



康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 322)

Third Quarterly Report 2008



2007 TAIWAN BRAND AWARD
RISING STAR

The methods of distribution is specially awarded to TINGYI HOLDINGS CORP. recognition of its achievement, with the MAOPINGKANG brand achieving remarkable annual growth in brand value over the past three years. TINGYI MAOPINGKANG brand was ranked 4th of the Top 200 Brands in 2007. The award is presented to TINGYI MAOPINGKANG brand value of USA, T&A, Taiwan.

康師傅
红烧牛肉面

就是这个味儿!

青春有梦 勇敢去追



经典美味 Premium Taste

* For identification purposes only



SUMMARY

US\$ million	For the three months ended 30 September		
	2008	2007	Change
• Turnover	1,321.411	994.847	+32.83%
• Gross profit of the Group	429.485	330.730	+29.86%
• EBITDA	201.698	160.464	+25.70%
• Profit for the period	129.755	109.015	+19.02%
• Profit attributable to equity holders of the Company	91.893	76.489	+20.14%
• Earnings per share (US cents)	1.65	1.37	+US0.28 cents
• At 30 September 2008, Cash and cash equivalents was US\$493.380 million and Gearing ratio was 0.07 times			

INTRODUCTION

In the third quarter, China’s Gross Domestic Product (“GDP”) increased by 9% compared with the corresponding period of last year. Its rate of increase dropped by 1.1 ppt. from 10.1% in the second quarter, and a drop of 2.5 ppt. compared with the corresponding period of last year, which was the lowest increment since 2004. The pace of its economic growth has slowed down. In the first three quarters, the Consumer Price Index (“CPI”) increased by 7% compared with the corresponding period of last year. In terms of growth rate, there was 2.9 ppt. increase, but a drop of 0.9 ppt. from the first half year. There has been 22 months consecutively effective negative interest rate in the PRC. The CPI in September increased by 4.6% from the corresponding period of last year, which was the lowest growth rate in the last 15 months. As a precedent index of CPI, the Producer Price Index (“PPI”) from January to September increased by 8.3% compared with the corresponding period of last year, up 5.6 ppt. from the corresponding period of last year. Although the pressure of inflation has reduced, it still exists, while the risk of economic downturn has increased notably.

Negative interest rate and inflation pressure led to reduced consumers discretionary spending and increased proportion of expenditure on daily necessities. Capitalizing on such business opportunity and through flexible marketing strategy, in the third quarter, turnover of the Group increased by 32.83% over the same period last year to US\$1,321 million. Turnover for instant noodles, beverage and bakery increased by 32.88%, 34.02% and 35.36% over the same period last year to US\$542 million, US\$704 million and US\$46 million respectively. According to ACNielsen’s survey in September 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 three quarters of year 2008, the Group’s turnover increased by 34.95%, gross margin slightly dropped by 0.15ppt, to 32.77% over the same period last year and gross profit increased by 34.30%. Profit before taxation increased by 34.79% to US\$383 million over the same period last year. EBITDA increased by 32.52% to US\$524 million and profit attributable to equity holders of the Company increased by 27.39% to US\$ 220 million when compared to the same period last year.

In July 2008, the Group was ranked the fifth in “the Survey of Top Taiwan Global Brands 2008” assessed by InterBrand from UK. The brand value of Master Kong was US\$793 million. The Group has ranked top five in the past six years. In September, Forbes announced “ Fabulous 50” list, a roundup of the best public companies in the Asia Pacific region. The Group made its first appearance on the list. All companies in the “ Fab 50” list have minimum annual revenue or market capital of US\$5 billion and have been included according to the appreciation of their stock price, projected earnings, long term profitability and sales growth. In October, according to a survey for mainland consumers by AlixPartners, an international business advisory firm, Master Kong tops international famous brands on the list of most trusted non-alcoholic beverages. The above appreciations further demonstrate the strong market position of Master Kong Brand in Greater China.

