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)

THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30TH SEPTEMBER 2011

SUMMARY

	For the three months ended 30 September		
US$ million	**2011**	**2010**	**Change**
• Turnover	2,204.479	2,066.080	↑ 6.70%
• Gross margin	27.14%	30.64%	↓ 3.5 ppt.
• Gross profit of the Group	598.279	632.979	↓ 5.48%
• EBITDA	299.397	380.369	↓ 21.29%
• Profit for the period	157.465	261.437	↓ 39.77%
• Profit attributable to owners of the Company	130.593	200.492	↓ 34.86%
• After deducting Extraordinary income of the			
Profit attributable to owners of the Company	130.593	131.839	↓ 0.95%
• Earnings per share (US cents)			
Basic	2.34	3.59	↓ 1.25 cents
Diluted	2.33	3.57	↓ 1.24 cents

At 30 September 2011, Cash and cash equivalents was US$782.310 million and gearing ratio was 0.08 times.

2011 THIRD QUARTERLY RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2011 together with the unaudited comparative figures for the corresponding period in 2010. These unaudited condensed consolidated third quarterly financial statements have been reviewed by the Company's Audit Committee.

Condensed Consolidated Income Statement
For the Three Months and Nine Months Ended 30 September 2011

		2011		**2010**	
		July to September (Unaudited)	**January to September (Unaudited)**	**July to September (Unaudited)**	**January to September (Unaudited)**
	Note	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Turnover and revenue	2	2,204,479	6,344,121	2,066,080	5,309,437
Cost of sales		(1,606,200)	(4,663,534)	(1,433,101)	(3,670,065)
Gross profit		598,279	1,680,587	632,979	1,639,372
Other net income		41,798	136,726	99,593	130,552
Distribution costs		(346,282)	(1,011,791)	(334,628)	(933,598)
Administrative expenses		(51,810)	(147,165)	(40,493)	(100,735)
Other operating expenses		(18,600)	(36,432)	(32,404)	(52,097)
Finance costs	5	(2,949)	(8,126)	(1,751)	(5,571)
Share of results of associates		—	—	4,684	9,978
Profit before taxation	5	220,436	613,799	327,980	687,901
Taxation	6	(62,971)	(148,852)	(66,543)	(144,916)
Profit for the period		157,465	464,947	261,437	542,985
Attributable to:					
Owners of the Company		130,593	359,626	200,492	398,129
Non-controlling interests		26,872	105,321	60,945	144,856
Profit for the period		157,465	464,947	261,437	542,985
Earnings per share	7				
Basic		US2.34 cents	US6.44 cents	US3.59 cents	US7.13 cents
Diluted		US2.33 cents	US6.41 cents	US3.57 cents	US7.10 cents

Condensed Consolidated Statement of Comprehensive Income
For the Three Months and Nine Months Ended 30 September 2011

	2011		2010	
	July to September (Unaudited) *US$'000*	**January to September (Unaudited)** *US$'000*	**July to September (Unaudited)** *US$'000*	**January to September (Unaudited)** *US$'000*
Profit for the period	157,465	464,947	261,437	542,985
Other comprehensive income				
Exchange differences on consolidation	35,950	80,513	35,037	44,360
Fair value change in available-for-sale financial assets	(17,417)	(28,440)	6,010	6,010
Reclassification adjustment for exchange differences release upon disposal of assets classified as held for sale	—	(3,847)	—	—
Other comprehensive income for the period, net of tax	18,533	48,226	41,047	50,370
Total comprehensive income for the period, net of tax	175,998	513,173	302,484	593,355
Attributable to:				
Owners of the Company	141,345	387,708	232,623	436,742
Non-controlling interests	34,653	125,465	69,861	156,613
	175,998	513,173	302,484	593,355

