



# 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)

### First Quarterly Report 2008



2007 TAIWAN BRAND AWARD  
RISING STAR

The certificate of distinction is proudly awarded to TINGYI (CAYMAN ISLANDS) HOLDING CORP. in recognition of its achievement with the "KANGSHIFU" brand in the beverage market. TINGYI (CAYMAN ISLANDS) HOLDING CORP. was ranked 5th in the Beverage Industry Awards 2007. The "Kang Shifu" brand is a leading brand in the beverage market with a total value of 105.75A Millions.

康師傅  
红烧牛肉面

就是这个味!

青春有梦 勇敢去追



经典美味 Premium Taste

冰红茶  
畅快十足



2升

\* For identification purposes only



**SUMMARY**

US\$ million	For the three months ended 31 March		
	2008	2007	Change
• Turnover	969.073	674.711	+43.63%
• Gross margin of the Group (%)	32.40%	31.42%	+0.98 ppt.
• Gross profit of the Group	314.025	211.990	+48.13%
• EBITDA	160.293	113.610	+41.09%
• Profit for the quarter	93.680	71.267	+31.45%
• Profit attributable to equity holders of the Company	65.102	48.723	+33.62%
• Earnings per share (US cents)	1.16	0.87	+US0.29 cents

**INTRODUCTION**

In the first quarter of year 2008, the PRC’s gross domestic product (GDP) increased by 10.6% as compared to the same period last year, representing a decrease of 1.1ppt over the increase in GDP for the same period last year. The PRC’s consumer price index (CPI) also increased by 8.0% as compared to the same period last year, representing a year-on-year increase of 5.3ppt. Of which, food prices rose by 21%, driving the CPI to increase by 6.8ppt. In March, the producer price index (PPI) increased by 8.0% year on year, achieving a record high in three years for three consecutive months. The price of raw material continue to rise sharply.

Owing to the implementation of a more flexible marketing strategy and the effective market deployment, in the first quarter of 2008, the turnover of the Group increased by 43.63% over the same period last year to US\$969 million. Turnover for instant noodles, beverage and bakery increased by 49.40%, 38.64% and 37.21% over the same period last year to US\$525 million, US\$384 million and US\$34 million respectively. During the period, the Group’s instant noodle and Ready-To-Drink (RTD) Tea continued to rank first in the PRC market. Market share for the Group’s mineralized water and sandwich crackers continued to increase. Indicating severe competition between the top and the second ranked players have started.

In the first quarter of year 2008, the Group’s gross margin increased by 0.98ppt. to 32.40% and gross profit increased by 48.13%. Profit before taxation increased by 43.69% to US\$115.271 million over the same period last year. EBITDA increased by 41.09% to US\$160.293 million and the profit attributable to equity holders of the Company increased by 33.62% to US\$65.102 million when compared to the same period last year.

**2008 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 2008 together with the unaudited comparative figures for the corresponding periods in 2007. 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 2008

	<i>Note</i>	For the three months ended 31 March	
		2008 (Unaudited) <i>US\$'000</i>	2007 (Unaudited) <i>US\$'000</i>
Revenue	2	969,073	674,711
Cost of sales		(655,048)	(462,721)
Gross profit		314,025	211,990
Other net income		16,423	5,985
Distribution costs		(163,121)	(109,440)
Administrative expenses		(23,893)	(16,707)
Other operating expenses		(21,356)	(9,134)
Finance costs	3	(9,254)	(4,787)
Share of results of associates		2,447	2,313
Profit before taxation	4	115,271	80,220
Taxation	5	(21,591)	(8,953)
Profit for the period		93,680	71,267
Attributable to			
Equity holders of the Company		65,102	48,723
Minority interest		28,578	22,544
Profit for the period		93,680	71,267
Earnings per share	6		
Basic		1.16 cents	0.87 cents
Diluted		1.16 cents	N/A





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Condensed Consolidated Balance Sheet

