



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 QUARTER RESULTS FOR THE THREE MONTHS
AND NINE MONTHS ENDED 30TH SEPTEMBER 2004**

SUMMARY

In the third quarter of the year 2004, the PRC's gross domestic products (GDP) increased by 9.1% as compared to the corresponding period in 2003 and the growth rate dropped by 0.5pp as compared to the second quarter. During the first nine months of the year, the PRC's consumer price index (CPI) increased by 4.1% as compared to the same period last year. In the third quarter, the Group's operating results had a remarkable improvement as compared to the second quarter. Total turnover and profit attributable to shareholders after deducting capital gain increased by 21.46% and 201.92% respectively. However, the price for principal raw materials still stood at a high level and the gross margin of the Group was affected and decreased by 0.40pp as compared to the same period last year. The third quarter in the PRC is a traditional peak season for beverages. Benefited from the broiling weather in eastern and southern parts of the PRC, sales of the Group's beverages in these two areas gained an excellent performance and drove the whole beverage business to achieve a new record. Also, due to the adjustment on products' structure and effective control on internal costs, the Group's instant noodle business realized profit as compared to loss for the second quarter and had a good performance for sales of container noodles and high-end packet noodles. During the period, sales of the Group's bakeries maintained healthy growth.

Highlights of the Group's third quarterly results: (comparative figures are based on the corresponding period last year)

- Turnover of the Group amounted to US\$426 million, an increase by 18.13%.
- Gross margin of the Group was 30.59%, last year was 30.99%.
- Profit attributable to shareholders amounted to US\$19.674 million, last year was US\$17.337 million.
- Earnings per share amounted to US 0.35 cents, last year was US 0.31 cents.
- Turnover for instant noodles, beverages and bakeries was US\$226 million, US\$167 million and US\$22.292 million respectively, and the product growth rates were 14.52%, 19.75% and 31.97% 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 2004 together with the unaudited comparative figures for the corresponding period in 2003. 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 2004

	<i>Notes</i>	For the period ended			
		30th September 2004		30th September 2003	
		Three Months (Unaudited)	Nine Months (Unaudited)	Three Months (Unaudited)	Nine Months (Unaudited)
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Turnover	2	426,167	1,137,771	360,754	953,748
Cost of sales		<u>(295,810)</u>	<u>(810,562)</u>	<u>(248,971)</u>	<u>(679,844)</u>
Gross Profit		130,357	327,209	111,783	273,904
Other revenue		1,895	3,159	687	1,397
Other net income		5,974	284,055	1,069	8,963
Distribution costs		(87,439)	(244,068)	(75,062)	(192,709)
Administrative expenses		(11,258)	(30,704)	(10,074)	(29,716)
Other operating expenses		<u>(9,634)</u>	<u>(31,917)</u>	<u>(5,939)</u>	<u>(15,101)</u>
Profit from operations	3	29,895	307,734	22,464	46,738
Finance costs	4	(3,978)	(13,594)	(5,144)	(14,772)
Share of profit of associates		<u>2,167</u>	<u>4,012</u>	<u>2,013</u>	<u>3,074</u>
Profit before taxation		28,084	298,152	19,333	35,040
Taxation	5	<u>(2,754)</u>	<u>(4,951)</u>	<u>(1,818)</u>	<u>(5,279)</u>
Profit from ordinary activities after taxation		25,330	293,201	17,515	29,761
Minority interests		<u>(5,656)</u>	<u>(7,498)</u>	<u>(178)</u>	<u>(400)</u>
Net profit attributable to shareholders		<u>19,674</u>	<u>285,703</u>	<u>17,337</u>	<u>29,361</u>
Earnings per share	6				
Basic		<u>0.35 cents</u>	<u>5.11 cents</u>	<u>0.31 cents</u>	<u>0.53 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended 30th September 2004

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 Institute of Certified Public Accountants. These condensed quarterly financial statements should be read in conjunction with the 2003 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 2003.

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 2004		30th September 2003	
	Three Months (Unaudited)	Nine Months (Unaudited)	Three Months (Unaudited)	Nine Months (Unaudited)
	US\$'000	US\$'000	US\$'000	US\$'000
Instant noodles	226,098	625,339	197,432	563,054
Beverage	166,943	431,870	139,415	319,653
Bakery	22,292	60,678	16,892	52,983
Others	<u>10,834</u>	<u>19,884</u>	<u>7,015</u>	<u>18,058</u>
Total	<u>426,167</u>	<u>1,137,771</u>	<u>360,754</u>	<u>953,748</u>

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

	For the period ended			
	30th September 2004		30th September 2003	
	Three Months (Unaudited)	Nine Months (Unaudited)	Three Months (Unaudited)	Nine Months (Unaudited)
	US\$'000	US\$'000	US\$'000	US\$'000
Instant noodles	18,567	21,036	14,095	41,466
Beverage	10,793	25,854	9,859	10,628
Bakery	(670)	(14,005)	(1,861)	(4,827)
Others	<u>1,560</u>	<u>274,849</u>	<u>2,374</u>	<u>396</u>
Total	<u>30,250</u>	<u>307,734</u>	<u>24,467</u>	<u>47,663</u>