Condensed Consolidated Statement of Financial Position
At 30 September 2011

	Note	At 30 September 2011 (Unaudited) *US$'000*	At 31 December 2010 (Audited) *US$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		3,719,325	2,922,936
Prepaid lease payments		177,006	117,799
Available-for-sale financial assets		90,723	112,659
Deferred tax assets		51,355	50,451
		4,038,409	3,203,845
Current assets			
Financial assets at fair value through profit or loss		495	771
Inventories		356,913	309,801
Trade receivables	9	204,703	127,730
Prepayments and other receivables		358,188	280,704
Pledged bank deposits		13,821	12,024
Bank balances and cash		768,489	881,316
		1,702,609	1,612,346
Assets classified as held for sale		—	75,221
Total assets		5,741,018	4,891,412
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		27,951	27,934
Reserves		1,955,357	1,793,324
Total capital and reserves attributable to owners of the Company		1,983,308	1,821,258
Non-controlling interests		599,292	547,929
Total Equity		2,582,600	2,369,187
Non-current liabilities			
Long-term interest-bearing borrowings		179,179	177,259
Other non-current payables		842	791
Employee benefit obligations		14,121	12,097
Deferred tax liabilities		133,241	104,165
		327,383	294,312
Current liabilities			
Trade payables	10	1,221,650	1,083,913
Other payables		733,014	572,249
Current portion of interest-bearing borrowings		770,853	456,876
Advance payments from customers		65,062	86,940
Taxation		40,456	25,315
		2,831,035	2,225,293
Liabilities associated with assets classified as held for sale		—	2,620
Total liabilities		3,158,418	2,522,225
Total equity and liabilities		5,741,018	4,891,412
Net current liabilities		(1,128,426)	(612,947)
Total asset less current liabilities		2,909,983	2,666,119

Notes:

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's condensed consolidated third quarterly financial statements. These condensed consolidated third quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed consolidated third quarterly financial statements should be read in conjunction with the 2010 annual financial statements. The accounting policies adopted in preparing the condensed consolidated third quarterly financial statements for the nine months ended 30 September 2011 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of the new/revised standards, amendments and interpretations to Hong Kong Financial Reporting Standards ("HKFRS") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2011:

Amendments to HKFRS 1 (Revised)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010)
HKAS 24 (Revised)	Related party Disclosures (effective for annual periods beginning on or after 1 January 2011)
Amendments to HKAS 32	Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)
Amendments to HK(IFRIC) — Int 14	Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011)
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)
Improvement to HKFRS 2010:	Improvement to HKFRS 2010 (effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate)
• HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards (effective for annual periods beginning on or after 1 January 2011)
• HKFRS 3	Business Combinations (effective for annual periods beginning on or after 1 July 2010)
• HKFRS 7	Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011)
• HKAS 1	Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011)
• HKAS 34	Interim Financial Reporting (effective for annual periods beginning on or after 1 January 2011)
• HK(IFRIC) — Int 13	Customer Loyalty Programmes (effective for annual periods beginning on or after 1 January 2011)
• Transition requirements for amendments arising as a result of HKAS 27 Consolidated and Separate Financial Statements	Transition requirements for amendments arising as a result of HKAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010)

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

2. Turnover and revenue

The Group's turnover and revenue represent the invoiced value of goods sold to customers, net of returns, discounts and Value Added Tax.

3. **Segment information**

Segment results

	For the Nine Months ended 30 September 2011					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Bakery (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Turnover and Revenue						
Revenue from external customers	2,585,600	3,552,819	152,528	53,174	—	6,344,121
Inter-segment revenue	87	1,795	615	65,547	(68,044)	—
Segment turnover and revenue	2,585,687	3,554,614	153,143	118,721	(68,044)	6,344,121
Segment results after finance costs and Profit before taxation	287,221	275,531	5,923	49,149	(4,025)	613,799
Taxation	(76,327)	(63,027)	(1,023)	(8,475)	—	(148,852)
Profit for the period	210,894	212,504	4,900	40,674	(4,025)	464,947

	For the Nine Months ended 30 September 2010					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Bakery (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Turnover and Revenue						
Revenue from external customers	2,064,822	3,080,453	123,791	40,371	—	5,309,437
Inter-segment revenue	49	1,834	28	70,755	(72,666)	—
Segment turnover and revenue	2,064,871	3,082,287	123,819	111,126	(72,666)	5,309,437
Segment results after finance costs	269,306	359,874	4,027	(21,224)	(2,713)	609,270
Share of results of associates						9,978
Gain on deemed disposal of interest in an associate						68,653
Profit before taxation	269,306	359,874	4,027	(21,224)	(2,713)	687,901
Taxation	(64,426)	(75,565)	(2,193)	(2,732)	—	(144,916)
Profit for the period	204,880	284,309	1,834	(23,956)	(2,713)	542,985

