康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(incorporated in the Cayman Islands with limited liabilitily)

(Stock code: 0322)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

Turnover increased 14.6% to US$1.26 billion

Profit attributable to shareholders and EPS were US$35.816 million and US0.64 cents respectively

Operating cashflow was US$182.648 million

Final dividend is US1.13 cents per share, an increase of 21.5%

Introduction

The period under review was a year marked by different adverse circumstances so that the Group's performance was below expectation. With the forecast that the PRC beverage market would be fast growing, the Group had made huge investment in beverage facilities. Because of the outbreak of SARS (Severe Acute Respiratory Syndrome), cooler summer and the flood, beverage sales could not reach the Group's target. Coupled with the price increases both from palm oil and PET plastic materials in the first quarter and flour and rice in the fourth quarter, the continuous cost increase directly affected the Group's profit. Fortunately, thanks for the strong base for the Group's core business instant noodles, during the difficult period, it made use of its production with vertical integration, flexible marketing strategies and the advantage of the Group's sales network. Instant noodle sales for the year reached US$783.441 million, an increase of 22.9% over 2002. During the traditional low season for beverage in the fourth quarter, through the strategy of "New Package Line Extension" and "Hot Drink", beverage sales achieved a growth of 92.4% when compared with the corresponding period last year and turnover reached US$59.459 million. However, the substantial growth could not make up the sales loss caused by natural disasters during the high seasons. As a result, beverage sales for the year only grew by 6.0% to US$379.112 million. For the whole year, the Group maintained a stable sales performance of US$1,260 million, 14.6% higher than in previous year. Profit attributable to shareholders and earnings per share were US$35.816 million and US0.64 cents respectively.

Quarterly Reporting

The Group introduced quarterly results announcement during the third quarter in 2000 and released quarterly report and posted the full report in the Group's web-site on the same day during the third quarter in 2001. The quarterly reporting is to promote high standards of corporate governance and provide shareholders with timely information about the Group's performance. The quarterly, interim and final financial reports were reviewed by the Audit Committee before they were presented to the Board. The voluntary publication of the Group's results on a quarterly basis demonstrates the Group's commitment to transparency and good corporate governance.

Solidify the Growth Platforms and Lead the Waves of Change

To further strengthen the Group's competitiveness in the PRC food market, the Group is active to introduce strategic partners. On 27 December 2003, the Group entered into the agreement in relation to the co-operation with Asahi Breweries, Ltd. ("Asahi") and Itochu Corporation ("Itochu") whereby the Group will transfer to AI Beverage Holding Co. Ltd. ("AI Beverage") 49.995% interest of the beverage business and work together to operate the fast growing but intense competition beverage market in the PRC. In December 2003, the Group entered into the agreement with ZhongWang Group which is mainly producing low-end instant noodle in the PRC and would establish a joint venture company called The Third Prince (Santazi) Company Limited, Hebei. The Group will invest Rmb250 million and will own 50% interest of the joint venture company. In addition, to further enhance the Group's logistics ability, the Group entered into an agreement on 26 March 2004 in relation to the co-operation with Itochu to form a strategic partnership in logistics business in the PRC. The Group will transfer 49.99% equity interests in Tingtong (Cayman Islands) Holding Corp. ("TingTong") to Itochu. Tingtong is the Group's wholly-owned subsidiary and engaged in logistics services. The co-operation will benefit the two groups in their operation of logistics industry in the PRC.

Dividend

The Group has maintained a strong foundation in its financial structure. As the Group continues to maintain a healthy net cash position for funding future development, I would recommend to the Board to provide a return to our shareholders for their support by way of a more generous dividend policy. The board will therefore recommend at the Annual General Meeting to be held on 18 May 2004 the payment of a final dividend of US1.13 cents per share, totalling US$63.152 million to shareholders whose names appear on the register of members on 18 May 2004. Final dividend for the last year was US0.93 cents per share, totalling US$51.975 million.

Management Team

For the expansion both for beverage division and instant noodle division, the Group increased its number of staff to 27,803. During the SARS outbreak and the period of severe operating conditions, all staff strictly adhered to their duties and joined hands with Master Kong to overcome the difficulty to maintain operations of the Group uninterrupted. The shareholders and I would like to thank everyone for their devoted performance during the year.

RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group"), prepared in accordance with the accounting principles generally in Hong Kong, for the year ended 31 December 2003 as follows:

		2003	2002
	Note	*US$'000*	*US$'000*
Turnover	2	1,260,691	1,100,405
Cost of sales		(909,365)	(727,531)
Gross profit		351,326	372,874
Other revenue		1,597	2,516
Other net income		18,792	29,142
Distribution costs		(248,318)	(211,657)
Administrative expenses		(38,106)	(43,092)
Other operating expenses		(24,868)	(27,850)
Profit from operations	3	60,423	121,933
Finance costs		(20,757)	(26,465)
Share of profits of associates		4,639	2,798
Profit before taxation		44,305	98,266
Taxation	4	(7,868)	(6,155)
Profit from ordinary activities after taxation		36,437	92,111
Minority interests		(621)	(1,183)
Net profit attributable to shareholders	2	35,816	90,928
Dividends		63,152	51,975
Earnings per share	5		
Basic		US0.64 cents	US1.63 cents
Diluted		N/A	N/A

Notes:

1. **Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). In the current year, the Group adopted for the first time Statement of Standard Accounting Practice No. 12 (revised) ("SSAP 12") "Income Taxes" and SSAP 35 "Accounting for government grants and disclosure of government assistance" issued by the HKSA which are effective for the current accounting period. The adoption of the new or the revised SSAPs has no material effect on the Group's financial statements in prior and current periods.

2. **Turnover and contribution by product:**

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

An analysis of the Group's turnover and profits (losses) attributable to shareholders by product are shown as follows:

	Turnover		Profits (losses) attributable to shareholders	
	2003	**2002**	**2003**	**2002**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Instant noodles	783,441	637,454	45,093	68,475
Beverages	379,112	357,611	6,892	45,937
Bakery	72,573	86,339	(7,454)	(5,074)
Others	25,565	19,001	(8,715)	(18,410)
Total	1,260,691	1,100,405	35,816	90,928

3. **Profit from operations**

Profit from operations is stated after charging the following:

	2003	**2002**
	US$'000	*US$'000*
Depreciation	76,338	67,703

4. **Taxation**

	2003	**2002**
	US$'000	*US$'000*
Current tax		
PRC income tax	7,864	6,155
Deferred taxation		
Origination and reversal of temporary differences	4	—
	7,868	6,155

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 year.

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, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years.

5. **Earnings per Share**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of US$35.816 million (*2002: US$90.928 million*) and on the weighted average of 5,588,705,360 (*2002: 5,588,705,360*) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2003 and 2002 have not been shown as the convertible bonds outstanding during these years are anti-dilutive.

Business Review

Although there were the SARS outbreak and floods in the PRC in 2003, the PRC's gross domestic products (GDP) in the year 2003 still achieved a growth of 9.1%. In addition, the Rural Land Contracting Law effected in March 2003 by the PRC government could widen consumer base and stimulate consumption demand growth for low to mid-high end consumer products. The total amount for retail market in the PRC in 2003 also increased by 9.1% from the previous year.

In 2003, the Group's turnover was US$1,260.7 million, an increase of 14.6% over 2002. The growth rates for turnover of instant noodle, beverage and bakery were 22.9%, 6.0% and -15.9% respectively. In the fourth quarter, the Group's turnover was US$306.943 million, 33.0% higher than same period last year. The increase was mainly from the growth in sales by 30.2% to US$220.387 million in instant noodle business and 92.4% to US$59.459 million in beverage business.

During the year, the prices for the Group's core materials, such as palm oil and PET plastic materials have increased by more than 15% and 20% respectively. In the fourth quarter, flour price also increased by 15% when compared to the price in the first three quarters. As a result, the Group's gross margin declined by 6.0pp to 27.9%. Other net income was US$18.792 million, decreased 35.5% from 2002. Distribution costs rose by 17.3% to US$248.318 million mainly due to the increase in expenses for the advertising and promotion activities. The expenditure in advertising and promotion is an essential and long-term investment for the brand of Master Kong to establish and strengthen the Group's market position. Due to the lower interest rate, the Group's finance cost decreased by 21.6% to US$20.757 million. Earnings before interest, tax, depreciation and amortisation (EBITDA) was US$139.803 million, dropped by 26.5%. The profit attributable to shareholders for the year 2003 was US$35.816 million, representing earnings per share of US0.64 cents and a decline by 60.6% from previous year.

