



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

First Quarterly Report



SUMMARY

US\$ million	For the three months ended 31 March		
	2007	2006	Change
• Turnover	674.711	547.843	+23.16%
• Gross margin of the Group(%)	31.42	32.49	-1.07 ppt.
• EBITDA	113.610	95.797	+18.59%
• Profit for the quarter	71.267	60.377	+18.04%
• Profit attributable to equity holders of the Company	48.723	40.394	+20.62%
• Earnings per share (US cents)	0.87	0.72	+US0.15 cents
• Trade receipts in advance	163.098	81.422	+100.16%

INTRODUCTION

In the first quarter of year 2007, the PRC's gross domestic products (GDP) increased by 11.1% and the PRC's consumer price index (CPI) increased by 2.7% when compared to the same period last year. During the first quarter, the price of major raw materials for production remained at a high level. Due to successful control on its overall operation and efficient product strategy, turnover for instant noodles, beverage and bakery have increased by 29.44%, 17.90% and 2.52% to US\$351 million, US\$277 million and US\$25 million respectively. At the end of the first quarter, trade receipts in advance sharply increased 100.16% to US\$163.098 million when compared with the same quarter last year, which demonstrated a strong growth driver for the beverage business. During the period, market shares for the Group's key products continued to increase, thus further extend the Group's leading position in the PRC Instant Noodle and Beverage market.

On 4 May 2007, Morgan Stanley Capital International (MSCI) Barra announced that Tingyi (Cayman Islands) Holding Corp. will be added to the MSCI Hong Kong Index and the addition will be effective after the market closes on 31 May 2007. This helps further building up investors' confidence in the Group and reflects that the Group has gained its reputation among investors.

2007 FIRST QUARTERLY RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited condensed consolidated first quarterly financial statements of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2007 together with the unaudited comparative figures for the corresponding period in 2006. These unaudited first quarterly financial statements have been reviewed by the Company's Audit Committee.





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Condensed Consolidated Income Statement

For the Three Months Ended 31 March 2007

	<i>Note</i>	For the three months ended 31 March	
		2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Revenue	2	674,711	547,843
Cost of sales		(462,721)	(369,858)
Gross profit		211,990	177,985
Other net income		5,985	5,786
Distribution costs		(109,440)	(93,952)
Administrative expenses		(16,707)	(14,164)
Other operating expenses		(9,134)	(8,209)
Finance costs	3	(4,787)	(3,179)
Share of results of associates		2,313	2,226
Profit before taxation	4	80,220	66,493
Taxation	5	(8,953)	(6,116)
Profit for the period		71,267	60,377
Attributable to			
Equity holders of the Company		48,723	40,394
Minority interest		22,544	19,983
Profit for the period		71,267	60,377
Earnings per share	6		
Basic		0.87 cent	0.72 cent
Diluted		N/A	N/A





Condensed Consolidated Balance Sheet

At 31 March 2007

	<i>Note</i>	At 31 March 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,346,828	1,230,375
Intangible assets		12,894	13,371
Interest in associates		34,327	42,704
Premium for land lease		61,545	60,047
Available-for-sale financial assets		10,366	10,303
Deferred tax assets		5,379	5,379
		<u>1,471,339</u>	<u>1,362,179</u>
Current assets			
Financial assets at fair value through profit or loss		47,984	32,605
Inventories		128,780	111,955
Trade receivables	8	102,010	94,239
Prepayments and other receivables		113,571	75,249
Pledged bank deposits		4,689	2,244
Bank balances and cash		280,368	161,676
		<u>677,402</u>	<u>477,968</u>
Current liabilities			
Trade payables	9	327,756	256,797
Other payables		175,608	174,135
Current portion of interest-bearing borrowings	10	237,257	239,761
Trade receipts in advance		163,098	18,372
Taxation		10,077	6,455
		<u>913,796</u>	<u>695,520</u>
Net current liabilities		<u>(236,394)</u>	<u>(217,552)</u>
Total assets less current liabilities		<u>1,234,945</u>	<u>1,144,627</u>
Non-current liabilities			
Long-term interest-bearing borrowings	10	96,650	28,320
Other non-current payables		3,381	3,344
Employee benefit obligations		7,200	6,885
Deferred tax liabilities		8,725	8,089
		<u>115,956</u>	<u>46,638</u>
NET ASSETS		<u>1,118,989</u>	<u>1,097,989</u>
CAPITAL AND RESERVES			
Issued capital	11	27,943	27,943
Reserves	12	806,731	748,476
Proposed special dividend		—	59,799
Proposed final dividend		77,124	77,124
		<u>911,798</u>	<u>913,342</u>
Total capital and reserves attributable to equity holders of the Company		<u>911,798</u>	<u>913,342</u>
Minority interest		<u>207,191</u>	<u>184,647</u>
TOTAL EQUITY		<u>1,118,989</u>	<u>1,097,989</u>