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

On 16 June 2011, the Company completed the disposal of a non-wholly owned subsidiary and an associate previously classified as assets held for sale at a consideration in aggregate of US$ 98,333,000 to a company owned by the Company's directors with significant influence. Gain on the disposals of US$39,175,000 has been recognised in the segments results under "Others" segment and included in the other net income in the Condensed Consolidated Income Statement for the nine months ended 30 September 2011.

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

Segment assets

	At 30 September 2011					
	Instant noodles (Unaudited) *US$'000*	**Beverages (Unaudited)** *US$'000*	**Bakery (Unaudited)** *US$'000*	**Others (Unaudited)** *US$'000*	**Inter-segment elimination (Unaudited)** *US$'000*	**Group (Unaudited)** *US$'000*
Segment assets	2,327,093	3,263,318	150,775	706,496	(849,237)	5,598,445
Unallocated assets						142,573
Total assets						5,741,018

	At 31 December 2010					
	Instant noodles (Audited) *US$'000*	**Beverages (Audited)** *US$'000*	**Bakery (Audited)** *US$'000*	**Others (Audited)** *US$'000*	**Inter-segment elimination (Audited)** *US$'000*	**Group (Audited)** *US$'000*
Segment assets	1,969,050	2,554,156	136,484	634,322	(641,702)	4,652,310
Unallocated assets						239,102
Total assets						4,891,412

Segment assets include all intangible assets, tangible assets and current assets with the exception of available-for-sale financial assets, deferred tax assets, financial assets at fair value through profit or loss.

4. **Seasonality of operations**

Due to the seasonal nature of the beverages segment, higher revenue is usually expected in the second and third quarters. Higher sales during the period from June to August are mainly attributed to the increased demand for packed beverages during the hot season.

5. **Profit before taxation**

This is stated after charging:

	2011		**2010**	
	July to September (Unaudited) *US$'000*	**January to September (Unaudited)** *US$'000*	**July to September (Unaudited)** *US$'000*	**January to September (Unaudited)** *US$'000*
Finance costs				
Interest on bank loans and other borrowings wholly repayable within five years	2,949	8,126	1,751	5,571
Other items				
Depreciation	84,767	228,581	55,172	162,896
Amortisation	967	2,294	1,316	3,919

6. Taxation

	2011		2010	
	July to September (Unaudited)	**January to September (Unaudited)**	**July to September (Unaudited)**	**January to September (Unaudited)**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current tax – PRC Enterprise Income Tax				
Current period	52,152	119,816	53,633	114,619
Deferred taxation				
Origination and reversal of temporary differences, net	2,091	5,620	1,499	4,109
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	8,728	23,416	11,411	26,188
Total tax charge for the period	62,971	148,852	66,543	144,916

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

Hong Kong Profits Tax has not been provided as the Company did not have any assessable profit subject to Hong Kong Profit Tax for the nine months ended 30 September 2011 and 2010.

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

According to the Tax Relief Notice (Cai Shui [2011] no. 58) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of PRC with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in Western Region are entitled to a preferential rate of 15% (2010:15%).

For the PRC subsidiaries not entitled to a preferential PRC EIT, the applicable PRC EIT is at a statutory rate of 25% (2010: 25%).

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.

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends distributed to foreign investors by the foreign investment enterprises established in PRC. The requirement is effective from 1 January 2008 and applies to earnings accumulated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and jurisdiction of the foreign investors. For the Group's PRC subsidiaries, the applicable rate is 10% and deferred tax liability is only provided on those parts of post-2007 earnings that are expected to be distributable in the foreseeable future.