Instant Noodle Business

The Group's instant noodle business faced both chances and challenges during the year. In production side, price for palm oil, which is the core material of instant noodle, maintained at a high level for the whole year, more than 15% increase when compared to average purchase price in 2002. In the fourth quarter, flour price increased by 15% when compared to the first three quarters. Those price fluctuations significantly squeezed the gross margin. In sales side, during the SARS outbreak in the second quarter, less outdoor activities and consumption in restaurant led to sharp increase in the demand for instant noodle. As a result, the sales for the Group's instant noodle had an excellent performance during the low season. In the fourth quarter, due to the shortage of flour supply, some small instant noodle factories had to terminate their operation during high season. Thanks for the good purchasing system of the Group, the operation for the Group's instant noodle business maintained uninterrupted. Coupled with the flexible marketing strategy, expansion in production capacity of the factories in Hangzhou, Guangzhou, Wuhan and Taiwan and the commencement of production by the factories in Shiheji and Kunming, sales for the Group's instant noodle for the year reached US$783,441 million, a 22.9% higher than 2002 and amounted to 62.1% of Group's turnover. The growth was mainly from both sales for high-end bowl noodles and low-end packet noodles. The sales growth for high-end packet noodles would be slowdown. This trend is same as the development of the PRC instant noodle market.

The PRC instant noodle market still has a huge potential to develop since on a per capita basis, the consumption in Japan and Taiwan was more than 40 packs and the PRC consumers only consumed 16 packs per year. Master Kong has a strong market position in high-end instant noodle market at present. To further enhance the Group's market share in the low-end noodle market which represents 72% of the total PRC instant noodle market, in December 2003, the Group entered into the agreement with Hebei ZhongWang Group which is mainly producing low-end instant noodles and would establish a joint venture company called The Third Prince (Santazi) Company Limited Hebei. The Group will invest Rmb250 million and will own 50% interest of the joint venture company. The Group will make use of ZhongWang's advantage such as its experience in low-end noodle market operation, sales network around rural farmers market and the knowledge in rural consumers behavior. It will generate benefits for both parties when these two strong players joined together and also may further strengthen the Group's leader position in the total PRC instant noodle market.

During the year, the Group has launched different new flavours under existing series. Mini Cup noodles and Flied noodle series all were welcome in the market. According to AC Nielsen, for the period of December 2003 to January 2004, the Group gained 32.6% market share by volume and 43.5 % market share by sales value in the PRC instant noodle market, market shares in the last corresponding period were 27.8% by volume and 39.6% by sales value. In addition, according to AC Nielsen, in December 2003, based on volume, Master Kong has gained 17% market share in Taiwan instant noodle market after entered the market for one year.

During the fiscal year 2003, the gross margin of instant noodle dropped by 5.1pp to 21.2%. The decline was mainly because (1) the price of raw materials increased; (2) new factories have not achieved the economies of scale;(3)the growth from the low-margin low-end noodle was bigger than the growth from the higher margin mid-to-high-end noodle and (4) the bowl noodle package was changed. Profit attributable to shareholders for instant noodle business was US$45.093 million, dropped by 34.2% mainly because of the decline in gross profit and the increase in advertising and promotion expenses.

Beverage Business

In view of the fast growing beverage market and to ensure enough supply during high seasons, the Group has added 27 new production lines for PET drinks and those lines have commenced production within the second and third quarters. Unfortunately, the outbreak of SARS, cooler summer and the floods had significantly affected the sales of package drinks which are mainly consumed in outdoor. In addition, the price for PET plastic materials has increased sharply. The Group's beverage business experienced a very difficult year. However, the Group's beverage products have good sales in the south-eastern and southern part of the PRC and further extended the market share in these two areas. During the outbreak of SARS, the Group maintained most of the advertising plan. Because of this accumulated investment in brand, the successful strategy of "New Package Line Extension" such as the launch of family size juice drinks and "Hot Drinks", beverages sales have a significant growth of 92.4% to US$59.459 million during the low season in the fourth quarter. Nevertheless, the good sales in the fourth quarter could not cover the falls during the high season in the second and third quarter so that the sales for the year only increased slightly by 6.0% to US$379.112 million when compared to 2002 and amounted to 30.0% of the Group's total turnover. As consumers take more care of their health than before, the Group has highlighted the concepts of health for juice, green tea and non-sugar tea drinks. To achieve the goal of enhancing the image for the leader brand and consumer favorite in Master Kong beverage and then to further increase both the sales and market share, the Group has maintained the investment in advertisement and promotion for the Group's core beverage "Master Kong Iced Tea", "Master Kong Green Tea" and "Fresh Daily C" juice drink series through "Thematic Consumer Promotion" and "Major Musical Event Campaign". According to AC Nielsen, for the period of December 2003 to January 2004, the sales volume and value of Master Kong tea drinks gained a share of 45.9% and 47.2% in the PRC RTD tea market respectively, being the leader brand in the market. The market share of the diluted juice drinks was 23.4% by sales volume and 22.7% by sales value, being the second leading one in the market.