2008 THIRD QUARTERLY RESULTS

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





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Three Months and Nine Months Ended 30 September 2008

	Note	2008		2007	
		July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
Revenue	2	1,321,411	3,370,664	994,847	2,497,681
Cost of sales		(891,926)	(2,266,243)	(664,117)	(1,675,338)
Gross profit		429,485	1,104,421	330,730	822,343
Other net income		18,973	57,791	15,165	33,525
Distribution costs		(253,134)	(645,871)	(189,280)	(475,504)
Administrative expenses		(27,863)	(78,087)	(19,890)	(53,653)
Other operating expenses		(11,020)	(43,349)	(12,975)	(33,538)
Finance costs	3	(7,195)	(22,712)	(5,270)	(14,901)
Share of results of associates		3,215	10,568	1,983	5,702
Profit before taxation	4	152,461	382,761	120,463	283,974
Taxation	5	(22,706)	(62,024)	(11,448)	(29,024)
Profit for the period		129,755	320,737	109,015	254,950
Attributable to					
Equity holders of the Company		91,893	219,500	76,489	172,308
Minority interest		37,862	101,237	32,526	82,642
Profit for the period		129,755	320,737	109,015	254,950
Earnings per share	6				
Basic		1.65 cents	3.93 cents	1.37 cents	3.08 cents
Diluted		1.65 cents	3.93 cents	N/A	N/A





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2008

		At 30 September 2008 (Unaudited) US\$'000	At 31 December 2007 (Audited) US\$'000
	<i>Note</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,928,181	1,567,348
Intangible assets		10,441	11,701
Interest in associates		36,564	33,929
Premium for land lease		71,576	65,594
Available-for-sale financial assets		3,796	3,724
Deferred tax assets		5,379	5,379
		<u>2,055,937</u>	<u>1,687,675</u>
Current assets			
Financial assets at fair value through profit or loss		75,081	21,439
Inventories		201,779	155,217
Trade receivables	8	170,293	114,391
Prepayments and other receivables		150,078	112,807
Pledged bank deposits		11,864	3,030
Bank balances and cash		481,516	239,862
		<u>1,090,611</u>	<u>646,746</u>
Current liabilities			
Trade payables	9	584,079	334,041
Other payables		363,928	248,979
Current portion of interest-bearing borrowings	10	396,038	291,481
Trade receipts in advance		34,286	43,045
Taxation		16,223	7,122
		<u>1,394,554</u>	<u>924,668</u>
Net current liabilities		<u>(303,943)</u>	<u>(277,922)</u>
Total assets less current liabilities		<u>1,751,994</u>	<u>1,409,753</u>
Non-current liabilities			
Long-term interest-bearing borrowings	10	182,556	106,946
Other non-current payables		3,115	2,861
Employee benefit obligations		8,725	7,893
Deferred tax liabilities		22,578	10,358
		<u>216,974</u>	<u>128,058</u>
NET ASSETS		<u>1,535,020</u>	<u>1,281,695</u>
CAPITAL AND RESERVES			
Issued capital	11	27,943	27,943
Reserves	12	1,134,173	849,382
Proposed special dividend		—	59,799
Proposed final dividend		—	90,537
Total capital and reserves attributable to equity holders of the Company		<u>1,162,116</u>	<u>1,027,661</u>
Minority interest		<u>372,904</u>	<u>254,034</u>
TOTAL EQUITY		<u>1,535,020</u>	<u>1,281,695</u>





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Nine Months Ended 30 September 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 translation difference	42,487	—	42,487
Dividend	(136,923)	(32,668)	(169,591)
Profit for the period	172,308	82,642	254,950
	<u>77,872</u>	<u>49,974</u>	<u>127,846</u>
As at 30 September 2007	<u>991,214</u>	<u>234,621</u>	<u>1,225,835</u>
As at 1 January 2008	1,027,661	254,034	1,281,695
Net gains recognised directly in equity			
Exchange translation difference	65,291	18,660	83,951
Dividend	(150,336)	(1,027)	(151,363)
Profit for the period	219,500	101,237	320,737
	<u>134,455</u>	<u>118,870</u>	<u>253,325</u>
As at 30 September 2008	<u>1,162,116</u>	<u>372,904</u>	<u>1,535,020</u>

Condensed Consolidated Cash Flow Statement

For the Nine Months Ended 30 September 2008

	2008 (Unaudited) <i>US\$'000</i>	2007 (Unaudited) <i>US\$'000</i>
Net cash from operating activities	691,617	593,195
Net cash used in investing activities	(470,959)	(330,136)
Net cash from (used in) financing activities	29,830	(127,662)
Increase in cash and cash equivalents	250,488	135,397
Cash and cash equivalents at 1 January	242,892	163,920
Cash and cash equivalents at 30 September	<u>493,380</u>	<u>299,317</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	481,516	294,328
Pledged bank deposits	11,864	4,989
	<u>493,380</u>	<u>299,317</u>





Notes:

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

The Directors are responsible for the preparation of the Group's unaudited third quarterly financial statements. These unaudited third quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard No 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants. These condensed third quarterly financial statements should be read in conjunction with the 2007 annual financial statements. The accounting policies adopted in preparing the unaudited third quarterly financial statements for the nine months ended 30 September 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 results by major products**

The Group operates mainly in The People's Republic of China (the "PRC"). Revenue and contribution to the Group's profit are mainly from the PRC.