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Condensed Consolidated Statement of Changes in Equity

For the three Months Ended 31 March 2007

	Attributable to equity holders of the Company (Unaudited) <i>US\$'000</i>	Minority interest (Unaudited) <i>US\$'000</i>	Total (Unaudited) <i>US\$'000</i>
As at 1 January 2006	871,982	138,391	1,010,373
Net gains recognised directly in equity			
Exchange transaction difference	4,289	—	4,289
Dividend	(59,799)	—	(59,799)
Profit for the period	40,394	19,983	60,377
	<u>(15,116)</u>	<u>19,983</u>	<u>4,867</u>
As at 31 March 2006	<u>856,866</u>	<u>158,374</u>	<u>1,015,240</u>
As at 1 January 2007	913,342	184,647	1,097,989
Net gains recognised directly in equity			
Exchange translation difference	9,532	—	9,532
Dividend	(59,799)	—	(59,799)
Profit for the period	48,723	22,544	71,267
	<u>(1,544)</u>	<u>22,544</u>	<u>21,000</u>
As at 31 March 2007	<u>911,798</u>	<u>207,191</u>	<u>1,118,989</u>

Condensed Consolidated Cash Flow Statement

For the three Months Ended 31 March 2007

	2007 (Unaudited) <i>US\$'000</i>	2006 (Unaudited) <i>US\$'000</i>
Net cash from operating activities	272,450	223,606
Net cash used in investing activities	(168,667)	(90,845)
Net cash from (used in) financing activities	17,354	(17,383)
Increase in cash and cash equivalents	121,137	115,378
Cash and cash equivalents at 1 January	163,920	156,357
Cash and cash equivalents at 31 March	<u>285,057</u>	<u>271,735</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	280,368	265,950
Pledged bank deposits	4,689	5,785
	<u>285,057</u>	<u>271,735</u>





Notes:

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited first quarterly financial statements. These unaudited first quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard No 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants. These condensed quarterly financial statements should be read in conjunction with the 2006 annual financial statements. The accounting policies adopted in preparing the unaudited quarterly financial statements for the three months ended 31 March 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 result 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 result	
	For the three months ended 31 March		For the three months ended 31 March	
	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Instant noodles	351,353	271,440	26,502	20,865
Beverages	277,048	234,978	52,849	44,834
Bakery	24,603	23,999	555	41
Others	21,707	17,426	2,788	202
Total	<u>674,711</u>	<u>547,843</u>	<u>82,694</u>	<u>65,942</u>

3. Finance costs

	For the three months ended 31 March	
	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Interest on bank loans wholly repayable within five years	<u>4,787</u>	<u>3,179</u>

4. Profit before taxation

Profit before taxation is stated after charging the following:

	For the three months ended 31 March	
	2007 (Unaudited) US\$'000	2006 (Unaudited) US\$'000
Depreciation	28,840	26,670
Amortisation	<u>942</u>	<u>344</u>





5. Taxation

	For the three months ended 31 March	
	2007 (Unaudited) <i>US\$'000</i>	2006 (Unaudited) <i>US\$'000</i>
PRC enterprise income tax	8,953	6,116

The Cayman Islands levy 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\$48.723 million (2006: US\$40.394 million) attributable to equity holders of the Company for the period ended 31 March 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 three months ended 31 March 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 31 March 2007 (Unaudited) <i>US\$'000</i>	At 31 December 2006 (Audited) <i>US\$'000</i>
0 - 90 days	94,391	87,742
Over 90 days	7,619	6,497
	102,010	94,239

9. Trade payables

The aging analysis of trade payables is as follows:

	At 31 March 2007 (Unaudited) <i>US\$'000</i>	At 31 December 2006 (Audited) <i>US\$'000</i>
0 - 90 days	311,797	242,801
Over 90 days	15,959	13,996
	327,756	256,797





