



康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

**THIRD QUARTER RESULTS FOR THE THREE MONTHS
AND NINE MONTHS ENDED 30TH SEPTEMBER 2003**

SUMMARY

As compared with the results during the SARS outbreak in the second quarter, the Group's third quarterly performance has a visible improvement of 19.7% and 453.7% growth in total sales and net profit respectively. However, higher price for major raw materials led to the decrease in the Group's gross margin. In addition, as a result of the floods and abnormal weather, total sales have increased but are still far below of the Group's expectation. Third quarter in the PRC is the traditional peak season for beverages. Thanks for the heat wave in the south-eastern and southern part of the PRC, the Group's beverage products have good sales in these two areas. At the same time, the cool summer in the northern part and floods in various regions such as Anhui province and Shaanxi province have affected the sales recovery for the Group after the SARS outbreak and the new production lines for PET drinks which commenced operation during the third quarter have not been fully utilized. The Group's beverage business was under-performed. During the period, sales of the Group's instant noodle maintained healthy growth. Highlights of the Group's third quarterly results (comparative figures are based on the corresponding period last year) are as follow:

- Turnover of the Group amounted to US\$361 million, an increase by 6.85%;
- Gross margin of the Group was 30.99%, last year was 35.51%;
- Profit attributable to shareholders amounted to US\$17.337 million, last year was 36.622 million;
- Earnings per share amounted to US0.31cents, last year was US0.66 cents;
- Turnover for instant noodle, beverage and bakery was US\$197 million, US\$139 million and US\$16.892 million respectively, and the product growth rates were 14.39%, -0.03% and -24.85% respectively.

THIRD QUARTER 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 three months and nine months ended 30th September 2003 together with the unaudited comparative figures for the corresponding period in 2002. These third quarter financial statements have not been audited, but have been reviewed by the Company's audit committee.

Condensed Consolidated Income Statement

For the Three Months and Nine Months Ended 30th September 2003

	Notes	For the period ended			
		30th September 2003 Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000	30th September 2002 Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000
Turnover	2	360,754	953,748	337,611	869,566
Cost of sales		<u>(248,971)</u>	<u>(679,844)</u>	<u>(217,736)</u>	<u>(562,626)</u>
Gross Profit		111,783	273,904	119,875	306,940
Other revenue		687	1,397	1,741	2,965
Other net income		1,069	8,963	7,120	17,260
Distribution costs		(75,062)	(192,709)	(63,364)	(160,058)
Administrative expenses		(10,074)	(29,716)	(11,370)	(32,423)
Other operating expenses		<u>(5,939)</u>	<u>(15,101)</u>	<u>(7,995)</u>	<u>(18,380)</u>
Profit from operations	3	22,464	46,738	46,007	116,304
Finance costs	4	(5,144)	(14,772)	(7,875)	(20,487)
Share of profit of associates		<u>2,013</u>	<u>3,074</u>	<u>1,201</u>	<u>184</u>
Profit before taxation		19,333	35,040	39,333	96,001
Taxation	5	<u>(1,818)</u>	<u>(5,279)</u>	<u>(2,453)</u>	<u>(7,055)</u>
Profit from ordinary activities after taxation		17,515	29,761	36,880	88,946
Minority interests		<u>(178)</u>	<u>(400)</u>	<u>(258)</u>	<u>(1,127)</u>
Net profit attributable to shareholders		<u>17,337</u>	<u>29,361</u>	<u>36,622</u>	<u>87,819</u>
Earnings per share	6				
Basic		<u>0.31 cents</u>	<u>0.53 cents</u>	<u>0.66 cents</u>	<u>1.57 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>0.65 cents</u>	<u>N/A</u>

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended 30th September 2003

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited quarterly financial statements. These unaudited quarterly financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. These condensed quarterly financial statements should be read in conjunction with the 2002 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed quarterly financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2002.

2. Turnover and segment information

Turnover represents sales of goods at invoiced value to customers, net of returns, discounts and Value Added Tax. The Group operates mainly in the People's Republic of China ("PRC"). The turnover and contribution to the Group's profit are mainly from the PRC.