At 31 March 2008

	<i>Note</i>	At 31 March 2008 (Unaudited) US\$'000	At 31 December 2007 (Audited) US\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,775,878	1,567,348
Intangible assets		11,512	11,701
Interest in associates		12,345	33,929
Premium for land lease		67,885	65,594
Available-for-sale financial assets		3,854	3,724
Deferred tax assets		5,379	5,379
		<u>1,876,853</u>	<u>1,687,675</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss		37,661	21,439
Inventories		209,348	155,217
Trade receivables	8	127,981	114,391
Prepayments and other receivables		141,984	112,807
Pledged bank deposits		6,401	3,030
Bank balances and cash		361,910	239,862
		<u>885,285</u>	<u>646,746</u>
<b>Current liabilities</b>			
Trade payables	9	484,694	334,041
Other payables		271,647	248,979
Current portion of interest-bearing borrowings	10	359,572	291,481
Trade receipts in advance		125,925	43,045
Taxation		21,013	7,122
		<u>1,262,851</u>	<u>924,668</u>
<b>Net current liabilities</b>		<u>(377,566)</u>	<u>(277,922)</u>
<b>Total assets less current liabilities</b>		<u>1,499,287</u>	<u>1,409,753</u>
<b>Non-current liabilities</b>			
Long-term interest-bearing borrowings	10	114,005	106,946
Other non-current payables		3,011	2,861
Employee benefit obligations		7,892	7,893
Deferred tax liabilities		11,838	10,358
		<u>136,746</u>	<u>128,058</u>
<b>NET ASSETS</b>		<u>1,362,541</u>	<u>1,281,695</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	27,943	27,943
Reserves	12	961,449	849,382
Proposed special dividend		—	59,799
Proposed final dividend		90,537	90,537
		<u>1,079,929</u>	<u>1,027,661</u>
<b>Total capital and reserves attributable to equity holders of the Company</b>		<u>1,079,929</u>	<u>1,027,661</u>
<b>Minority interest</b>		<u>282,612</u>	<u>254,034</u>
<b>TOTAL EQUITY</b>		<u>1,362,541</u>	<u>1,281,695</u>





**Condensed Consolidated Statement of Changes in Equity**

For the three Months Ended 31 March 2008

	<b>Attributable to equity holders of the Company (Unaudited) <i>US\$'000</i></b>	<b>Minority interest (Unaudited) <i>US\$'000</i></b>	<b>Total (Unaudited) <i>US\$'000</i></b>
As at 1 January 2007	913,342	184,647	1,097,989
Net gains recognised directly in equity			
Exchange transaction 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>
As at 1 January 2008	1,027,661	254,034	1,281,695
Net gains recognised directly in equity			
Exchange translation difference	46,965	—	46,965
Dividend	(59,799)	—	(59,799)
Profit for the period	65,102	28,578	93,680
	<u>52,268</u>	<u>28,578</u>	<u>80,846</u>
As at 31 March 2008	<u>1,079,929</u>	<u>282,612</u>	<u>1,362,541</u>

**Condensed Consolidated Cash Flow Statement**

For the three Months Ended 31 March 2008

	<b>2008 (Unaudited) <i>US\$'000</i></b>	<b>2007 (Unaudited) <i>US\$'000</i></b>
Net cash from operating activities	314,320	272,450
Net cash used in investing activities	(204,252)	(168,667)
Net cash from financing activities	15,351	17,354
	<u>125,419</u>	<u>121,137</u>
Increase in cash and cash equivalents	125,419	121,137
Cash and cash equivalents at 1 January	242,892	163,920
	<u>368,311</u>	<u>285,057</u>
Cash and cash equivalents at 31 March	<u>368,311</u>	<u>285,057</u>
<b>Analysis of the balances of cash and cash equivalents:</b>		
Bank balances and cash	361,910	280,368
Pledged bank deposits	6,401	4,689
	<u>368,311</u>	<u>285,057</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 2007 annual financial statements. The accounting policies adopted in preparing the unaudited quarterly financial statements for the three months ended 31 March 2008 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

**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	
	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000
Instant noodles	524,922	351,353	46,603	26,502
Beverages	384,104	277,048	71,243	52,849
Bakery	33,759	24,603	1,874	555
Others	26,288	21,707	2,358	2,788
Total	<u>969,073</u>	<u>674,711</u>	<u>122,078</u>	<u>82,694</u>

**3. Finance costs**

	For the three months ended 31 March	
	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000
Interest on bank loans wholly repayable within five years	<u>9,254</u>	<u>4,787</u>

**4. Profit before taxation**

Profit before taxation is stated after charging the following:

	For the three months ended 31 March	
	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000
Depreciation	37,585	28,840
Amortisation	<u>1,057</u>	<u>942</u>





**5. Taxation**

	<b>For the three months ended 31 March</b>	
	<b>2008 (Unaudited) US\$'000</b>	<b>2007 (Unaudited) US\$'000</b>
PRC enterprise income tax	21,591	8,953

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 a preferential PRC Enterprise Income Tax rate of 15% before 31 December 2007. 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 ("Tax Holidays").