10. Interest-bearing borrowings

	At 31 March 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
Bank loans:		
Within one year	237,257	239,761
In the second year	55,150	28,320
In the third year to the fifth years, inclusive	41,500	—
	<u>333,907</u>	<u>268,081</u>
Portion classified as current liabilities	(237,257)	(239,761)
Non-current portion	<u>96,650</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 31 March 2007	<u>7,000,000,000</u>	<u>35,000</u>
Issued and fully paid:		
At 31 December 2006 and 31 March 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	—	—	9,532	—	—	9,532
Profit for the period	—	—	—	—	48,723	48,723
Dividend	—	—	—	—	(59,799)	(59,799)
	<u>36</u>	<u>332,478</u>	<u>46,251</u>	<u>108,721</u>	<u>396,369</u>	<u>883,855</u>
At 31 March 2007	<u>36</u>	<u>332,478</u>	<u>46,251</u>	<u>108,721</u>	<u>396,369</u>	<u>883,855</u>
Representing:						
2006 final dividend proposed						77,124
Reserves						<u>806,731</u>
						<u>883,855</u>





13. Commitments

	At 31 March 2007 (Unaudited) US\$'000	At 31 December 2006 (Audited) US\$'000
(a) Capital commitments		
Contracted but not provided for	57,770	137,601
	<u>57,770</u>	<u>137,601</u>
(b) Commitments under operating lease		
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	7,377	7,640
In the second to fifth years, inclusive	16,984	16,523
Over five years	6,314	6,736
	<u>30,675</u>	<u>30,899</u>

14. Related party transactions

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

	2007 Three Months (Unaudited) US\$'000	2006 Three Months (Unaudited) US\$'000
(a) Sales of goods to:		
Associates	392	14,883
Companies under control by a substantial shareholder of the Company	2,240	2,597
	<u>2,632</u>	<u>17,480</u>
(b) Purchases of goods from:		
Associates	67,958	77,218
Companies under control by a substantial shareholder of the Company	4,955	10,728
Holding companies of a minority shareholder of subsidiaries of the Company	511	—
	<u>73,424</u>	<u>87,946</u>
(c) Processing charges by:		
An associate	—	1,118
	<u>—</u>	<u>1,118</u>
(d) Guarantee provided for securing banking facilities by :		
An associate	8,995	2,320
Holding companies of a minority shareholder of subsidiaries of the Company	80,237	54,697
	<u>89,232</u>	<u>57,017</u>





MANAGEMENT DISCUSSION AND ANALYSIS

During the first quarter, the prices of some staple raw materials such as palm oil, flour and PET resin remained high and their prices vary in fluctuation from 4% to 34% when comparing with the corresponding period last year. Coupled with the impact of varying seasonal patterns in intercalary year, sales growth for beverage have been delayed and the Group's business sales mix was affected slightly. The continuing prudent methods adopted by the Group in production management have generated positive results in cost controls. Under the pressure of high raw material price, the Group's gross margin dropped 1.07 ppt. from last first quarter's 32.49% to this first quarter's 31.42%. The firm and steady sales strategy towards optimizing the sales of the products has, however, resulted in the Group's achievement in an aggressive 30.73% growth in sales of high-end noodles although the overall market remained stagnant. The application of such a strategy has also helped to bring about a colossal growth in the sales of Ready-to-drink Tea and Mineralized Water.

In the first quarter, the Group's successful "Better Access, Broader Reach" distribution strategy and well control in advertisement and promotion costs led to the decrease in the distribution costs as a percentage of total sales by 0.93 ppt. to 16.22% when compared to the same period in 2006. Profit before taxation grew by 20.64% to US\$80.220 million.

Instant Noodle Business

In the first quarter, turnover for the instant noodle business was US\$351.353 million, increased by 29.44%, representing 52.07% of the Group's total turnover.

During the said period, the Master Kong noodles continued to focus on the "Soy-braised Beef Noodles" to penetrate into more extensively and broadly into various sales regions. The concept products of Chinese dainty food created by the Master Kong noodles continued to adopt dainty edibles from various regions as the flavor of our instant noodles, and the adoption of such strategy has not only constantly satisfied the consumers' tastes but also gained great achievements in the Group's performances. Among the great many products of the Master Kong noodles, the "Mian-Ba La Mian" noodles have become the symbol of quality noodles in Mainland China. It had consolidated the requisite requirements of "noodles-making experts" and thus gained the confidence of consumers and connoisseurs; and the "Soup King" noodles had gained its fame as the best recipe in soup decoction and had acquired the leading position with regards to the images of noodles in soup; whilst "The Best Asian Series" noodles suited the taste requirement of young people by developing its Asian flavor thus creating the new leadership in accordance with the prevailing trend. "Your Flavors Series" noodles and the "Soy-braised Beef Fried Noodle" continued last years' strategy and went to the market through T.V. and network media with entirely new package all over the country. The series have since become the No.1 brand in the market of fried noodles. The low-end noodle Fu-Man-Dou continued their fast development in the developing cities and villages.