7. Earnings per share

(a) Basic earnings per share

	2011		2010	
	July to September (Unaudited)	**January to September (Unaudited)**	**July to September (Unaudited)**	**January to September (Unaudited)**
Profit attributable to owners of the Company (US$'000)	130,593	359,626	200,492	398,129
Weighted average number of ordinary shares ('000)	5,589,968	5,588,046	5,586,793	5,586,793
Basic earnings per share (US cents)	2.34	6.44	3.59	7.13

7. **Earnings per share** *(continued)*

(b) Diluted earnings per share

	2011		2010	
	July to September (Unaudited)	**January to September (Unaudited)**	**July to September (Unaudited)**	**January to September (Unaudited)**
Profit attributable to owners of the Company (US$'000)	130,593	359,626	200,492	398,129
Weighted average number of ordinary shares (diluted) ('000)				
Weighted average number of ordinary shares	5,589,968	5,588,046	5,586,793	5,586,793
Effect of the Company's share option scheme	27,273	24,677	20,985	19,785
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,617,241	5,612,723	5,607,778	5,606,578
Diluted earnings per share (US cents)	2.33	6.41	3.57	7.10

8. **Dividend**

The Board of Directors does not recommend the payment of an interim dividend for the nine months ended 30 September 2011 (2010: nil).

9. **Trade receivables**

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

	At 30 September 2011 (Unaudited) *US$'000*	**At 31 December 2010 (Audited)** *US$'000*
0 - 90 days	194,830	121,849
Over 90 days	9,873	5,881
	204,703	127,730

10. **Trade payables**

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

	At 30 September 2011 (Unaudited) *US$'000*	**At 31 December 2010 (Audited)** *US$'000*
0 - 90 days	1,129,459	1,066,760
Over 90 days	92,191	17,153
	1,221,650	1,083,913

MANAGEMENT DISCUSSION AND ANALYSIS

During the first three quarters of 2011, the Gross Domestic Product (GDP) of the PRC grew by 9.4% as compared to the same period year-on-year; and the GDP of the third quarter grew by 9.1%, representing a slower growth rate as compared to the previous two quarters of the year. The Consumer Price Index (CPI) of the first three quarters increased by 5.7% year-on-year, with foodstuff prices increasing by 12.5% as compared to the same period year-on-year. Producer Price Index (PPI) increased by 7.0% as compared to the same period year-on-year, indicating that domestic inflationary pressure remained strong. Meanwhile, the gloomy market expectations on the recovery trend of the world economies and the aggravating European debt crisis continued to weaken the consumers' confidence. Since the beginning of 2011, rising prices of upstream raw materials and erratic climatic changes resulted in greater impact on the production costs and operating conditions of the food manufacturing enterprises, giving rise to certain challenges faced by the food and beverage industry.

In the third quarter of 2011, sales performance of the Group is still reaching towards a record high through making flexible adjustments to marketing strategies, cost structure and continuous optimization of the distribution network. The Group's turnover for the third quarter of 2011 increased by 6.70% to US$2,204.479 million. During the third quarter of 2011, the unexpected weather conditions and the price increase for raw materials affected the Group's gross profit. The Group's gross margin dropped by 3.5ppt to 27.14%, and gross profit dropped 5.48% to US$598.279 million, when compared to the same period last year. The administrative costs to the Group's turnover increased slightly by 0.39ppt. to 2.35%, when compared to the same period in last year, was mainly caused by the increase in labour cost and the imposition of urban construction tax and education tax since December 2010. With effective control over the transportation cost and advertising and promotion costs, distribution costs to sales decreased by 0.49ppt. to 15.71%. EBITDA decreased by 21.29% to US$299.397 million. Profit attributable to shareholders decreased by 34.86% to US$130.593 million and earnings per share decreased by 1.25 US cents to 2.34 US cents when compared to the same period of last year. In the third quarter of 2010, the Company recognised a gain on discontinuation of equity accounting for Wei Chuan Foods Corporation Limited's ("Wei Chuan") of US$68.653 million upon the reclassification of equity interest in Wei Chuan to available-for –sale financial assets, Taking out this non-recurring income, the profit attributable to shareholders for the third quarter of 2011, dropped slightly by 0.95%.

