.

## FINANCING

As of 30 September 2007, the Group's total liabilities amounted to US\$1,066.4 million, and total assets amounted to US\$2,292.2 million. The Group's total liabilities increased by US\$324.2 million as compared to US\$742.2 million as at 31 December 2006. The debt ratio, calculated as total liabilities to total assets, increased by 6.19ppt. to 46.5% as compared to 31 December 2006. The increase in debt ratio was because both trade payables and long term loans have increased mainly for capital expenditures and purchasing of more raw materials due to the increase in activities. The Group's long-term and short-term bank loans increased by US\$41.4 million, as compared to 31 December 2006. The Group's proportion of the total borrowings denominated in foreign currency and Renminbi was 68.9% and 31.1% respectively. The proportion between the Group's long-term loans and short-term loans was "29%:71%". In addition, the Group's transactions are mainly denominated in Renminbi. The appreciation of Renminbi against US dollars by 3.83% brought an exchange gain of US\$46.870 million during the first nine months of 2007, of which US\$4.383 million and US\$42.487 million have been included in the income statement and exchange translation reserve respectively.

As of 30 September 2007, the Group had cash on hand and bank balances of US\$299.3 million, and no contingent liability.

## Financial Ratio

	As at 30 September 2007	As at 31 December 2006
Finished goods turnover	8.93 Days	9.92 Days
Accounts receivable turnover	13.04 Days	14.00 Days
Current ratio	0.79 Times	0.69 Times
Debt ratio (Total liabilities to total assets)	46.52%	40.33%
Gearing ratio (Net debt to equity attributable to equity holders of the Company)	0.01 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 46,779 as at 30 September 2007 (31 December 2006 : 32,631). The Group provides a competitive salary packages, insurance and medical benefits to employees. The Group also puts 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 and enable the Group to maintain strategic advantages in retaining talent capabilities.





## PROSPECTS

As the national economy of China continues to grow rapidly, the urbanization in China speeds up and the consumption structure upgrades, there is still huge potential in the domestic demand market. According to the National Bureau of Statistics of China, the GDP of China in the third quarter grew by 11.5% as compared to the same period last year, 0.4 ppt. lower than that of the second quarter. Nevertheless, the decline in growth rate was mainly recorded in the primary industry, whereas the growth of the secondary and tertiary industries are constantly accelerating. During the first three quarters, the CPI for urban citizens in the PRC grew by 4.1% as compared to the same period last year, mainly in food prices. With the emerging of inflation in the food industry as a whole, a rising trend in commodity price seems to be inevitable. Meanwhile, the food industry is expected to maintain its momentum for stable growth over the recent years, along with a lower profit margin.

In view of the fierce competition in the instant noodles and beverage markets, the Group will, by further capitalizing on its own competitive strengths, adhere to its development strategy on the scaling-up and professionalization of its instant noodles, beverage and bakery businesses, implement in a timely manner strategies to extend product lines and develop high-end products and make planning for new businesses to further meet the demands of consumers. In addition, the Group will, along with its rapid expansion, endeavor to improve the quality of management in an all-round manner, deeply explore the market and make itself bigger and stronger, so as to transform its advantages into strengths. The Group will strive to maintain the leading position of its products in the PRC market with sustained and steady growth in its results.

## CORPORATE GOVERNANCE

### Compliance with the Code on Corporate Governance Practices

Throughout the period ended 30 September 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 September 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 Gissin 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 nine months ended 30 September 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 September 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 September 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 September 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, 12 November 2007

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