According to the up-to-date retail sales data gathered by ACNielsen in 2007, the overall China instant noodles market reflected a negative growth of 3.83% by sales value and a negative growth of 15.13% by sales volume in the first quarter due to market factors. Since the price of materials remained high and low-end noodles manufacturers reduced their investment, the market in the first quarter was being reorganized. During the period, in light of the Group's adjustments for sales mix of products and sales strategies which stimulated the growing markets for container noodles and high-end packet noodles, sales in value and volume of high-end noodles increased by 30.73% and 31.98% respectively over the same period of last year and the Group continued to acquire market share for high-end noodles. According to the up-to-date retail sales data gathered by ACNielsen for the month of March, Master Kong noodles had a market share of as high as 67.7% and 63.4% respectively for high-end packet noodles and container noodles. Fu-Man-Duo brand is the Group's major brand to enter the low-end noodles market. Its sales in the first quarter of 2007 represented an increase of 21.94% as compared with the same period of last year. According to the information of ACNielsen, Fu-Man-Duo brand acquired a 12.9% share of the low-end market in the first quarter and ranked third in the low-end noodles market. It is actively challenging leading manufacturers. The market share of the Group's instant noodles products in the overall China market was 45.8%, and it continued to hold firmly the No.1 position in the market.

During the first quarter, the price of palm oil, which is the main raw material of instant noodle, sharply increased by 34%. Thanks for the increase in sales of the high margin container noodles and high-end noodles, good cost control as well as continued efficiency improvements, gross margin for instant noodle only slightly dropped 0.26 ppt. to 24.87% when compared with same period last year. Due to the successful marketing strategies and well control in operating costs, profit attributable to equity holders of the Company was US\$24.605 million, sharply grew by 30.83%.

The consumption in Japan, Taiwan and Hong Kong was more than 40 packs per year and the PRC consumers only consumed less than 20 packs per year. In long term, the PRC instant noodle market still has a huge potential to develop. Going forward, the Group will continue in the brand investment and to exert every possible effort so as to enhance the transparency of the Group's products.





Beverage Business

In the first quarter of 2007, under the impact of varying seasonal patterns in intercalary year, the overall beverage market of China only recorded a growth of 9.1% over the previous year. The Group's beverage turnover, increased by 17.90% to US\$277.048 million as compared with the same period of last year, due to successful marketing activities before high season, which accounted for 41.06% of the Group's total turnover. These successful marketing activities resulted in a double increase in trade receipts in advance to US\$163.098 million as at the end of the quarter, which demonstrated a strong growth driver for the beverage business. During the period, leveraging on the business opportunities from the Chinese Spring Festival, with respect to tea products series, the Group continued to promote and actively build up the image of tea expert and enhance its results by extending flavor and adopting differentiation strategies. As far as the diluted juice series was concerned, "Daily C" and "Master Kong" were utilized interchangeably to enter the urban and rural markets simultaneously and achieved notable results. For mineralized water, the Group carried out outdoor activities and continued to use T.V. media and intensified the penetration of the products in the outer urban areas as well as to communicate with consumers, with a view of promoting the brands and the market exposure.

According to ACNielsen, for March 2007, Master Kong's market share in Ready-to-drink Tea by value was 53.6%, increased 1.5 ppt. when compared with same period last year, maintaining the No.1 position in the market. Master Kong's juice series gained No.3 position in the diluted juice market and 15.4% market share mainly attributable to the twin brands and the extended flavor and package. The Mineralized Water increased its market share by 12.5% and achieved the No.2 position. However Master Kong Mineralized Water held the leading position of the brands in North East and North China regions.

During the first quarter, the price of the principal raw materials PET resin and sugar was still high and the sales of mineralized water, which had a comparatively low profits, grew by 62% and 56% in volume and value respectively. As a result, gross margin for beverage business dropped by 2.01 ppt. to 37.68% but gross profit increased 11.93% when compared with last first quarter. Coupled with the well control in overall operating costs, profit attributable to equity holders of the Company was US\$24.417 million, grew by 17.03% when compared with same period in 2006.

Bakery Business

In the first quarter, turnover for the bakery business was US\$24.603 million, grew by 2.52%, representing 3.65% of the Group's total turnover. The Group's bakery business still continued to maintain such growth when compared to the slight increase of the entire bakery market mainly as a result of the adoption of the strategies in respect of brand management and the development of diversified products. During the period, the key products such as "3+2" Sandwich Crackers, Egg Rolls, Muffin and Sweet Yolk Biscuit maintained steady growth. According to ACNielsen for March 2007, Master Kong's sandwich crackers had a 19.1% market share and was No.2 in the market.

