



# 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)

## Interim Report 2008



2007 TAIWAN BRAND AWARD  
RISING STAR

The certificate of distinction is proudly awarded to TINGYI HOLDINGS CORP. in recognition of its achievement with the "MAGGI" brand. The award is presented to companies whose quality is proved to be superior. The award is presented to the winners of the "2007 Taiwan Brand Award" competition. The award value is US\$ 100,000.

康師傅  
红烧牛肉面

有康师傅之味!

青春有梦 勇敢去追



经典美味 Premium Taste



畅快十足

2升

\* For identification purposes only



## SUMMARY

US\$ million	For the six months ended 30 June		Change
	2008	2007	
• Turnover	2,049.253	1,502.834	+36.36%
• Gross margin of the Group (%)	32.94%	32.71%	+0.23ppt.
• Gross profit of the Group	674.936	491.613	+37.29%
• EBITDA	322.127	234.828	+37.18%
• Profit for the period	190.982	145.935	+30.87%
• Profit attributable to equity holders of the Company	127.607	95.819	+33.18%
• Earnings per share (US cents)	2.28	1.71	+US0.57cents

## INTRODUCTION

China's gross domestic products ("GDP") for the second quarter represented a growth of 10.1% as compared to the corresponding period last year, and a decrease of 0.5ppt. as compared to 10.6% of the first quarter. China's GDP for the first half of the year increased by 10.4% over the corresponding period last year, and decreased by 1.8ppt. over the previous quarter, displaying a slowdown in growth rate of its economy. The Consumer Price Index ("CPI") for the first half year increased by 7.9% as compared to the corresponding period last year, representing a year-on-year increase of 4.7ppt. China has been under negative real interest rates for the nineteenth consecutive months. However, the producer price index ("PPI"), being the leading indicator of CPI, recorded a year-on-year increase of 7.6%, representing a year-on-year increase in growth rate of 4.8ppt. The growth rate of PPI has been setting new record highs for the sixth consecutive months since three years ago, which indicates an increasingly high inflation pressure.

High negative interest rate and inflation pressure led to reduced consumers deposits, discretionary spending and increased proportion of expenditure on daily necessities. Capitalizing on such business opportunity and through flexible marketing strategy, the Group achieved a turnover of instant noodles of US\$458 million for the traditional low season in second quarter, accounting for an increase of 49.35 % over the same period last year.

In the first half of 2008, the turnover of the Group increased by 36.36% over the same period last year to US\$2,049 million. Turnover for instant noodles, beverage and bakery increased by 49.38%, 25.19% and 42.99% over the same period last year to US\$982 million, US\$943 million and US\$68 million respectively. According to ACNielsen's survey in June 2008, the Group's instant noodle, Ready-To-Drink (RTD) Tea, mineralized water and sandwich crackers continued to rank first in the PRC market.

In the first half of 2008, the Group's gross margin increased by 0.23ppt. to 32.94% and gross profit increased by 37.29%. Profit before taxation increased by 40.85% to US\$230 million over the same period last year. EBITDA increased by 37.18% to US\$322 million and the profit attributable to equity holders of the Company increased by 33.18% to US\$128 million when compared to the same period last year.





## 2008 INTERIM RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 together with the unaudited comparative figures for the corresponding periods in 2007. These unaudited interim financial statements have been reviewed by the Company’s Audit Committee.

### Condensed Consolidated Income Statement

For the Six Months Ended 30 June 2008

	<i>Note</i>	For the six months ended 30 June	
		2008 (Unaudited) <i>US\$'000</i>	2007 (Unaudited) <i>US\$'000</i>
Revenue	2	2,049,253	1,502,834
Cost of sales		(1,374,317)	(1,011,221)
Gross profit		674,936	491,613
Other net income		38,818	18,360
Distribution costs		(392,737)	(286,224)
Administrative expenses		(50,224)	(33,763)
Other operating expenses		(32,329)	(20,563)
Finance costs	3	(15,517)	(9,631)
Share of results of associates		7,353	3,719
Profit before taxation	4	230,300	163,511
Taxation	5	(39,318)	(17,576)
Profit for the period		190,982	145,935
Attributable to			
Equity holders of the Company		127,607	95,819
Minority interest		63,375	50,116
Profit for the period		190,982	145,935
Earnings per share	6		
Basic		2.28 cents	1.71 cents
Diluted		2.28 cents	N/A