An analysis of the Group's revenue and segment results by major products is set out below:

	Revenue				Segment results			
	2008		2007		2008		2007	
	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
Instant noodles	541,751	1,524,211	407,693	1,065,395	59,923	135,299	37,321	80,246
Beverages	703,635	1,646,614	525,035	1,278,249	87,388	237,959	76,707	194,143
Bakery	45,529	113,416	33,635	81,112	3,652	6,309	2,786	3,798
Others	30,496	86,423	28,484	72,925	5,477	15,337	6,935	14,987
Total	1,321,411	3,370,664	994,847	2,497,681	156,440	394,904	123,749	293,174

3. **Finance costs**

	2008		2007	
	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
Interest on bank loans and other loans wholly repayable within five years	7,195	22,712	5,270	14,901





4. Profit before taxation

Profit before taxation is stated after charging the following:

	2008		2007	
	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
Depreciation	45,778	126,103	36,400	99,356
Amortization	<u>1,085</u>	<u>3,234</u>	<u>1,009</u>	<u>2,886</u>

5. Taxation

	2008		2007	
	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000	July to September (Unaudited) US\$'000	January to September (Unaudited) US\$'000
PRC enterprise income tax	<u>22,706</u>	<u>62,024</u>	<u>11,448</u>	<u>29,024</u>

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

No provision for Hong Kong Profits Tax has been made as there was no assessable profit in Hong Kong for the period.

Subsidiaries in the PRC which engage in manufacture and sale of food products are subject to tax laws applicable to foreign investment enterprises in the PRC. Most of the subsidiaries are located at economic development zones and are subjected to 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\$219.500 million (2007: US\$172.308 million) attributable to equity holders of the Company for the period ended 30 September 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 September 2008 of US\$219.500 million (2007: US\$172.308 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 nine months ended 30 September	
	2008	2007
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per shares	5,588,705,360	5,588,705,360
Deemed issue of ordinary shares on granting of share options	<u>1,210,388</u>	<u>—</u>
	<u>5,589,915,748</u>	<u>5,588,705,360</u>

7. Dividend

The Board of Directors resolves that no dividend be paid for the nine months ended 30 September 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:

	At 30 September 2008 (Unaudited) US\$'000	At 31 December 2007 (Audited) US\$'000
0-90 days	158,579	105,115
Over 90 days	11,714	9,276
	<u>170,293</u>	<u>114,391</u>

9. **Trade payables**

The aging analysis of trade payables is as follows:

	At 30 September 2008 (Unaudited) US\$'000	At 31 December 2007 (Audited) US\$'000
0-90 days	552,205	318,190
Over 90 days	31,874	15,851
	<u>584,079</u>	<u>334,041</u>

10. **Interest-bearing borrowings**

	At 30 September 2008 (Unaudited) US\$'000	At 31 December 2007 (Audited) US\$'000
Bank loans:		
Within one year	396,038	291,481
In the second year	114,027	68,620
In the third year to the fifth years inclusive	68,529	38,326
	<u>578,594</u>	<u>398,427</u>
Portion classified as current liabilities	(396,038)	(291,481)
Non-current portion	<u>182,556</u>	<u>106,946</u>





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

11. Issued capital

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

12. Reserves

	Capital redemption reserve US\$'000	Share premium US\$'000	Exchange translation reserve US\$'000	General reserve US\$'000	Retained profits US\$'000	Total US\$'000
At 31 December 2007	36	332,478	93,124	135,961	438,119	999,718
Exchange translation difference	—	—	65,291	—	—	65,291
Transfer to general reserve	—	—	—	9,756	(9,756)	—
Profit for the period	—	—	—	—	219,500	219,500
Dividend	—	—	—	—	(150,336)	(150,336)
At 30 September 2008	36	332,478	158,415	145,717	497,527	1,134,173

13. Commitments

	At 30 September 2008 (Unaudited) US\$'000	At 31 December 2007 (Audited) US\$'000
(a) Capital commitments		
Contracted but not provided for	65,329	196,008
(b) Commitments under operating leases		
At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:		
Within one year	7,335	10,369
In the second to fifth years, inclusive	20,321	20,570
Over five years	3,133	4,301
	30,789	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.