An analysis of the Group's turnover by major products is as follows:

	For the period ended			
	30th September 2003		30th September 2002	
	Three	Nine	Three	Nine
	Months	Months	Months	Months
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Instant noodles	197,432	563,054	172,596	468,220
Beverage	139,415	319,653	139,456	326,710
Bakery	16,892	52,983	22,479	63,302
Others	<u>7,015</u>	<u>18,058</u>	<u>3,080</u>	<u>11,334</u>
Total	<u>360,754</u>	<u>953,748</u>	<u>337,611</u>	<u>869,566</u>

An analysis of the Group's segment result by major products is as follows:

	For the period ended			
	30th September 2003		30th September 2002	
	Three	Nine	Three	Nine
	Months	Months	Months	Months
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Instant noodles	14,095	41,466	25,818	67,111
Beverage	9,859	10,628	21,701	51,344
Bakery	(1,861)	(4,827)	447	(786)
Others	<u>2,374</u>	<u>396</u>	<u>1,922</u>	<u>5,059</u>
Total	<u>24,467</u>	<u>47,663</u>	<u>49,888</u>	<u>122,728</u>

3. Profit from operations

Profit from operations is stated after charging the following:

	For the period ended			
	30th September 2003		30th September 2002	
	Three	Nine	Three	Nine
	Months	Months	Months	Months
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation	<u>21,289</u>	<u>58,222</u>	<u>16,669</u>	<u>49,401</u>

4. Finance costs

	For the period ended			
	30th September 2003		30th September 2002	
	Three	Nine	Three	Nine
	Months	Months	Months	Months
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$'000	US\$'000	US\$'000	US\$'000
Interest expenses:				
Bank and other loans wholly repayable within five years	<u>5,144</u>	<u>14,772</u>	<u>7,875</u>	<u>20,487</u>

5. Taxation

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

No provision for Hong Kong profits tax has been made for the period as the Group's profit is not subject to Hong Kong profits tax.

Subsidiaries in the PRC are subject to tax laws applicable to foreign investment enterprises in the PRC and are fully exempt from PRC enterprise income tax of 15% for two years starting from the first profit making year followed by a 50% reduction for the next three years. In addition, certain subsidiaries are qualified as advanced technology enterprises and operate in designated area of Economic and Technological Development Zones and subject to enterprise income tax at a rate of 10% for another three years.

Deferred taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts has not been accounted for as the amount involved is not material.

6. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period and on the weighted average of 5,588,705,360 (2002: 5,588,705,360) ordinary shares in issue during the period.

Except for the period of third quarter in 2002, diluted earnings per share has not been shown as the convertible bonds outstanding during these periods are anti-dilutive.

7. Dividend

The Board of Directors resolves that no dividend be paid for the nine months ended 30th September 2003 (2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Instant Noodle Business

In the third quarter of 2003, the turnover of instant noodle grew by 14.39% to US\$197.432 million as compared to the same period last year and amounted to 55% of the Group's total turnover. The strong base of the dense distribution strategy and the suitable policy for product coupled with prompt responses to the market changes, the sales of instant noodle reached a new record. During the period, the sales for bowl noodle surged by 25% as a result of (1) the successful launch of "Master Kong Mini Cup Noodle", (2) good performance of all items of bowl noodle and (3) the successful sales in Taiwan market as bowl noodle is the major part of Taiwan instant noodle market. The growth of packet noodles is mainly from the lower end noodles "Fu Man Duo". There was relatively smaller growth in sales of higher end packet noodle. This trend is same as the development of instant noodle market in the PRC. According to AC Nielsen, based on volume and value, for the period from June to July 2003, the Group gained market share of 30.7% and 40.8% respectively and maintained the leader position.

The Group has entered into Taiwan market for nearly a year. A new factory in Douliou has commenced operation in October. After the expansion, the Group can provide more product categories to the market and mitigate the tight demand for Master Kong instant noodle. According to AC Nielsen, in August, based on volume, Master Kong's instant noodle has gained 17.1% market share in the Taiwan market. In September, the brand of "Master Kong" has gained the fourth position in the "2003 Taiwan Top 10 Global Brand" based on the research carried out by British INTERBRAND and the brand value for "Master Kong" has been estimated to reach US\$341 million, which is the most valued brand in Taiwan food industry.