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Condensed Consolidated Balance Sheet At 30 June 2008

	<i>Note</i>	<b>At 30 June 2008 (Unaudited) US\$'000</b>	<b>At 31 December 2007 (Audited) US\$'000</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,881,132	1,567,348
Intangible assets		11,075	11,701
Interest in associates		26,337	33,929
Premium for land lease		66,635	65,594
Available-for-sale financial assets		3,870	3,724
Deferred tax assets		5,379	5,379
		<u>1,994,428</u>	<u>1,687,675</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss		39,331	21,439
Inventories		240,176	155,217
Trade receivables	8	145,742	114,391
Prepayments and other receivables		174,314	112,807
Pledged bank deposits		8,827	3,030
Bank balances and cash		364,044	239,862
		<u>972,434</u>	<u>646,746</u>
<b>Current liabilities</b>			
Trade payables	9	528,173	334,041
Other payables		423,349	248,979
Current portion of interest-bearing borrowings	10	463,118	291,481
Trade receipts in advance		28,287	43,045
Taxation		11,741	7,122
		<u>1,454,668</u>	<u>924,668</u>
<b>Net current liabilities</b>		<u>(482,234)</u>	<u>(277,922)</u>
<b>Total assets less current liabilities</b>		<u>1,512,194</u>	<u>1,409,753</u>
<b>Non-current liabilities</b>			
Long-term interest-bearing borrowings	10	84,194	106,946
Other non-current payables		3,093	2,861
Employee benefit obligations		8,239	7,893
Deferred tax liabilities		17,421	10,358
		<u>112,947</u>	<u>128,058</u>
<b>NET ASSETS</b>		<u>1,399,247</u>	<u>1,281,695</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	27,943	27,943
Reserves	12	1,052,615	849,382
Proposed special dividend		—	59,799
Proposed final dividend		—	90,537
		<u>1,080,558</u>	<u>1,027,661</u>
<b>Total capital and reserves attributable to equity holders of the Company</b>		<u>1,080,558</u>	<u>1,027,661</u>
<b>Minority interest</b>		<u>318,689</u>	<u>254,034</u>
<b>TOTAL EQUITY</b>		<u>1,399,247</u>	<u>1,281,695</u>





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2008

	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 2007	913,342	184,647	1,097,989
Net gains recognised directly in equity			
Exchange transaction difference	27,761	—	27,761
Dividend	(136,923)	(32,104)	(169,027)
Profit for the period	95,819	50,116	145,935
	<u>(13,343)</u>	<u>18,012</u>	<u>4,669</u>
As at 30 June 2007	<u>899,999</u>	<u>202,659</u>	<u>1,102,658</u>
As at 1 January 2008	1,027,661	254,034	1,281,695
Net gains recognised directly in equity			
Exchange translation difference	75,626	—	75,626
Dividend	(150,336)	1,280	(149,056)
Profit for the period	127,607	63,375	190,982
	<u>52,897</u>	<u>64,655</u>	<u>117,552</u>
As at 30 June 2008	<u>1,080,558</u>	<u>318,689</u>	<u>1,399,247</u>

## Condensed Consolidated Cash Flow Statement

For the Six Months Ended 30 June 2008

	2008 (Unaudited) <i>US\$'000</i>	2007 (Unaudited) <i>US\$'000</i>
Net cash from operating activities	417,110	398,542
Net cash used in investing activities	(376,216)	(259,357)
Net cash from financing activities	89,085	349
	<u>129,979</u>	<u>139,534</u>
Increase in cash and cash equivalents	129,979	139,534
Cash and cash equivalents at 1 January	242,892	163,920
	<u>372,871</u>	<u>303,454</u>
Cash and cash equivalents at 30 June	<u>372,871</u>	<u>303,454</u>
<b>Analysis of the balances of cash and cash equivalents:</b>		
Bank balances and cash	364,044	297,188
Pledged bank deposits	8,827	6,266
	<u>372,871</u>	<u>303,454</u>