Under the new tax law which has taken effect as from 1 January 2008, the preferential PRC Enterprise Income Tax rate of 15% will increase gradually to 25% over five years. All Tax Holidays will expire at the end of 2012.

**6. (a) Basic earnings per share**

The calculation of basic earnings per share is based on the net profit of US\$65.102 million (2007: US\$48.723 million) attributable to equity holders of the Company for the period ended 31 March 2008 and on the weighted average of 5,588,705,360 (2007: 5,588,705,360) ordinary shares in issue during the period.

**(b) Diluted earnings per share**

Diluted earnings per share for the year is calculated on the net profit attributable to shareholders of the Company for the period ended 31 March 2008 of US\$65.102 million (2007: US\$48.723 million) and the weighted average number of ordinary shares in issue during the year after adjusting for the number of dilutive potential ordinary shares arising from the share options granted under the Company's share option scheme.

Reconciliation of weighted average number of ordinary shares used in calculating diluted earnings per share:

	<b>For the three months ended 31 March</b>	
	<b>2008 Number of shares</b>	<b>2007 Number of shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	5,588,705,360	5,588,705,360
Deemed issue of ordinary shares on granting of share options	224,271	—
	5,588,929,631	5,588,705,360

**7. Dividend**

The Board of Directors resolves that no dividend be paid for the three months ended 31 March 2008 (2007: 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:

	<b>At 31 March 2008 (Unaudited) US\$'000</b>	<b>At 31 December 2007 (Audited) US\$'000</b>
0 - 90 days	118,635	105,115
Over 90 days	9,346	9,276
	<u>127,981</u>	<u>114,391</u>

## 9. Trade payables

The aging analysis of trade payables is as follows:

	<b>At 31 March 2008 (Unaudited) US\$'000</b>	<b>At 31 December 2007 (Audited) US\$'000</b>
0 - 90 days	469,165	318,190
Over 90 days	15,529	15,851
	<u>484,694</u>	<u>334,041</u>

## 10. Interest-bearing borrowings

	<b>At 31 March 2008 (Unaudited) US\$'000</b>	<b>At 31 December 2007 (Audited) US\$'000</b>
Bank loans:		
Within one year	359,572	291,481
In the second year	84,607	68,620
In the third year to the fifth years, inclusive	29,398	38,326
	<u>473,577</u>	<u>398,427</u>
Portion classified as current liabilities	(359,572)	(291,481)
Non-current portion	<u>114,005</u>	<u>106,946</u>

## 11. Issued capital

	<b>Ordinary shares of US\$0.005 each No. of shares</b>	<b>US\$'000</b>
Authorised:		
At 31 December 2007 and 31 March 2008	7,000,000,000	35,000
Issued and fully paid:		
At 31 December 2007 and 31 March 2008	<u>5,588,705,360</u>	<u>27,943</u>







**12. Reserves**

	Capital redemption reserve <i>US\$'000</i>	Share premium <i>US\$'000</i>	Exchange translation reserve <i>US\$'000</i>	General reserve <i>US\$'000</i>	Retained profits <i>US\$'000</i>	Total <i>US\$'000</i>
At 31 December 2007	36	332,478	93,124	135,961	438,119	999,718
Exchange translation difference	—	—	46,965	—	—	46,965
Profit for the period	—	—	—	—	65,102	65,102
Dividend	—	—	—	—	(59,799)	(59,799)
At 31 March 2008	<u>36</u>	<u>332,478</u>	<u>140,089</u>	<u>135,961</u>	<u>443,422</u>	<u>1,051,986</u>

**13. Commitments**

	At 31 March 2008 (Unaudited) <i>US\$'000</i>	At 31 December 2007 (Audited) <i>US\$'000</i>
(a) <b>Capital commitments</b>		
Contracted but not provided for	<u>82,178</u>	<u>196,008</u>
(b) <b>Commitments under operating lease</b>		
At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:		
Within one year	9,422	10,369
In the second to fifth years, inclusive	18,812	20,570
Over five years	<u>3,048</u>	<u>4,301</u>
	<u>31,282</u>	<u>35,240</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.