During the period, the Group launched juice drinks with white grape flavour, "Ur Tea" non-sugar green tea and "Mineralized Water". For the refrigerated drinks, the Group launched "Wei Chuan Yogurt Drink" and was welcome in the market. Together with the "100% Daily C Juice", these products are being the popular high quality healthy drinks in the greater Shanghai area.

During the fiscal year 2003, the gross margin of beverage business fell by 5.2pp to 40.7% from previous year, mainly because (1) price increased by 20-40% for core raw material PET plastic materials within the year; (2) production lines have not been fully utilized and (3) product price decreased due to keen competition in the market. Profit attributable to shareholders was US$6.892 million and dropped by 85.0% from a year ago mainly because of the below expectation sales, decline in gross profit, and increase in advertising and promotion expenses.

To further strengthen the ability for the Group's development in the PRC fast growing beverage market, on 27 December 2003 the Group entered into the agreement with AI Beverage in relation to the co-operation with Asahi and Itochu in the beverage business in the PRC. Pursuant to the agreement, the Group will transfer 49.995% shares of the Group's beverage business to AI Beverage, a joint venture company of Asahi and Itochu to work together to operate in this fast growing and huge but competitive beverage market. Through the co-operation, the Group can leverage on the partners' respective expertise and strengths to significantly enhance its competitiveness in product development, manufacturing, raw material procurement and overall business management. The co-operation is clearly a big support for the Group's long term development in the PRC beverage market.

Bakery Business

In 2003, turnover for bakery business amounted to US$72.573 million, dropped by 15.9% from previous year and representing 5.8% of the Group's total turnover. The sales decline was because the life cycle for bakery is shorter than the other products and there is the high replacing possibility in bakery products. However, Muffin and Egg Rolls maintained good performance. From the beginning of September, the sales strategy of "Celebrity" for the core product "3+2" sandwich cracker was successful and had improved the sales. During the year, new product "Sweet Yolk Biscuit" has been well received by the market and the chocolate wafer and lottery pop which were produced by our strategic alliances have gradually built up the foundation in the market. According to AC Nielsen, based on sales value, for the period from December 2003 to January 2004, Master Kong's sandwich crackers gained 20.0% market share by volume and 24.4% market share by value in the PRC sandwich crackers market.

In view of the development of the PRC's bakery market towards diversity, the Group has suspended capital investment in bakery business and added more favours by using the existing production lines. To make use of Master Kong's brand and sales channel, the Group will continue to seek for strategic partners to enhance the product mix for our bakery products.

During the fiscal year 2003, the Group's gross margin of bakery business was 32.4%, dropped by 0.4pp when compared to the same period in 2002 mainly because the utilization rate for production lines was low and the sales for high margin products were under-performed. Loss attributable to shareholders was US$7.454 million and last year was US$5.074 million.

Financing

The Group's healthy finance structure was mainly benefited from the stable cash flow of the Group as a result of the well-controlled accounts receivable and inventory. At the end of 2003, the Group's cash and bank deposits amonted to US$94.978 million, decreased by US$4.935 million from previous year. The main capital outlays were related to expenditure for PET drinks production facilities. These expenditures were financed by operating cash flows and long-term borrowings. At the end of 2003, the Group's total borrowing was US$434.770 million, increased by US$71.582 million and represented 19.7% increase from previous year. The Group adjusted the ratio between long-term loans and short-term loans from the previous year's 70%: 30% to 2003's 62%: 38%. As a result of the Group's cash on delivery policy, the Group will not face the repayment problem for long-term and short-term loans. The seasonal difference from the sales between the Group's instant noodle, beverage and bakery business can also maintain the Group's strong cash position. In 2003, the Group's Renminbi debts represented 48% of total debt and at the end of 2002 it was 50.3%. 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 was no significant impact of exchange fluctuations during the year. As of 31 December 2003, Renminbi loan and the convertible bonds with fixed interest rate accounted for 69% of the Group's total borrowing and the Group had no contingent liabilities.