**Notes:**

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

The Directors are responsible for the preparation of the Group's unaudited interim financial statements. These unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standard No 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants. These condensed interim financial statements should be read in conjunction with the 2007 annual financial statements. The accounting policies adopted in preparing the unaudited interim financial statements for the six months ended 30 June 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 six months ended 30 June		For the six months ended 30 June	
	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000
Instant noodles	982,460	657,702	75,376	42,925
Beverages	942,979	753,214	150,571	117,436
Bakery	67,887	47,477	2,657	1,012
Others	55,927	44,441	9,860	8,052
Total	<u>2,049,253</u>	<u>1,502,834</u>	<u>238,464</u>	<u>169,425</u>

**3. Finance costs**

	For the six months ended 30 June	
	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000
Interest on bank loans wholly repayable within five years	<u>15,517</u>	<u>9,631</u>

**4. Profit before taxation**

Profit before taxation is stated after charging the following:

	For the six months ended 30 June	
	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000
Depreciation	80,325	62,956
Amortisation	<u>2,149</u>	<u>1,877</u>





## 5. Taxation

	For the six months ended 30 June	
	2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000
PRC enterprise income tax	39,318	17,576

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\$127.607 million (2007: US\$95.819 million) attributable to equity holders of the Company for the period ended 30 June 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 30 June 2008 of US\$127.607 million (2007: US\$95.819 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:

	For the six months ended 30 June	
	2008 Number of shares	2007 Number of shares
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	962,513	—
	5,589,667,873	5,588,705,360

## 7. Dividend

The Board of Directors resolves that no dividend be paid for the six months ended 30 June 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 30 June 2008 (Unaudited) US\$'000</b>	<b>At 31 December 2007 (Audited) US\$'000</b>
0 - 90 days	136,094	105,115
Over 90 days	9,648	9,276
	<u>145,742</u>	<u>114,391</u>

## 9. Trade payables

The aging analysis of trade payables is as follows:

	<b>At 30 June 2008 (Unaudited) US\$'000</b>	<b>At 31 December 2007 (Audited) US\$'000</b>
0 - 90 days	495,562	318,190
Over 90 days	32,611	15,851
	<u>528,173</u>	<u>334,041</u>

## 10. Interest-bearing borrowings

	<b>At 30 June 2008 (Unaudited) US\$'000</b>	<b>At 31 December 2007 (Audited) US\$'000</b>
Bank loans:		
Within one year	463,118	291,481
In the second year	60,799	68,620
In the third to fifth years, inclusive	23,395	38,326
	<u>547,312</u>	<u>398,427</u>
Portion classified as current liabilities	(463,118)	(291,481)
Non-current portion	<u>84,194</u>	<u>106,946</u>







**11. Issued capital**

	<b>Ordinary shares of US\$0.005 each</b>	
	<b>No. of shares</b>	<b>US\$'000</b>
Authorised:		
At 31 December 2007 and 30 June 2008	7,000,000,000	35,000
Issued and fully paid:		
At 31 December 2007 and 30 June 2008	5,588,705,360	27,943

**12. Reserves**

	<b>Capital redemption reserve</b>	<b>Share premium</b>	<b>Exchange translation reserve</b>	<b>General reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 31 December 2007	36	332,478	93,124	135,961	438,119	999,718
Exchange translation difference	—	—	75,626	—	—	75,626
Transfer to general reserve	—	—	—	7,388	(7,388)	—
Profit for the period	—	—	—	—	127,607	127,607
Dividend	—	—	—	—	(150,336)	(150,336)
At 30 June 2008	36	332,478	168,750	143,349	408,002	1,052,615

**13. Commitments**

	<b>At 30 June 2008</b>	<b>At 31 December 2007</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<i>US\$'000</i>	<i>US\$'000</i>
(a) <b>Capital commitments</b>		
Contracted but not provided for	65,223	196,008
(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	7,902	10,369
In the second to fifth years, inclusive	19,502	20,570
Over five years	3,116	4,301
	30,520	35,240