In the first quarter, under the pressure of the high raw material price, gross margin for bakery still grew by 1.75 ppt. to 37.21%, mainly because of the sales increase in high margin products and the modification in production process to cut cost. Profit attributable to equity holders of the company increased by US\$0.578 million to US\$0.667 million.

In the second quarter, the Group would adjust the production mechanism and exert itself in the study and development of those products which would result in higher gross profits for the Group and make improvements in the structure of channels for both wholesale and direct sales marketing.

Refrigerated Products Business

In the first quarter of 2007, sales revenue from refrigerated products business reduced by 2.43% over the same period of last year, which was mainly due to the low coverage of modernised channels to sell the Group's refrigerated products in Beijing and Guangzhou as well as the fact that the products lost their freshness after long distance of delivery and affected sales seriously. Thus, the Group decided to pull out from the markets in Beijing and Guangzhou in January. However, the sales in Shanghai, the major market of the Group's refrigerated product, remained robust. According to the information of ACNielsen for March 2007, Daily C 100% Juice gained 41% market share and the market share of its yogurt drinks rose to 20.5%.

For the first quarter, the Group's yogurt drinks accomplished quality upgrading. A large package of 950g for lactic acid bacteria drinks was put into production and launched to the market in March. To prepare for the high season, the Group started to launch advertising promotion in the second quarter and continued to make great efforts in brand effects and sales channels.





FINANCING

As of 31 March 2007, the Group’s total liabilities amounted to US\$1,030 million, and total assets amounted to US\$2,149 million. The Group’s total liabilities increased by US\$288 million as compared to US\$742 million as at 31 December 2006. The leverage ratio, calculated as total liabilities to total assets, increased by 7.59 ppt. to 47.92% as compared to 31 December 2006. The increase was mainly because of the growth in trade payables and the increase in trade receipts in advance. The Group’s long-term and short-term loans increased by US\$65.826 million, as compared to 31 December 2006. The proportion between the Group’s long-term loans and short-term loans was “29%:71%”.

The Group’s proportion of total borrowings denominated in US dollars, Renminbi and EURO was 51%, 25% and 24% respectively. In addition, the Group’s transactions are mainly denominated in Renminbi. The appreciation of Renminbi against US dollars by 1.02% brought an exchange gain of US\$10.231 million during the first three months of 2007, represented by US\$0.699 million and US\$9.532 million of exchange gain included in the income statement and exchange translation reserve respectively. Accordingly, it is expected that there will be no significant adverse impact on the Group arising from the exchange rate fluctuation.

As of 31 March 2007, the Group had cash on hand and the bank balances of US\$285 million and no contingent liability.

Financial Ratio

	As at 31 March 2007	As at 31 December 2006
Finished goods turnover	9.58 Days	9.92 Days
Accounts receivable turnover	13.09 Days	14.00 Days
Current ratio	0.74 Times	0.69 Times
Debt ratio (Total liabilities to total assets)	47.92%	40.33%
Gearing ratio (Net debt to equity attributable to equity holders of the Company)	0.05 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 39,627 as at 31 March 2007 (31 December 2006:32,631). The Group provides a competitive salary packages, insurance and medical benefits to employees. The Group also pay high efforts in the management, planning and development in human resources. The good management system for human resources will enhance employees’ contribution to the Group.

PROSPECTS

While the national economy of China continues to maintain steady and rapid development, the upgrading of the consumption structure has also accelerated, with the domestic demand market exhibiting huge potential.

Despite the impacts of the factors such as an increase in prices of raw materials and intense competition in the instant noodles market and the beverage market, the Group will consistently adhere to its market layout and cost control objectives and capitalize on its own advantages to make timely responses. Besides, it will formulate a strategy in line with development to improve the quality of management in an all-round manner and deeply explore the market so as to transform the advantages into strength.

With the support of those consumers who like “Master Kong” products, the Group achieved remarkable results in the first quarter. 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”, in the future, 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 31 March 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 Company established the Audit Committee in September 1999. 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 Remuneration and Nomination Committee was established on 11 August 2005. This Committee now 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 31 March 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 <i>(Note)</i>
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 Gissshin 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 31 March 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 31 March 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.





SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Chief Executive of the Company, as at 31 March 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 31 March 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, 28 May 2007

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