	2008 Three Months (Unaudited) <i>US\$'000</i>	2007 Three Months (Unaudited) <i>US\$'000</i>
(a) Sales of goods to:		
Associates	331	392
Companies under control by a substantial shareholder of the Company	98	284
Companies under control by directors of the Company	<u>2,810</u>	<u>1,956</u>
(b) Purchases of goods from:		
Associates	77,263	67,958
Companies under control by a substantial shareholder of the Company	7,987	4,955
Holding companies of a minority shareholder of subsidiaries of the Company	<u>796</u>	<u>511</u>
(c) Processing charges by:		
Companies under control by a substantial shareholder of the Company	1,224	351
Holding companies of a minority shareholder of subsidiaries of the Company	<u>294</u>	<u>375</u>
(d) As at 31 March 2008, guarantee provided for securing banking facilities by an associate and holding companies of a minority shareholder of subsidiaries of the Company were US\$6.095 million and US\$16.783 million respectively (At at 31 March 2007: US\$7.995 million and US\$80.237 million respectively).		





## MANAGEMENT DISCUSSION AND ANALYSIS

During the first quarter, the prices of some main raw materials such as palm oil and flour remained high and their prices increased by 67.08% and 5.90% respectively when comparing with the corresponding period last year. 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 still increased when compared to same period last year. The firm and steady sales strategy towards optimizing the sales of the products has resulted in the Group's achievement of 54.73% growth in sales of high-end noodles notwithstanding the overall market remained stagnant. The application of such a strategy has also helped to bring about a strong growth in the sales of RTD Tea and Mineralized Water.

In the first quarter, the Group's successful "Better Access, Broader Reach" distribution strategy and effective control of advertisement and promotion costs led to the Group's turnover grew by 43.63%, gross margin increased by 0.98 ppt. to 32.40% and gross profit grew by 48.13% when compared to the same period last year, EBITDA increased by 41.09% to US\$160 million and the profit attributable to equity holders of the Company increased by 33.62% to US\$65.102 million.

### Instant Noodle Business

In the first quarter, turnover for the instant noodle business was US\$524.922 million, increased by 49.40% from last year and representing 54.17% 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 more extensively 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 continued to satisfy the consumers but also achieved good performances and results. The "Mian-Ba La Mian" noodles have become the symbol of quality noodles in Mainland China and had recorded high growth during the period. "Your Flavors Series" fried noodles continued last years' strategy to communicate with consumers and the series gained significant sales growth. Super Fu-Man-Dou started to enter the mid-end instant noodle market and the low-end noodle Fu-Man-Dou continued their development in the regional cities and villages.

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, turnover of high-end noodles increased by 54.73% over the same period of last year and the Group continued to increase market share for high-end noodles. According to the up-to-date retail sales data gathered by ACNielsen, in terms of sales value, Master Kong noodles had a market share of as high as 64.3% and 67.4% respectively for container noodles and high-end packet noodles in March. Fu-Man-Duo brand is the Group's major brand to enter the low-end noodles market. Meanwhile, Fu-Man-Duo brand acquired a 15.3% share of the low-end market in March and ranked third in the low-end noodles market. The market share of the Group's instant noodles products in the overall China market was 48.0%, and it continued to hold firmly the No.1 position in the market. In the first quarter, the Group launched "Chewy La-Mian" and "Dim Sum Noodle" series.

During the first quarter, the price of palm oil, which is the main raw material of instant noodle, sharply increased by 67.08%. Thanks to the increase in sales of the high margin container noodles and high-end noodles, price adjustment in last year, good cost control as well as continued efficiency improvements, gross margin for instant noodle increased 2.21 ppt. to 27.08% and gross profit grew by 62.67% when compared with same period last year. Due to the successful marketing strategies and effective control of operating costs, profit attributable to equity holders of the Company was US\$34.021 million, a growth of 38.27%.

On 15 January 2008, the National Development and Reform Commission promulgated Document No. 58 to impose provisional price-intervention measures on important products such as instant noodles. The document provides that where an operator intends to raise the price of its instant noodles, it shall file an application for price rise with the National Development and Reform Commission in writing within 10 working days prior to raising prices, and the National Development and Reform Commission shall give a reply to the operator within 7 working days, failing which the National Development and Reform Commission would be deemed to have consented to the application.