During the third quarter of 2003, the gross margin of instant noodle segment was 21.77%, a drop by 5.22 pp as compared to corresponding period last year. The decline was mainly because palm oil price continued to stand at a high level and the production in Taiwan, Shiheji and Kumming have not achieved the economies of scale as they are still at the beginning stage. In addition, the marketing strategy for "increasing quantity, without changing price", the fast growth from the low-margin low-end noodle and the change of bowl noodle package led to higher cost of raw materials. Profit attributable to shareholders for instant noodle business for the period was US\$10.634 million. It was US\$19.212 million for the corresponding period last year.

Beverage Business

In the third quarter of 2003, the turnover of beverage amounted to US\$139.415 million, dropped by 0.03% and representing 39% of the Group's total turnover. Even though there was a growth of 30% when compared to the second quarter's sales, the sales in the third quarter were below the Group's expectation because (1) the humid and cooler weather in the area of

the northeast, northwest and northern regions in the PRC hurt the demand for package drinks, especially for the RTD (Ready-to-drink) tea; (2) there were floods in various regions such as in Anhui province and Shaanxi province; (3) during the third quarter, the launch of new products dispersed consumer's consumption; (4) after SARS outbreak, both domestic and foreign, big and small players have increased their investments so that low-end products flooded into the market and market price slipped off. Thanks to the continuous development for the brand, the Group still maintained the leader position in the PRC RTD tea market and extended the market share in the diluted juice drinks market. According to AC Nielsen, based on volume, for the period from June to July 2003, the Group gained market share of 44% and 20.4% in the PRC RTD tea market and diluted juice drinks market respectively. The Group's RTD tea drinks is number 1 and diluted juice drinks is number 2 in the market. The sales for "Master Kong Mineralized Water" launched in the second quarter have good performance and gained top three position in certain parts of the PRC market. This will be another stimulus to sales growth for beverage business in the future.

During the low season for beverage in the fourth quarter, the Group will continue to strengthen the brand awareness and sales network. By utilizing the advantage of the Group's production and cost structure, the Group expects to increase sales and market share through the strategy of "New Package Line Extension", "Hot Drink" and "Home Consumption".

During the third quarter, the gross margin of beverage segment was 43.9%, dropped by 4.01pp as compared to corresponding period last year. The decrease was mainly because the raw material price for PET and juice still stood at high level and the production lines have not been fully utilized. In the third quarter of 2003, profit attributable to shareholders for beverage business was US\$8.974 million and same period last year was US\$20.360 million. The decline was mainly because of the decline in gross margin and the increase in advertising and promotion expense.

Bakery Business

In the third quarter of 2003, the turnover of bakery amounted to US\$ 16.892 million, dropped by 24.85% as compared with the corresponding period in last year and representing 5% of the Group's total turnover. The performance for bakery segment was below expectation but the sales for the "Muffin" and "Egg Rolls" were relatively satisfactory. From the beginning of September, the sales strategy of "Celebrity" for the core product "3 + 2" sandwich cracker sounds successful and improves the sales so that there appears to be a trend of stable growth. Through the strategic alliances, the Group launched chocolate wafer and lottery pop and these products have built up the foundation in the market.

The Group will continue to strengthen the arrangement for strategic alliances, launch competitive products, provide more choices to consumers and add value to the brand name of Master Kong and sales network of the Group. According to AC Nielsen, based on sales value, for the period from June to July 2003, Master Kong's sandwich crackers gained 25.79% market share in the PRC sandwich crackers market.

During the period, the gross margin of bakery segment was 34.04%, grew by 0.3pp and 8.07pp when compared to the same period in 2002 and first half this year respectively mainly because the production for Guangzhou factory was suspended and the operation was

concentrated in the factories in Tianjin and Hangzhou, sales for the lower margin export products decreased and there was layoff of production staff. Loss attributable to shareholders for the period was US\$2.055 million whereas loss attributable to shareholders was US\$0.36 million for the corresponding period last year. The loss increased mainly because the sales for high margin products were under-performed and there was lower utilization rate for production lines.