	2008		2007	
	July to September (Unaudited) <i>US\$'000</i>	January to September (Unaudited) <i>US\$'000</i>	July to September (Unaudited) <i>US\$'000</i>	January to September (Unaudited) <i>US\$'000</i>
(a) Sales of goods to:				
Associates	49	407	682	1,531
Companies under control by a substantial shareholder of the Company	601	1,404	212	674
Companies under control by directors of the Company	5,653	11,782	2,450	7,213
	<u>5,653</u>	<u>11,782</u>	<u>2,450</u>	<u>7,213</u>
(b) Purchases of goods from:				
Associates	89,253	250,987	76,971	207,679
Companies under control by a substantial shareholder of the Company	3,003	9,688	10,360	20,199
Holding companies of a minority shareholder of subsidiaries of the Company	599	1,601	710	1,775
	<u>599</u>	<u>1,601</u>	<u>710</u>	<u>1,775</u>
(c) Processing charges by:				
Companies under control by a substantial shareholder of the Company	—	—	876	1,764
Holding companies of a minority shareholder of subsidiaries of the Company	278	893	251	753
	<u>278</u>	<u>893</u>	<u>251</u>	<u>753</u>

(d) As of 30 September 2008, an associate and the holding companies of a minority shareholder of subsidiaries of the Company have provided guarantees to the Group's bankers for US\$6.597 million and US\$8.575 million respectively (31 December 2007: US\$4.320 million and US\$17.530 million) for securing banking facilities granted to the Group.





MANAGEMENT DISCUSSION AND ANALYSIS

During the third quarter, the turnover of the Group increased by 32.83% over the same period last year to US\$1,321 million. Turnover for instant noodles, beverage and bakery increased by 32.88%, 34.02% and 35.36% over the same period last year to US\$542 million, US\$704 million and US\$46 million respectively. The Group's gross margin dropped by 0.74ppt to 32.50% and gross profit grew by 29.86% when compared to the same period last year. Profit before taxation increased 26.56% to US\$152 million.

In the first three quarters of year 2008, the Group's turnover increased by 34.95%, gross margin slightly dropped by 0.15ppt to 32.77% over the same period last year and gross profit increased by 34.30%. EBITDA increased by 32.52% to US\$524 million and profit attributable to equity holders of the Company increased by 27.39% to US\$ 220 million when compared to the same period last year.

Instant Noodle Business

In the third quarter of the year, turnover for the instant noodle business was US\$541.751 million, increased by 32.88% from last year and representing 41.00% of the Group's total turnover. In the first three quarters of the year, turnover for instant noodle grew by 43.07% to US\$1,524 million and representing 45.22% of the Group's total turnover.

During the period, the Company continued to use the strategy of marketing "Master Kong" brand as high-end noodles in maintaining the existing market share of high-end noodles and at the same time capturing the middle and lower-end markets with its improved "Fumanduo" brand.

On the basis of four major products, namely braised beef/spicy beef/mushroom chicken/shrimp and fish, Master Kong fulfilled consumers' primary desires for delicious taste, and continued to develop different regional flavors to suit the needs of different regions and food cultures, and communicated with consumers through promotion activities. Gan Ban Mian (fried noodles with beef and chillies) represented a new way of enjoying classic taste, while La Xuan Feng (Spicy Whirlpool), with spiciness as the selling point, continued to appeal to young people through publicity spokesman. Its new product, Tian Xin Mian, advocates under the slogan of "Small Tian Xin, but great satisfaction", stressing on the product characteristics of rich contents, and appealing to the young group with its attractive appeal. "Your Flavors Series" continued to communicate for "The journey for Gam Mian delicacy", and through marketing with box packaging and bag packaging, have consolidated its position as the top brand in the Gan Ban Mian market. "Jin Shuang La Mian" and "Hao Zi Wei", on the other hand, are for the middle price market to meet the needs of middle and lower classes consumers in the cities.