## 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.

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>US\$'000</i>	<i>US\$'000</i>
(a) Sales of goods to:		
Associates	358	849
Companies under control by a substantial shareholder of the Company	803	462
Companies under control by directors of the Company	6,129	4,763
	<u>          </u>	<u>          </u>
(b) Purchases of goods from:		
Associates	161,734	130,708
Companies under control by a substantial shareholder of the Company	6,685	9,839
Holding companies of a minority shareholder of subsidiaries of the Company	1,002	1,065
	<u>          </u>	<u>          </u>
(c) Processing charges by:		
Companies under control by a substantial shareholder of the Company	—	888
Holding companies of a minority shareholder of subsidiaries of the Company	615	502
	<u>          </u>	<u>          </u>
(d) As at 30 June 2008, guarantee provided for securing banking facilities by an associate and holding companies of a minority shareholder of subsidiaries of the Company were US\$3.645 million and US\$9.391 million respectively (At 31 December 2007: US\$4.320 million and US\$17.530 million respectively).		





## MANAGEMENT DISCUSSION AND ANALYSIS

During the second quarter, the prices of some main raw materials such as palm oil and flour remained high and their prices increased by 57.59% and 7.89% respectively when compared with the corresponding period last year. The continuing prudent methods adopted by the Group in production management and the advantages of central purchase have generated positive results in cost controls. Although under the pressure of high raw material price, the Group's gross margin still improved slightly on the same period last year. The firm and steady sales strategy towards optimizing the sales of the products has resulted in 55.49% growth in sales of high-end noodles notwithstanding the overall market remained stagnant. Due to the Sichuan earthquake in May, we postponed our advertising campaigns which coupled with the exceptionally wet weather in June, have caused beverage sales growth to slow down. Nevertheless, the Group's RTD tea and mineralized water continued to rank first in the PRC market.

In the first half of the year, 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 36.36%, gross margin increased by 0.23 ppt. to 32.94% and gross profit grew by 37.29% when compared to the same period last year. EBITDA also increased by 37.18% to US\$322 million and the profit attributable to equity holders of the Company increased by 33.18% to US\$128 million.

### Instant Noodle Business

In the first half of the year, turnover for the instant noodle business was US\$982.460 million, increased by 49.38% from last year and representing 47.94% of the Group's total turnover. On the basis of four major components of the hero brand, namely braised beef, spicy, mushroom and shrimp, Master Kong fulfilled consumers' primary desires for delicious taste, while featuring continuous development of different regional favours to suit the needs of different regions and food cultures. Of these, Gan Ban Mian (fried noodles) represented a new way of enjoying authentic taste, while La Xuan Feng (Spicy Whirlwind), with spiciness as the selling point, continued to appeal to young people. The Spicy Series, on the other hand, represented the authentic taste of Sichuan flavour. Brand image was established through market diversification by star brands and focus marketing. The brand product Mianba La Mian, with its "good noodles with dedicated spirits" appeal, continued to establish its position as "The benchmark for good noodles". "Your Flavors Series" continued to communicate for "The journey for Gan Mian delicacy", and, through marketing noodles with box packaging and bag packaging, to consolidate its position as the top brand in the Gan Ban Mian market. "Jin Shuang La Mian" and "Hao Zi Wei", on the other hand, strived for middle price market to meet the needs of middle and lower classes consumers in the cities.

"Super Fumanduo" and "Gold Mark Fumanduo" have consolidated their positions as middle-price noodles brands, while low-price noodles brands "Fumanduo" and "Fumanduo Yi Wan Xiang" fared well in the lower-end markets. "Sui Shou Bao" and "Da Kuai Bao", the brands for Gan Cui Mian, together contributed to the continuous growth of Gan Cui Mian as a whole, while the satisfactory performance of "Fumanduo" effectively fueled the growth of the Group in the overall middle and lower price markets.