Financing

As of 30th September 2003, the Group's total liabilities amounted to US\$799 million, representing an increase of US\$219 million from US\$580 million as at 31st December 2002. Total assets amounted to US\$1,371 million. The debt ratio (total liabilities to total assets) increased by 8.94pp to 58.32% as compared to 31st December 2002. The borrowing increased mainly because the Group has to pay for the capital expenditure during the period. The Group's long-term and short-term loans increased by US\$132 million as compared to 31st December 2002. The portion for US dollars and Renminbi in the Group's total borrowing was 46% and 54% respectively. The Group's transactions are mainly denominated in Renminbi and during the period the exchange rate between Renminbi and US dollar remained stable. The Group also used forward exchange contracts to minimize the risk of exchange fluctuations. As a result, there will be no significant impact of exchange fluctuations during the period. As of 30th September 2003, the Group had no contingent liabilities and cash on hand amounted to US\$183 million.

Financial Ratio

	As at 30th September 2003	As at 31st December 2002
Finished goods turnover (days)	11.45	12.03
Accounts receivable turnover (days)	16.46	13.30
Current ratio (times)	0.88	1.01
Debt ratio (%)	58.32	49.38
Gearing ratio (times)	0.55	0.45

Production Scale

The Group has increased 25 production lines for PET beverage and all the lines have been put in production in the third quarter. The Group's production capacity for PET beverage would be doubled as compared to the end of last year. The Group has increased new production facilities for instant noodle in Guangzhou, Hangzhou, Wuhan and Taiwan and the new facilities have commenced production between September and October. The Group believes that those expansion will strengthen the competitiveness of the Group and benefit the growth of the Group's sales.

Human Resources

The number of the Group's staff increased to 28,696 as of 30th September 2003 (31st December 2002: 26,542) mainly because new factories commenced production during the period. The Group provides a competitive salary system, insurance and medical benefit and professional training courses to employees. The perfect management system for human resources will enhance employee's contribution to the Group.

Prospect

Rural Land Contracting Law (RLCL) effected in March might increase rural income and extend their consumption power. This stimulus could widen consumer base and encourage consumption demand growth at several levels, from low to mid-high end consumer products. The Group believes that the robust growth of the PRC retail market and steady rise in consumer spending will continue and will further expand the development for the instant food market. However, intense competition in price would have impact on the Group's margin. As a result of the seasonal fluctuation, sales performance will be slowed down in the fourth quarter. The Group expects that the whole year's results for 2003 will be affected by the less satisfactory performance in the first three quarters so that it will be lower than the Group's target. To maintain continuous profit growth in this competitive market is particularly challenging.

For the coming future, the Group will make use of the advantage of the Group's brand, marketing and sales network and the strategies are as follow:

1. Production: Production cost is expected to decrease through enhanced production technology and management.
2. Operation: (1) Strengthen brand awareness and increase market share by keeping closer to network partners and consumers. (2) Control marketing cost and strengthen the management of logistics system. (3) Launch competitive and high margin products in suitable time through the Group's professional and experienced research team.
3. Capital expenditure: During the year, the Group's facilities for beverage and noodles have fully commenced production by the end of October. The Group does not have further capital expenditure planning within the year. For the investment in next year, the Group will balance the trend of market growth and the Group's development under the arrangement with conservative and cautious approach.
4. Continue to introduce strategic partners and modern techniques to strengthen the Group's comprehensive operation capability and the market position in the food industry.

PURCHASE, SALE OR REDEMPTION OF SHARES AND CONVERTIBLE BONDS

During the period, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares and convertible bonds.

AUDIT COMMITTEE

In compliance with the requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group has established in September 1999 an Audit Committee. The latest meeting of the committee was held to review the results of the Group for the period.

CODE OF BEST PRACTICE

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except all 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.

PUBLICATION OF FINANCIAL INFORMATION

The detailed announcement on the results for the three months and nine months ended 30th September 2003 containing all the information required by paragraphs 46(1) and 46(3) inclusive in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be available for publication in the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and the Company's website (<http://www.tingyi.com>) in due course.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 4th November 2003

Website: <http://www.tingyi.com>
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* *For identification purposes only*