In the middle-end brands, the newly launched new packaged "Gold Mark Fumanduo" has created "New height of delicious taste", while "Super Fumanduo" continued its positioning towards the younger people particularly with the campus groups. "Tung Mian" noodle has been successfully launched, and help to secure the Group's leading position in the middle-price noodle market. The low-price brands, "Fumanduo" and "Fumanduo Yi Wan Xiang" have successfully captured some of the instant noodle markets of RMB1 per pack in the tier 2, 3 and 4 cities with steady growth. "Fumanduo Xiang Cui Mian" handy package with mainly baked egg tomato flavor have been launched. The successful operation of "Fumanduo" series products have effectively driven the growth of the Group's overall middle and lower end markets with its market shares increasing steadily.

According to ACNielsen's survey in September 2008, in terms of sales value, market share of Master Kong noodle in the overall China market was 49.9%, and it continued to hold firmly the No.1 position in the market. Master Kong also gained 69.5% and 66.1% market share respectively for high-end packet noodles and container noodles. Meanwhile, the Group's Fumanduo low end noodle acquired a 14.4% share and ranked third in low end noodle market.

On production, through streamlining production systems, introduction of high speed production lines to promote the speed and automation of equipment and reduced labour, the Group has enhanced its production efficiency and per capita capacity, thus eased the pressure of production costs.

The price of main raw material for instant noodle, palm oil, recorded a big drop in August when compared to July's price. Due to the inventory brought forward and lead time for purchasing, the actual usage cost for palm oil in the third quarter 2008 was still quite high. As a result, in the third quarter of the year, gross margin for instant noodle slightly dropped by 0.39ppt. to 26.11% and gross profit grew by 30.93%. Thanks for the effective marketing strategy and control of overall cost, profit attributable to equity holders of the Company increased to US\$49.671 million.





Beverage Business

The cool temperature and keen competition in the beverage market, in addition to the existing pressure of inflation and drop in consumer incomes which caused consumers to be more conservative in consumption, have resulted in the slow down in the growth of sales in the period. However, the Group continued to implement flexible and effective sales strategy and increase its promotion efforts, and communication activities with the consumers. In the third quarter of the year, turnover for the beverage business was US\$703.635 million, increased by 34.02% from last year and representing 53.25% of the Group's total turnover. In the first three quarters of the year, turnover for beverage business grew by 28.82% to US\$1,647 million and representing 48.85% of the Group's total turnover.

International groups are optimistic about the prospects of tea drink market and increased their investments accordingly leading to fierce competition. Through diversified tea drink products, the Group continued to enrich its product quality and variety and continued to penetrate to more consumers through various forms of promotional activities in order to strengthen the brand and protect its leading position in the tea drink market.

We continued to market Ice Tea through our music strategy by engaging Tao Zhe as spokesman, and participants of music activities reached its highest level in the current year, and successfully brought Master Kong Ice Tea closer to its consumers through leverage on music. In respect of juice products, through the activities of spokesman clearly displayed Master Kong's "Daily C" as a multi-flavor and energetic juice brand bringing endless joys and energies. Bottled water, currently occupied the leading position in the market. With the world's advanced automatic production equipment, matured and advanced scientific management and technology, production of high quality products was assured, we enable consumers confidence our products.

Master Kong considers product safety as its paramount. As a self regulation, the Group entered into the first Industrial Convention of beverage business, "China Packaged Drinking Water Self-discipline Convention", setting stringent requirements on product quality assurance, market environment, protection of original water and water sources, product labeling and advertising, and promoting the healthy harmonious development of the packaged drinking water industry in a good market environment. Through the promotion of "Water Innovative Public Welfare Plan Competition" activities, the public are encouraged to look for innovative feasible solutions to the existing problems with water resources in the PRC. We demonstrate our protection of our living environment with our actual acts. This is the first water resources social welfare plan competition in the PRC. Being the leading enterprise of bottled water in the PRC, Master Kong hopes to find solution applicable to the water source crisis of the PRC through such competition as our corporate social responsibility for the protection of water environment and water resources in the PRC.

According to ACNielsen's survey in September 2008, in terms of sales value, market share of Master Kong RTD Tea was 41.2%, and it continued to hold firmly the No.1 position in the market. Master Kong juice series came third in the diluted juice market with its twin brands, taste extension and the family size promotion pack activities, gained 16.1% market share. Due to the aggressive promotion activities and flexible pricing strategy, Master Kong bottled water gained 20.9% market share and ranked first in the market.

In the third quarter of year 2008, due to some effects such as sales growth below expectation, gross margin for beverage dropped by 1.18ppt. to 36.67%. Gross profit grew by 29.85% to US\$258.032 million when compared to same period last year. Profit attributable to equity holders of the Company increased to US\$37.915 million.