3. Profit from operations

Profit from operations is stated after charging (crediting) the following:

	For the period ended			
	30th September 2004		30th September 2003	
	Three Months (Unaudited) <i>US\$'000</i>	Nine Months (Unaudited) <i>US\$'000</i>	Three Months (Unaudited) <i>US\$'000</i>	Nine Months (Unaudited) <i>US\$'000</i>
Depreciation	22,506	66,498	21,289	58,222
Gain on disposal of partial interest in subsidiaries	—	(272,955)	—	—
Gain on disposal of partial interest in an associate	—	(2,528)	—	—
Impairment loss on property, plant and equipment	<u>—</u>	<u>10,000</u>	<u>—</u>	<u>—</u>

4. Finance costs

	For the period ended			
	30th September 2004		30th September 2003	
	Three Months (Unaudited) <i>US\$'000</i>	Nine Months (Unaudited) <i>US\$'000</i>	Three Months (Unaudited) <i>US\$'000</i>	Nine Months (Unaudited) <i>US\$'000</i>
Interest expenses:				
Bank and other loans wholly repayable within five years	<u>3,978</u>	<u>13,594</u>	<u>5,144</u>	<u>14,772</u>

5. Taxation

	For the period ended			
	30th September 2004		30th September 2003	
	Three Months (Unaudited) <i>US\$'000</i>	Nine Months (Unaudited) <i>US\$'000</i>	Three Months (Unaudited) <i>US\$'000</i>	Nine Months (Unaudited) <i>US\$'000</i>
PRC enterprise income tax	<u>2,754</u>	<u>4,951</u>	<u>1,818</u>	<u>5,279</u>

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 after offsetting accumulated losses brought forward followed by a 50% reduction for the next three years.

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 (2003: 5,588,705,360) ordinary shares in issue during the period.

No diluted earnings per share is presented as the exercise price of the outstanding convertible bonds was higher than the market price per share in both periods.

7. **Dividend**

The Board of Directors resolves that no dividend be paid for the nine months ended 30th September 2004 (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Instant Noodle Business

In the third quarter of the year 2004, turnover for instant noodle business amounted to US\$226.098 million and increased by 14.52% as compared to the same period last year, representing 53% of the Group's total turnover. During the period, sales of instant noodles got a substantial increase and reached a new peak as compared to the same period last year when the demand for instant noodles sharply increased because of the outbreak of SARS. The increase was mainly attributable to the earlier beginning of the peak season and adjustment on internal products' structure. The growth in sales for the third quarter was mainly from container noodles and, besides the primary bucket noodles of Master Kong, "The Best of Asian Series" and "Mixed Noodle Series" were also increased in volume gradually. All products' sales for container noodles had a good performance. On the other hand, the Group's high-end packet noodles had gained 70% market share in the PRC high-end packet noodle market. Sales of Master Kong's products realized stable growth in all segments and attributed this growth to its strategies, including stabilizing the "Beef Stew Flavor" noodles and developing different flavors in various areas, etc. According to AC Nielsen, for the period of August to September 2004, the Group gained 40% market share by sales value and 30% market share by volume in the PRC instant noodle market. The Group's leader position was further strengthened.

During the period, because of the fall in price of palm oil, the gross margin for instant noodle business increased by 0.22pp to 21.99% as compared to the same period last year. Profit attributable to shareholders was US\$15.988 million and last year was US\$10.634 million.

Beverage Business

In the third quarter of 2004, turnover for beverage business amounted to US\$166.943 million and increased by 19.75% as compared to the corresponding period last year, representing 39% of the Group's total turnover. Matching the peak season's coming, beverage business completely launched annual brand thematic above-the-line and below-the-line marketing activities. The new brand "X Sports", which was introduced in the year, kept on building up its brand reputation and came to stay in eastern, southern and middle parts of the PRC. Also, the Group continued to extend the sales area for Master Kong Mineralized Water and realized the sales growth of 68% in the third quarter as compared to the same period last year. Along with launching and promoting new flavors of juice drinks such as Master Kong Mango Juice Drink, Daily C Acerola Juice Drink and Daily C Blood Orange Juice. The Group emphasized to strengthen the sales for Master Kong Iced Tea, Master Kong Green Tea, Master Kong Juice Drink and Daily C Family Size Series (1250 milliliter, 1500 milliliter and 2000 milliliter PET-bottled) in order to capture the peak season market in different segments - families,

restaurants for family size and beverage heavy users in summer. All efforts led turnover to a new record. According to AC Nielsen, for the period of August to September 2004, the Group's Ready-To-Drink Tea gained 43.4% market share by sales value and still kept the No.1 position in the market. For the Group's juice drink series, the market share's gap of diluted juice drinks between Master Kong and leading brand was shortened gradually and gained No.2 position in the market and 18.7% market share.