According to ACNielsen's survey in June 2008, in terms of sales value, market share of Master Kong noodles in the overall China market was 46.4%, and it continued to hold firmly the No.1 position in the market. During the period, the Group strengthened overall operation management and continued to adjust product mix and sales strategies which stimulated the sales of container noodles and high-end packet noodles. Turnover of high-end noodles increased by 55.49% over the same period of last year and the Group continued to increase market share for high-end noodles. Master Kong gained 62.6% and 68.1% market share respectively for container noodles and high-end packet noodles. Fumando brand is the Group's major brand to enter the low-end noodles market. Meanwhile, Fumando brand acquired a 14.1% share of the low-end market and ranked third in the low-end noodles market.

During the first half of the year, the price of palm oil, which is one of the main raw material of instant noodle, increased sharply by 62%. With the increase in sales of the high margin container noodles and high-end packet noodles, price adjustment in last year, effective cost control as well as efficiency improvements, gross margin for instant noodle increased 1.99 ppt. to 26.04% and gross profit grew by 61.76% when compared with same period last year. Due to the successful marketing strategies and effective control over operating costs, profit attributable to equity holders of the Company was US\$58.316 million, a growth of 58.91%.





## Beverage Business

In the first half of the year, a sales growth of 25.19% to US\$942.979 million when compared to the same period last year, was achieved by the beverage business in spite of various adverse factors such as the rising price of raw materials, increased transportation cost due to increased oil price, change in the purchasing structure of consumers, abnormal weather and intensified competition. The sales growth also benefited from the adoption of the flexible marketing strategies and efficient communication with distribution partners before high season. During the period, beverage turnover accounted for 46.02% of the Group's total turnover. Due to the improvement in organizational efficiency and effective control over operating costs, gross margin for beverage increased 0.54 ppt. to 38.96% and gross profit grew by 26.94% to US\$367.366 million; profit attributable to equity holders of the Company was US\$63.325 million, grew by 22.49% when compared with the same period in 2007.

Due to the Sichuan earthquake in May, we slowed our advertising activities slightly in response to state policy. Since June, however, with the approaching of the peak season for beverage, we have launched comprehensive sales campaigns for Master Kong RTD tea, mineralized water and juice series. During the period, we had extensively reached out to our consumers through efficient T.V. and outdoor media advertisements and our annual promotion campaigns.

For tea drinks, competition in RTD tea market remained fierce. We continued to improve our performance and consolidated our leading position through the strategies of extended flavors and product differentiation, built our corporate image as a Master of Tea and expanded into new RTD tea markets. During the period, we launched a new RTD tea product - Ice Green Tea, bringing cool and energy drinks to people in the hot summer with new flavor and unprecedented cool taste. The V-shaped bottle (V for victory) caters to the emulative character of the young who are willing to try and "feel the taste of victory". In addition, based on the existing Jasmine Tea, we launched a new product of Jasmine Series - Honey Jasmine Tea in the second quarter, which immediately won market recognition. We continued to market Ice Tea through our music strategy by engaging Tao Zhe, the "Music Godfather", as the celebrity to promote the energetic, joyous and confident images of Ice Tea.

For diluted juice products, Master Kong has been pursuing the brand philosophy of "fashion, health and energy" and advocating the idea of "being natural and healthy every day". Newly launched products, such as "Daily C Pineapple Juice", "Master Kong Apple Juice" and "Mixed Fruit Juice", all served to expand our product ranges in juice products and improved sales by stimulating consumption.

For bottled water, in addition to the mineralized water newly launched in large PET bottles of 1.5L being sold in whole boxes, we further launched Master Kong natural mineral water from Changbai Mountain. With the quality natural mineral water added to our product ranges, we have confidence in strengthening our leading position in the packaged water market and making Master Kong the "Master of Water".

According to ACNielsen's retail research data for June 2008, in terms of sales value, Master RTD tea gained 41.3% market share and took top spot in the market. Master Kong juice series came third in the diluted juice market with its twin brands and accounted for 16.7% market share. Due to the launch of natural mineral water and the repackaging of mineralized water, Master Kong bottled water gained 20.8% market share and ranked first in the market.