On 3 August 2011, Super Brands (the world's largest independent brand research and assessment organisation), announced the ranking results of the "Top 50 Favourite Brands of Consumers in China 2011". Master Kong was ranked as one of the Top 10 fast moving consumer products. On 20 September 2011, Master Kong won the first "China Food Health 7 Stars Award" launched jointly by CBN (第一財經) and Ecolab (藝康集團) by relying on its full process quality control concept "from farmland to dining table", the principle of food safety to begin at the source and the virtuous cycle of quality safety supervision. In September 2011, "Master Kong" recorded its fourth consecutive appearance in "Fabulous 50" list. In addition, it has also ranked the fifth in the Survey of 'Top Taiwan Global Brands 2011' by InterBrand, UK. Compared to the prior period, the Master Kong brand value increased by 11.63% to US$11.9 billion. The Group has ranked in the top five consecutively in the past nine years.

This series of honor has fully demonstrated the value of Master Kong's brand success, long-term outlook and support from a wide range of consumers. In the future, Master Kong will continue to develop the brand towards a world-class brand.

Instant Noodle Business

During the third quarter of 2011, the stable but slower growth of the GDP in China and the relatively high CPI hovering at 6.1% ~ 6.5% from July to September reflected a domestic economic background of a relatively tight macroeconomic policy administered by the State and the presence of persistent inflationary pressure. It is expected that the prices of vegetables, meat and edible oil will be increased slightly on a year-on-year basis in the coming fourth quarter.

In the third quarter of 2011, turnover of instant noodles business grew by 30.22% year-on-year to US$967.795 million, representing 43.90% of the Group's total turnover. During the third quarter of 2011, the growth in sales of the high margin bowl noodles and high-end packet noodles reached 36.66% and 28.93% respectively; gross margin decreased by 3.29ppt. to 28.29%. When comparing with the second quarters of 2011, the gross margin increased by 4.44ppt. The profit attributable to shareholders grew by 8.95% year-on-year to US$102.553 million.

While making further improvements to the flavors of Master Kong's top classic instant noodle products, namely "Noodles with Braised Beef", "Noodles with Spicy Beef", "Noodles with Stewed Mushroom and Chicken" and "Noodles with Fresh Shrimp and Fish", brand optimization strategies were also implemented by Master Kong for new products. Of which, "Noodles with Pickled Mustard Beef" joined hands with Yao Chen, the "Blog Queen", to promote the "Good, sour, fresh, the right taste" campaign in order to strengthen the integrated penetration strategy and drive faster growth in sales. The flavor of "Sour and Spicy Beef" was introduced with a completely new branding design and additional weight for creating a new market style of sour and spicy flavor.

In order to promote the brand continuously, Master Kong satisfied mass market flavors not only through top products, but also through the launching of a range of regional customary flavor products such as "Northeast Stew (東北燉)", "Da Lu Xiang Yan (打鹵享宴)", "Southeast Delicacy (江南美食)", "Local Grills (本幫燒)", "Chen Pao Feng Yun (陳泡風雲)", etc. to satisfy consumers from various regions, forming a north-south Master Kong food delicacy cultural chain.

In the cultivation of star brands, "Shimianbafan" aimed to bring the "Journey for Fried Noodle delicacy" to consumers, through the joint promotions of online and end point of sales activities. It was well received by the market and consolidated its top status as the delicacy benchmark for mixed fried noodles. "SOUP NOODLE soup based vermicelli" continued to disseminate the concept of "fresh delicious taste" to urban consumers and became the fastest growth vermicelli brand; "Mianba" cooked noodles continued to refine quality and develop differentiated packaging in order to target at the RMB3 high-end packet noodle market and create cooked noodle benchmark products.

"Treasures (珍品)", "Jin Shuang La Mian", "Hao Zi Wei" and "Master Kong Super Fumanduo" constituted the medium to low priced noodle brands for satisfying the market demand of the middle to lower urban market segments. The Group continued to increase results and market shares through structural adjustments of products to improve the medium priced noodle brand segment and turned it from losses to profits. The new dry crispy noodle products namely "Xiang Bao Cui (香爆脆)" was launched into the market in autumn to enrich the product categories and increase market shares.