Under such provisional price-intervention measures, each of the operators will have less flexibility in price adjustment due to the high costs of raw materials, resulting in a failure to conduct free market activities in accordance with the law of supply and demand. We feel that such intervention measures, may last as long as one year. We are also aware that persistent high prices of raw materials will subject the instant noodle industry to an orderly test for "survival of the fittest" enterprises. Enterprises with economies of scale and highly efficient operations will have better advantages, whereas enterprises without economies of scale and relying on subsidies will be faded out from the market.





## Beverage Business

Due to the flexible marketing strategies and efficient communication with distribution partners before high season, the Group's beverage turnover increased by 38.64% to US\$384.104 million as compared with the same period of last year. Its turnover accounted for 39.64% of the Group's total turnover. During the period, leveraging on the business opportunities from the Chinese Spring Festival, the Group gained good sales in family size beverage. For the 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. For the diluted juice series, "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 into the outer urban areas as well as to communicate with consumers and through package extension, promoting the brands and the market exposure. During the period, the Group launched Honey Jasmine tea, Master Kong Apple Juice and Mixed Fruit Juice.

According to ACNielsen, from January 2008 onwards, in response to market requirements, they has made an one-off drastic change to the sample structure on which its estimates have been based for years, resulting in a corresponding change in the retail market research data. According to the retail research data for March 2008, sales amount and sales volume of Master Kong's RTD tea took top spots in the market in the new data bank, accounting for 43.5% and 45.4% respectively (compared to 52.0% and 54.6% in the former data bank in February). Master Kong's juice series came third in the diluted juice market being attributable to its twin brands and extended flavour package strategy, which accounted for 16.7% and 17.9% market shares in terms of sales amount and volume respectively in the new data bank. (compared to 14.9% and 16.3% in the former data bank in February) Mineralized water continued to penetrate the nation with its reliable brand of Master Kong, accounting for 16.0% and 17.2% market shares in sales amount and volume respectively in the new data bank, being ranked the second (compared to 14.7% and 16.0% market shares in the former data bank in February) in the PRC market, with continued competition between the top and the second ranked players.

The sales of mineralized water, which had comparatively lower profits, grew by 44.3%. Gross margin for beverage business still grew by 0.75 ppt. to 38.43% and gross profit increased 41.38% to US\$147.599 million when compared with last first quarter. Coupled with the effective control of overall operating costs, profit attributable to equity holders of the Company was US\$27.724 million, grew by 13.54% when compared with same period in 2007.

## Bakery Business

The turnover of the bakery business in the first quarter amounted to US\$33.759 million, representing an increase of 37.21% compared with last year and represented 3.48% of the Group's total turnover. During the period, gross margin for bakery business increased 1.03 ppt. to 38.24% and profit attributable to equity shareholders increased US\$1.410 million to US\$2.077 million. The keen improvement for the overall operation is resulted from the promotion of core bakery products, such as the "3+2" Sandwich Cracker, Muffin and Tasty Crisp, and the refined and accurate sales strategy. It also benefited from the improvement in production efficiency and quality. According to ACNielsen's survey in March 2008, Master Kong had respective market shares of 25.5% and 22.5% in sales amount and quantity in the sandwich cracker market, achieved No.1 in the market. Again, it started the competition between the top and the second ranked players. During the period, the Group launched Cookie and Mini Yolky Cookie.

## Refrigeration Business

The development of the Group's refrigeration business remained stable in the first quarter of year 2008. Fresh Daily C Juice became the leading pure fruit juice brand in Eastern China and representing more than 35% market share in Shanghai. Exclusively designed for Lunar New Year, Wei Chuan Active Lactobacillus launched an advertisement of "Much to Eat and Drink, Much to Digest" to enhance the diminishing impression of such product and promote the 950ml family size package. As a result, the sales of Wei Chuan Active Lactobacillus increased significantly by 132% while its market share in Shanghai increased to 38%. A new brand of juice of fruits and vegetables - "Good Vegetables and Fruits"(mango and grape flavors) and a new series of Yogurt healthy coarse grain products (kiwi fruit and blueberry flavors) were launched in March 2008. In addition to the nutrition of fruits, such products also feature the nutritional value of barley and dark rice.