During the period, the gross margin of beverage business was 41.2%, dropped by 2.7pp as compared to the same period in 2003 mainly because of the price for PET resin and sugar stood at a high level. Profit attributable to shareholders amounted to US\$4.763 million and last year was US\$8.974 million. The decline was mainly due to the interest of strategic partners was reflected in minority interests which amounted to US\$5.506 million and the decrease in gross profit.

Bakery Business

In the third quarter of 2004, turnover for bakery business amounted to US\$22.292 million, increased by 31.97% as compared to the corresponding period last year and representing 5% of the Group's total turnover. The growth in sales was mainly from Muffin, Sandwich Crackers and Savoury Sandwich Crackers. In the future, the Group will concentrate its marketing resources on core products such as Sandwich Crackers series, Muffin and Sweet Yolk Biscuit in order to expand the market. Through using the current equipment effectively, the Group will continue to research and develop new products in response to market demands. In addition, brand investment and communication with consumers will be strengthened.

During the period, the gross margin of bakery business was 38.64%, increased by 4.6pp and 7pp as compared to the same period in 2003 and first half of the year respectively. In spite of the pressure from the price increase in raw materials, loss attributable to shareholders dropped by 58.41% as compared to the same period last year and amounted to US\$0.855 million because of efficiency improvement and distribution price adjustment. Overall bakery business has showed the increase in both turnover and gross margin. The increase was mainly attributable to concentrating on producing high gross margin products. The performance for bakery business will be expected to improve gradually.

Financing

As of 30th September 2004, the Group's total liabilities amounted to US\$582 million, representing a decrease of US\$130 million from US\$712 million as at 31st December 2003. Total assets amounted to US\$1,469 million. The leverage ratio (total liabilities to total assets) dropped by 15.57pp to 39.61% as compared to 31st December 2003. The decrease was mainly because the Group repaid parts of bank loans before the end of June this year. The Group's long-term and short-term loans decreased by US\$235 million as compared to 31st December 2003. The portion for US dollars and Renminbi in the Group's total borrowing was 73% and 27% respectively. The Group's transactions are mainly denominated in Renminbi

and during the period the exchange rate between Renminbi and US dollar remained stable. As a result, there will be no significant impact of exchange fluctuations during the period. As of 30th September 2004, the Group had no contingent liabilities and cash on hand amounted to US\$175 million.

Financial Ratio

	As at 30th September 2004	As at 31st December 2003
Finished goods turnover (days)	11.23	12.42
Accounts receivable turnover (days)	17.96	15.20
Current ratio (times)	0.87	0.78
Debt ratio (%)	39.61	55.19
Gearing ratio (times)	0.03	0.60

Human Resources

The Group employed 25,216 staff as at 30th September 2004 (31st December 2003: 27,803). 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

The continuous growth for the PRC consumers' income and the new concept for consumption will further expand the development for the instant food market. Because of the pressure of price increase in raw materials, the Group's gross margin will be squeezed and the Group's production cost will continue to be affected in the fourth quarter. Facing the pressure from market competition and the increasing production cost, the Group's strategies are as follows:

1. Introducing strategic partners and further developing the network in the PRC.
2. Launching the competitive and high margin products in suitable time through the Group's professional and experienced research team and enhancing the Group's overall profitability by increasing the ratio of high margin products.
3. Continuing to strengthen the brand awareness, sales networks and customer service.
4. Strengthening and establishing the Group's logistics system to enhance the quality and reduce the cost for distribution network.
5. Expanding the market share for the refrigerated drinks in the eastern region and developing the northern market in the PRC in order to establish the Group's distribution ability in the refrigerated food market.
6. Further enhancing the efficiency for system management by strengthening the ability for SAP and modifying the B2B operating system.

CORPORATE GOVERNANCE

Code of Best Practice

Throughout the nine months ended 30th September 2004, 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 established the audit committee in September 1999 and has two independent non-executive directors, Mr. Hsu Shin-Chun and Mr. Katsuo Ko. On 27th September 2004, the board of the Company appointed Mr. Lee Tiong-Hock as an independent non-executive director and a member of the audit committee. The latest meeting of the committee was held to review the results of the Group for the period.

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 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.

PUBLICATION OF FINANCIAL INFORMATION

A detailed results announcement containing all the information required by paragraphs 37(1) to 37(6) 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 (<http://www.hkex.com.hk>) and the Company (<http://www.masterkong.com.cn>) in due course.

BOARD OF DIRECTORS

As at the date of this announcement, Mr. Wei Ing-Chou, Mr. Takeshi Ida, Mr. Ryo Yoshizawa, Mr. Wei Ying-Chiao, Mr. Wu Chung-Yi and Mr. Jun-Ichiro Ida are executive directors of the Company. Mr. Katsuo Ko, Mr. Hsu Shin-Chun and Mr. Lee Tiong-Hock are independent non-executive directors of the Company.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 24th November 2004

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

* *For identification purposes only*