On production technology, Master Kong accelerated the production automation process of integrated box and sales volume packing to improve the efficiency and lower the production costs. Regarding the development of new categories and production technologies of new products, the launching of "Xiang Bao Cui (香爆脆)" in various regions was completed smoothly and the reform plan of the second batch of equipment was started.

Meanwhile, the Group advanced the planning of production capacity, transportation capacity and manpower, etc. for an orderly replenishment of products on access roads through the optimization of sales; strengthening production and sales coordination, faster response and higher precision in order to cater for the upcoming winter, and the Chinese New Year peak seasons. In addition, in order to refine the logistics hardware facilities, Master Kong continued to improve the operating conditions of the volumetric storage and built new volumetric storage areas in various regions to accelerate the outflow of goods and the movement of pallet trucks in various regions.

According to ACNielsen's survey in September 2011, in terms of sales volume and value of instant noodles, the Group's market share in the overall PRC market increased to 41.4% and 56.5% respectively. In terms of sales value, the market share of the Group's bowl noodles and high-end packet noodles were 67.7% and 70.6% respectively, allowing them to gain No.1 position in the market.

Through making reasonable adjustments to the product cost structure, both the gross margin and profits of the instant noodle business in the third quarter were higher than those in the previous quarter, and the fourth quarter will focus mainly on "per capita expansion, vitality improvement and setting new peaks". To increase consumption per capita, Master Kong will start product marketing and sales promotions, continue to strengthen sales coordination, improve product and project sales and extend services to end users. At the same time, the capacity of product switching will be enhanced continuously to satisfy the market demand.

Beverage Business

In the third quarter of 2011, recovery of the world economy remained slow, domestic prices were still at high levels with high inflationary pressure; and tight macroeconomic policy increased operational pressures on enterprises. Meanwhile, although the third quarter used to be the peak season of beverage sales, however, it was affected by the occurrence of a series of food safety incidents, including the plasticizer incident and fruit juice additives, the lower temperature weather in the southern regions in the summer time due to heavy rainfalls, the ongoing crisis faced by the beverage industry in this summer and the weak performance of the overall industry; sales declined as compared to the same period of last year.

In the third quarter of 2011, the beverage business achieved effective savings in resources through precise market segmentation, branding, product, pricing and access road strategies- to offset the costs resulting from increases in raw material prices, labor costs, transportation costs etc., and the cost pressure was relieved through the lowering of unit manufacturing cost. However, under the downturn of the overall industry and the decline in consumer demand, the turnover of the beverage industry was lowered by 8.06% to US$1,160.396 million as compared to the same period of last year, representing 52.64% of the Group's total turnover. In the third quarter of 2011, the gross profit margin decreased by 5.24ppt. year-on-year to 25.90% compared to the same period of last year. When comparing with the second quarter, the gross margin decreased slightly by 0.47ppt. In the third quarter of 2011, profit attributable to shareholders for the Beverage Business decreased by 57.34%, to US$25.266 million.

RTD tea series: Tea beverage market is competitive during the summer, with all major enterprises launching new products. Being a popular brand among consumers, Master Kong still maintained its leading position in the tea beverage market owing to its extensive product lines; through its healthy, trendy and high quality products' characteristics,; and through the continuous improvement of its products, processing techniques, packaging technology as well as the significant presence of refrigerators on access roads.

Fruit juice series: To provide consumers with higher quality and more assorted fruit juices, Master Kong introduced different flavours of its products to different regions in addition to launching them nationwide. This would allow consumers to enjoy the delicious and healthy fruit juices and satisfy their nutritional needs, bringing them a large energy boost.

For the "New taste for traditional drinks" category, the ever-changing tastes of consumers required continuous innovations by enterprises, such that the new products will be created to satisfy the new tastes and new demand of consumers. For unique outstanding new traditional drinks, following the launch of two products, namely sour plum drink and Wild Jujube Juice, Master Kong has added a new member to the "New taste for traditional drinks" category, namely the Crystal sugar pear juice. It has a sweet and light flavor in thick pear juice, providing deep nutrition and comfort to the blood circulation and respiratory body system with a cooling effect, and it is a new product fully developed by Master Kong.