Ageing analysis of trade receivables is as follows:

	31 December 2003 *US$'000*	31 December 2002 *US$'000*
Within 90 days	54,076	40,776
Over 90 days	8,039	2,140
Total	62,115	42,916

Financial Ratio

	For the year ended 31 December	
	2003	**2002**
Net profit margin	2.84%	8.26%
Finished goods turnover	12.42 Days	12.03 Days
Accounts receivable turnover	15.20 Days	13.30 Days
Gearing ratio (Net debt to shareholders' equity)	0.60 Times	0.45 Times
Debt ratio (Total liabilities to total assets)	55.19%	49.38%

Production Scale

The Group has increased 27 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. Those new production lines can directly reduce the cost of PET bottles and strengthen the Group's competitiveness in the PRC beverage market. The Group has also increased new production facilities for instant noodle in Guangzhou, Hangzhou, Wuhan and Taiwan and the new facilities have commenced production before October.

In the year 2004, the Group plans to invest US$65 million in instant noodle business and refrigerated drinks business to meet the development requirement and to solve the bottle neck problem for the existing production facilities. The Group believes that those expansion will strengthen the competitiveness of the Group and benefit the growth of the Group's sales.

Sales Network

At the end of 2003, the Group established a team operation with 344 sales offices, 77 warehouses and 49,311 direct retailers in the PRC. With the network, the Group can speed up the distribution and delivery of the Group's products and the products can be launched directly to the appropriate market. In addition, to cope with the development in grand sales market and supermarkets, the Group has strengthened the management of these direct sales networks and the training for frontline staffs. The Group will continue to enhance "Better Access, Broader Reach" distribution strategy since the comprehensive sales network is the Group's valuable source.

Human Resources

As of 31 December 2003, the Group employed 27,803 staff (2002: 26,542). The Group provides a competitive salary packages, insurance and medical benefit and professional training courses to employees. In 2003, the Group has provided 921,833 training hours to the Group's staff. The Group believes that the perfect management system for human resources will enhance employee's contribution to the Group.

Corporate Governance

Code of Best Practice

Throughout the year, the Company was in compliance with the code of Best Practice as set out in the Listing Rules except all 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.

Audit Committee

In compliance with the requirement under Rule 14 of the code of Best Practice setting out in Appendix 14 of the Listing Rules, the Company has two independent non-executive directors, Mr. Hsu Shin-Chun and Mr. Katsuo Ko. The latest meeting of the committee was held to review the results of the Group for the year.

PROSPECTS

The policy of the PRC government to improve the living standard of all citizens will lead to the growth in the total amount for retail market and the consumption demand and enhance the potential for the instant food market. Meanwhile, the Group will experience some difficult conditions such as the severe market competition, price cutting for its products and the price increase of raw materials.

In 2004, the Group will continue to make use of the Group's advantages of the brand, marketing and sales network and the strategies are as follow:

1. **Business Development**

    a) To expand the market share in the PRC market by introducing strategic international partners to speed up the accumulation of product categories and capital and strengthen the market share in the PRC.

    b) To cope with the sizeable market demand by using different ways to accompany with domestic players to strengthen the production base in PRC.

2. **Sales and Operation**

   a) To strengthen the brand awareness and expand consumer's mind share through "the Combination of Multi-media" and "Event Campaign".

   b) To control marketing cost and strengthen the management of logistics system and keep closer to network partners and consumers.

   c) To launch competitive and high margin products in suitable time through the Group's professional and experienced research team and enhance the Group's overall profitability by increasing the ratio of high margin products.

3. **Production**

   a) To modify product quality by strengthening quality control and improve staff's efficiency by enhancing daily management.

   b) In 2003, the Group's facilities for beverage and noodles have fully commenced production by the end of October. For the investment in 2004, the Group will balance the trend of market growth and the Group's development under the arrangement with conservative and cautious approach.

4. **Management**

   a) To improve the quality for human resources and to strengthen the average performance per head as the standard of performance evaluation as the Group's foundation will be based on the strength of the human resources.

   b) To further enhance the efficiency for system management by strengthening the ability for SAP and modifying the B2B operating system.

The Group understands that the task for continuous profit growth is particularly challenging in the increasingly intense competition market. According to the operating experience in the PRC and advantages from the brand and sales network together with the well-defined business strategies and the professional management teams, the Group would be able to enhance customers' and shareholders' value. Through the above improvements and the alliance with strategic partners, the Group is confident to achieve double digits growth both in the Group's sales and EBITDA in the year 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES AND CONVERTIBLE BONDS

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares and convertible bonds during the year.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the website of the Stock Exchange and the Company's website www.tingyi.com in due course.

As at the date of this announcement, Messrs Wei Ing-Chou, Takeshi Ida, Wu Chung-Yi, Wei Ying-Chiao, Junichiro Ida, Ryo Yoshizawa, Katsuo Ko and Hsu Shin-Chun are the directors of the Company.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, the PRC, 20 April 2004

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

* *For identification purposes only*