Meanwhile, the Company continued to improve organizational efficiency, adjust and improve product structure, reduce costs, implement a distribution strategy of "Better Access, Broader Reach", optimize market channels and speed up the distribution of products to points of sales. During the period, all new production lines have commenced production to meet market demands.

We will continue to focus on market distribution and the utilization of production capacity, so as to increase our market share and maintain our leading position in the market.





## **Bakery Business**

The turnover of the bakery business in the first half of the year amounted to US\$67.887 million, an increase of 42.99% compared with last year and represented 3.31% of the Group's total turnover. During the period, gross margin for bakery business increased by 1.11 ppt. to 38.29% and profit attributable to equity shareholders increased by US\$2.116 million to US\$3.094 million. During the period, substantial improvement was achieved in bakery business, mainly as a result of the establishment of an efficient marketing team, the reinforcement in the sales management of mega store in direct sales channels and the construction of a penetrable and competitive network in distribution channels.

In the first half of 2008, overall gross profit was enhanced by a substantial growth in the sales of "3+2" Sandwich Cracker, our core product; while overall operation performance was boosted by timely adjustment to selling prices and enhancement in production efficiency and quality. According to ACNielsen's survey in June 2008, in terms of sales value, Master Kong had market shares of 22.3% in the sandwich cracker market, maintaining its No.1 position in the market.

In the second half of the year, we will continue the operation of our core brands and invest more in branding and promotion. We will continue to improve product quality by modernizing traditional food and promote gift box projects. Bakery business shall aim to build up Chinese bakery brand names and maintain sustained growth and profits.

## **Refrigeration Business**

Refrigeration business continued to develop smoothly in the second quarter. "Daily C" continued to be the leading fruit juice brand, while "Daily C Good Vegetables and Fruits" which were launched in the first quarter have in the short period became the leading brand for pure vegetable and fruit juices. Market shares for sales of lactic beverage increased significantly, while Yogurt maintained its advantage in the high-end market with continuous strengthening of the marketing of bottle packaged Yogurt and the healthy coarse grain products along with streamlining of costs.

## **FINANCING**

As of 30 June 2008, the Group's total liabilities amounted to US\$1,567.615 million, and total assets amounted to US\$2,966.862 million. The Group's total liabilities increased by US\$514.889 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 7.74ppt. to 52.84% 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. Provision for final dividend payable for the year 2007 has also increased other payables. The Group's long-term and short-term bank loans increased by US\$148.885 million, as compared to 31 December 2007. The Group's proportion of the total borrowings denominated in foreign currency and Renminbi was 80.49% and 19.51% respectively. The proportion between the Group's long-term loans and short-term loans was "15%:85%". In addition, the Group's transactions are mainly denominated in Renminbi. The appreciation of Renminbi against US dollars by 6.08% brought an exchange gain of US\$92.160 million during the first half of 2008, of which US\$16.534 million and US\$75.626 million have been included in the income statement and exchange translation reserve respectively.

As of 30 June 2008, the Group had cash on hand and bank balances of US\$372.871 million, and no contingent liability.





**Financial Ratio**

	<b>As at 30 June 2008</b>	<b>As at 31 December 2007</b>
Finished goods turnover	11.70 Days	8.95 Days
Accounts receivable turnover	11.42 Days	11.84 Days
Current ratio	0.67 Times	0.70 Times
Debt ratio (Total liabilities to total assets)	52.84%	45.10%
Gearing ratio (Net debt to equity attributable to equity holders of the Company)	0.16 Times	0.15 Times

**HUMAN RESOURCES**

As a result of the addition of more new factories for bottled water and the development for the Group’s “Better Access, Broader Reach” distribution strategy, the number of the Group’s staff increased to 47,164 as at 30 June 2008 (31 December 2007: 45,990). The Group provides 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 talents.

The Group continued 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 half year grew by 10.4% as compared to the same period last year. During the first half, the CPI in the PRC grew by 7.9% 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.





## **CORPORATE GOVERNANCE**

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

Throughout the period ended 30 June 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 30 June 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 30 June 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 30 June 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 30 June 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 30 June 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, 25 August 2008

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