On bottled water, lighter packs have become the most demanded mode of operation, generally adopted by enterprises. Master Kong has been researching how to reduce the weight of bottles since 2004. On the basis of assured bottle quality and taking into account the computer-controlled blowing process; and the pressing and rubbing impact during the transportation process etc., an innovative 12 gram environmentally-friendly light weight bottle was launched, pioneering the environmentally-friendly journey of the beverage industry. The environmentally-friendly light weight bottle from Master Kong reduces the usage of plastic particles and hence reduces the carbon emission arising from plastic usage. At the same time, the lighter weight of bottles also reduces the electricity usage in its production. Innovative design and excellent quality have contributed to the market recognition and preferences by consumers won by Master Kong, strengthening the leading market position of Master Kong in the bottled water segment.

According to ACNielsen's latest survey in September 2011, in terms of sales volume, Master Kong's RTD tea's market share in the overall PRC market increased to 54.6%, continuing to lead and occupy for half of the RTD tea market. Master Kong Bottled water's market share of 25.2%, ranked No.1 in the market. By using duo brands Fresh Daily C and Master Kong, the Group's fruit juice drinks have gained 20.3% market share, ranking it in the Top 3 positions of the diluted juice market.

Instant Food Business

In order to actively cope with the fierce competition in the food industry and to optimize branding, the bakery business of the Group changed its name to "instant food business" since the third quarter of 2011. Professional division of labor was implemented in product branding and sales in order to expand the product categories of instant food business and strengthen its network.

In the third quarter of 2011, turnover for bakery increased by 25.80% year-on-year reaching US$58.073 million, representing 2.63% of the Group's total turnover. In the third quarter of 2011, gross margin for bakery increased by 1.81ppt. year-on-year to 37.34%. When comparing to the last quarter, gross margin increased by 1.79ppt. In the third quarter of 2011, gross profit increased by 32.24%. Profit attributable to shareholders was US$2.032 million, with an increase of 68.83% when compared to the same period of last year. The increase was mainly due to the sales growth, and the main benefit was from the stronger sales networks. Meanwhile, continuing to promote the improvement of production equipment and optimizing marketing channels, can enhance the gross profit to offset the cost increasing from raw material and labor.

According to ACNielsen's survey in September 2011, Master Kong gained an overall market share in term of sales value and sales volume of 7.8% and 6.6% respectively in the China bakery market and ranked No. 2 in the market; Master Kong's sandwich cracker had a market share in term of sales value and sales volume of 21.6% and 23.5%, and ranked No.2 in the sandwich cracker market. The new launched series of Muffin France Cake were selling well. In the third quarter of 2011, sales growth for cake grew by 21.66% year-on-year when comparing with the same time last year; Market share in term of sales value and sales volume for Master Kong egg rolls were 36.9% and 29.7%, and ranked No.1 in the market.

Master Kong continues to improve the efficiency of its bakery equipment and actively controls marketing expenses and expands with the growth of core products through launching new products. Different modes of strategic cooperation will be considered in order to enrich the number of product types and enlarge the investment in core production technologies.

FINANCING

The Group continued to maintain a stable and healthy finance structure for working capital use through the effective control of trade receivables, trade payables and inventories. On 30 September 2011, the Group's cash and bank deposits totaled US$782.310 million, a decrease of US$111.030 million from 31 December 2010. As at 30 September 2011, the Group's total assets and total liabilities amounted to approximately US$5,741.018 million and US$3,158.418 million respectively, representing increases of US$849.606 million and US$636.193 million respectively when compared to 31 December 2010. The debt ratio increased by 3.45 ppt. to 55.01% as compared with 31 December 2010. The increase in debt ratio was mainly because of the increase of trade payables for purchasing of more raw materials due to the seasonal demand.

As at 30 September 2011, the Group's total borrowings increased by US$315.897 million to US$950.032 million. The borrowings were mainly used for acquisition of new production facilities and working capital. The Group's proportion of the total borrowings denominated in foreign currencies and Renminbi were 99% and 1% respectively, as compared with 98% and 2% respectively as at 31 December 2010. The proportion between the Group's long-term loans and short-term loans were 19% and 81%, as compared with 28% and 72% respectively as at 31 December 2010. In addition, the Group's transactions are mainly denominated in Renminbi. During the nine months period, the appreciation in Renminbi against the US Dollar of 3.14% brought an exchange gain of US$87.944 million; the exchange gain of US$7.431 million and exchange gain on translation of US$80.513 million have been included in the income statement and exchange translation reserve respectively.