**FINANCING**

As of 31 March 2008, the Group’s total liabilities amounted to US\$1,399.597 million, and total assets amounted to US\$2,762.138 million. The Group’s total liabilities increased by US\$346.871 million as compared to US\$1,052.726 million as at 31 December 2007. The debt ratio, calculated as total liabilities to total assets, increased by 5.57ppt. to 50.67% as compared to 31 December 2007. 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. Meanwhile, trade receipts in advance also increased. The Group’s long-term and short-term bank loans increased by US\$75.150 million, as compared to 31 December 2007. The Group’s proportion of the total borrowings denominated in foreign currency and Renminbi was 67.93% and 32.07% respectively. The proportion between the Group’s long-term loans and short-term loans was “24%:76%”. In addition, the Group’s transactions are mainly denominated in Renminbi. The appreciation of Renminbi against US dollars by 4% brought an exchange gain of US\$52.714 million during the first three months of 2008, of which US\$5.749 million and US\$46.965 million have been included in the income statement and exchange translation reserve respectively.

As of 31 March 2008, the Group had cash on hand and bank balances of US\$368.311 million, and no contingent liability.

**Financial Ratio**

	<b>As at 31 March 2008</b>	<b>As at 31 March 2007</b>
Finished goods turnover	11.43 Days	8.95 Days
Accounts receivable turnover	11.25 Days	11.84 Days
Current ratio	0.70 Times	0.70 Times
Debt ratio (Total liabilities to total assets)	50.67%	45.10%
Gearing ratio (Net debt to equity attributable to equity holders of the Company)	0.10 Times	0.15 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 47,328 as at 31 March 2008 (31 December 2007: 45,990). 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.

The Group continued out the development in human resources and sent staff for overseas training and maintained function-based training system. On 20 March 2008, the Group provided a share option scheme to some of its staff.

**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 first quarter grew by 10.6% as compared to the same period last year. During the first quarter, the CPI in the PRC grew by 8% 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 of stable growth but with some pressure on profit margin.

In view of the fierce competition in the instant noodles and beverage markets, the Group will further capitalize 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 comprehensively, further expand the market and grow 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.





On 12 May this year, an earthquake has sadly struck Sichuan Province of the PRC. The staff members of the Company have not been injured in the earthquake, and the factories of the Company in Chongqing City, Chengdu City in Sichuan Province have not been affected by the earthquake and maintained normal operation. However, the small factories located in Meishan which primarily produced low-priced noodles was affected slightly and would require minimal reorganization to resume production as the production facilities were not damaged. It is expected that normal production will be restored after one week.

## **CORPORATE GOVERNANCE**

### **Compliance with the Code on Corporate Governance Practices**

Throughout the period ended 31 March 2008, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

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

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

### **Directors' responsibility for the financial statements**

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

### **Audit Committee**

The Company established the Audit Committee in September 1999. The Audit Committee currently has three Independent Non-executive Directors, Mr. Lee Tiong-Hock, Mr. Hsu Shin-Chun and Michio Kuwahara. Mr. Kazuo Ogawa resigned on 1 April 2008. 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 Michio Kuwahara. Mr. Kazuo Ogawa resigned on 1 April 2008.

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. On the same day, the Company granted 11,760,000 share options to employees of the Group. The share options are exercisable for the period from 21 March 2013 to 20 March 2018 at an exercise price of HK\$9.28 per share. The Company offered 2,000,000 share options to the Company's Chairman and Chief Executive Officer, Mr. Wei Ing-Chou.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER IN SHARES

As at 31 March 2008, the interests and short positions of the Directors and Chief Executive Officer in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

### Long position in Shares

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

*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 32.52% by Rich Cheer Holdings Limited ("Rich Cheer") and as to the remaining 12.38% 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. Rich Cheer is beneficially owned by the spouses of Wei Ing-Chou, Wei Ying-Chiao, Wei Yin-Chun and Wei Yin-Heng in equal shares.

Save as disclosed above, at no time during the three months ended 31 March 2008 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 2008, none of the Directors and Chief Executive Officer had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Chief Executive Officer of the Company, as at 31 March 2008, 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.	2,044,827,866	36.5886%
Sanyo Foods Co., Ltd.	1,854,827,866	33.1889%

Save as disclosed above, as at 31 March 2008, 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. Michio Kuwahara are Independent Non-executive Directors of the Company.

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

Tianjin, PRC, 26 May 2008

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