Bakery Business

The turnover of the bakery business in the third quarter of the year amounted to US\$45.529 million, an increase of 35.36% compared with last year and represented 3.45% of the Group's total turnover. During the period, gross margin for bakery business dropped by 0.49 ppt. to 38.39% and profit attributable to equity shareholders increased to US\$3.671 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 third quarter 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 September 2008, in terms of sales value, Master Kong had market shares of 25.3% in the sandwich cracker market, ranked No.2 position in the market.

In the fourth quarter 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 and strive for 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 third quarter. Daily C fresh juice, Wei Chuan Yogurt and Wei Chuan Active Lactobacillus Drinks maintained stable sales growth in the Great Shanghai area.

On 7 November 2008, the Company and Wei Chuan (BVI) Co., Ltd entered into an agreement, pursuant to which Wei Chuan (BVI) has conditionally agreed to acquire from the Company the entire equity interest in Hangzhou Wei Chuan Foods Co., Ltd. at a consideration of Rmb73.960 million. Hang Zhou Wei Chua is a wholly-owned subsidiary of the Company and principally engaged in the manufacture and sale refrigeration products.

Upon completion of the Disposal, the Company could better utilize its resources in developing its major business and brand.

FINANCING

As of 30 September 2008, the Group's total liabilities amounted to US\$1,611.528 million, and total assets amounted to US\$3,146.548 million. The Group's total liabilities increased by US\$558.802 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 6.12ppt. to 51.22% as compared to 31 December 2007. The increase in debt ratio was because both other payables and loans have increased mainly for capital expenditures and trade payable for purchasing of more raw materials due to the increase in activities. The Group's long-term and short-term bank loans increased by US\$180.167 million, as compared to 31 December 2007. The Group's proportion of the total borrowings denominated in foreign currency and Renminbi was 90.07% and 9.93% respectively. The proportion between the Group's long-term loans and short-term loans was "32%:68%". In addition, the Group's transactions are mainly denominated in Renminbi. The appreciation of Renminbi against US dollars by 6.61% brought an exchange gain of US\$104.160 million during the first three quarters of 2008, of which US\$20.209 million and US\$83.951 million have been included in the income statement and exchange translation reserve respectively.

The Group will continue to maintain a strong liquidity position for the coming year and as of 30 September 2008, the Group had cash on hand and bank balances of US\$493.380 million, and no contingent liability.





Financial Ratio

	As at 30 September 2008	As at 31 December 2007
Finished goods turnover	8.84 Days	8.95 Days
Accounts receivable turnover	11.57 Days	11.84 Days
Current ratio	0.78 Times	0.70 Times
Debt ratio (Total liabilities to total assets)	51.22%	45.10%
Gearing ratio (Net debt to equity attributable to equity holders of the Company)	0.07 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 48,946 as at 30 September 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

Affected by the deteriorating global financial crisis, inflationary pressure on China's economy is reducing and there is even a possible shift to deflation. According to statistics of the National Bureau of Statistics of China, the country's GDP for the third quarter increased by 9% compared with the same period last year, the lowest increase since 2004. CPI rose 4.6% in September compared with the corresponding period last year, the slowest rate of increase in 15 months. In the face of declining GDP and CPI growth, the Chinese Government will implement active fiscal policies, more relaxed monetary policies together with other measures to increase domestic consumptions. These measures coupled with the fact that the food industry is less affected by economic change should enable the food industry to maintain its steady growth.

Master Kong continued to develop steadily at its own pace despite the impact of natural disasters and the deteriorating global economy. China's measures to boost domestic consumption provides favorable opportunities for Master Kong to develop its business. And as a leader of the food industry in large China, Master Kong will seize opportunities to continue to leverage on its own advantages for the on-going professional and scale development of its instant noodles, beverage and bakery business. Master Kong will enrich the Group's product offerings in a timely manner in order to create profits. The Group will continue to focus on the development of its instant food and beverage business, and strive to develop Master Kong into the world's largest instant food and beverage producer.





CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

Throughout the period ended 30 September 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. 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.

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.

After 30 September 2008, the Company has repurchased 1,912,000 shares for approximately US\$1.980 million. All shares repurchased have been cancelled and will not be reissued or resold.

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 September 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 September 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 September 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 September 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 September 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, 24 November 2008

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