FINANCIAL RATIO

	As at 30 September 2011	As at 31 December 2010
Finished goods turnover	8.77 Days	8.62 Days
Trade receivables turnover	7.15 Days	6.65 Days
Current ratio	0.60 Times	0.72 Times
Debt ratio (Total liabilities to total assets)	55.01%	51.56%
Gearing ratio (Net debt to equity attributable to owners of the Company)	0.08 Times	-0.14 Times

HUMAN RESOURCES

As at 30 September 2011, the Group employed 63,671 (31 December 2010: 64,436) employees.

To present, the Group has constantly upheld the management principles of improving personnel training, technology development, system development and teamwork. The Group will continue to strengthen personnel training, fully applying the selection, education, deployment and retention principles to create human value, and enhance various personnel development policies in order to develop and retain outstanding talents continuously for the Group.

During the nine months period, the Group had improved the selection and training system for reserving human resources through the establishment of a reserve system for heads of various levels and refined the training courses for reserved officers. Meanwhile, the attitude on performance was more deeply rooted, the utilization of a computerized performance appraisal system was promoted. In addition, to properly contribute towards social responsibility and enhance its corporate image, sponsorship was provided to National Sun Yat-sen University in Taiwan for organizing a master degree course on Asia Pacific Human Resources Management to educate high level human resources management talents. To train and prepare management cadre for succession of key management functions, the Group co-operates with Japan Waseda University to train the Group's staff.

The Group has been consistent in the emphasis on personnel training, development and retention. Human resource is considered as the cornerstone for corporate development, and the Group firmly believes this is one of the core essential elements for the Group to grow rapidly and achieve outstanding results.

PROSPECTS

As the European debt crisis agravated in 2011, the instability factors of the global economy and financial markets increased. The GDP growth of China slackened for three consecutive quarters, nevertheless, the main reason of the slower economic growth was due to the active controls by policy measures. Data on investment and imports showed that sufficient internal demand was generated for driving domestic economic growth. In the medium to long term, the future economic growth of China will gradually be transformed from investment and export-oriented growth to consumption-led growth. There will still be tremendous room for growth and development opportunities in the consumer product market in China. Meanwhile, implementation of policies to establish a sound social security system, improvement of income distribution among residents, and acceleration of the urbanization process will be favorable to raise the consumption level of the middle to lower income groups and create new consumption demand, which will in turn lead to vigorous development in the instant food and beverage market.

Due to the rising labor costs and ongoing high raw material prices, coupled with the low season for beverage in winter, we expect the operating environment remains difficult in the fourth quarter this year. The Group's profitability will remain challenging, the Group (on the basis of consolidating its current leading position in the Chinese market) will actively expand into new markets, strengthen cost controls, optimize product mix, enhance product research and development and innovation capabilities in order to further expand sales and market shares, whilst providing better products to the public and better returns to our shareholders.

On 4 November 2011, the Company and PespiCo entered into the agreement for their strategic alliance in the beverage business in the PRC. This strategic alliance aimed at exploring more business opportunities and platform in the fast growing PRC beverage market, promoting future growth and creating long-term business value for the Company and PespiCo. The closing of the agreement will be subject to obtaining regulatory approval in the PRC and the approval from shareholders of the Company. Details for the agreement may refer to Company's announcement on 4 November 2011.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

Throughout the period ended 30 September 2011, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

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

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

Directors' responsibility for the financial statements

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

Audit Committee

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

Internal Control

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

Compliance with the Model Code

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE OPTION SCHEME

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

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

For the period of nine months ended 30 September 2011, 3,320,000 options had been exercised under the Share Option Scheme. Weighted average exercise price was $13.14 and the weighted average market closing price before the validity period was $23.59.

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

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

BOARD OF DIRECTORS

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

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 14 November 2011

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