



康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(incorporated in the Cayman Islands with limited liability)

(Stock code: 0322)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

Turnover increased 16.4% to US\$1,466.889 million

Profit attributable to shareholders and EPS were US\$286.429 million and US5.13 cents respectively

Net cash from operating activities was US\$119.264 million

Final dividend is US1.14 cents per share

Introduction

Year 2004 was a difficult year for food industry in the PRC. As a result of the Group's flexible marketing strategies, "Master Kong" Instant Noodles and Tea Drinks continued to be the market leader and the sales growth were good. Sales performance for bakery and refrigerated products also achieved a fast growth. Because of the price increase from PET plastic resin, sugar, flour and palm oil, the Group's operation cost has been increased continuously. Coupled with the severe market competition which has hindered the price increase for the Group's products, the Group's profit was affected. The Group's total sales for the year have reached the level of US\$1,466.889 million, 16.4% higher than in previous year. The Group has completed two co-operation projects with strategic partners in late April and realized capital gain of US\$272.955 million. For the whole year, the Group's profit attributable to shareholders amounted to US\$286.429 million and earnings per share amounted to US 5.13 cents.

Dividend

The Group has maintained a strong foundation in its financial structure. Coupled with the share transfer of beverage business and logistics business, the Group realized capital gain of US\$272.955 million. 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 increasing the dividend payout this year. The Board will recommend at the Annual General Meeting to be held on 13 June 2005 the payment of a final dividend of US 1.14 cents per share, totaling US\$63.712 million to shareholders whose names appear on the register of members on 13 June 2005 (shareholders who bought the Group's shares on or before 3 June 2005). Final dividend for the last year was US 1.13 cents per share, totaling US\$63.152 million.

Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 8 June 2005 to Monday, 13 June 2005, both dates inclusive, during which period no transfer of shares will be effected for the purpose of determining a Shareholders' list for the Annual General Meeting and the payment of the proposed final dividend.

In order to qualify for the dividend to be approved at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:00 p.m. on Tuesday, 7 June 2005.

Management Team

Through the improvement of the production skill, the number of the Group's staff has been reduced to 25,003. During the period of severe operating conditions, all staff strictly adhered to their duties. 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 2004 as follows:

Consolidated Income Statement

	<i>Note</i>	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
Turnover	2	1,466,889	1,260,691
Cost of sales		<u>(1,062,250)</u>	<u>(909,365)</u>
Gross profit		404,639	351,326
Other revenue		1,908	1,597
Other net income		302,188	18,792
Distribution costs		(305,092)	(248,318)
Administrative expenses		(42,937)	(38,106)
Other operating expenses		<u>(48,741)</u>	<u>(24,868)</u>
Profit from operations	3	311,965	60,423
Finance costs		(14,878)	(20,757)
Share of (losses) profits of associates		<u>(698)</u>	<u>4,639</u>
Profit before taxation		296,389	44,305
Taxation	4	<u>(8,576)</u>	<u>(7,868)</u>
Profit from ordinary activities after taxation		287,813	36,437
Minority interests		<u>(1,384)</u>	<u>(621)</u>
Net profit attributable to shareholders	2	<u>286,429</u>	<u>35,816</u>
Dividends		<u>63,712</u>	<u>63,152</u>
Earnings per share	5		
Basic		US5.13 cents	US0.64 cents
Diluted		<u>N/A</u>	<u>N/A</u>

Consolidated balance sheet

	<i>Note</i>	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		932,545	909,750
Interest in associates		53,154	39,814
Interest in a joint venture		30,058	—
Other non-current financial assets		3,109	2,619
Deferred tax assets		<u>6,197</u>	<u>5,830</u>
		<u>1,025,063</u>	<u>958,013</u>
Current assets			
Current financial assets		16,466	1,142
Inventories		96,590	99,691
Trade receivables	6	71,499	62,115
Prepayments and other receivables		65,025	74,188
Pledged bank deposits		1,394	1,793
Bank balances and cash		<u>126,152</u>	<u>93,185</u>
		<u>377,126</u>	<u>332,114</u>
Current liabilities			
Trade payables	7	188,398	168,140
Other payables		96,275	83,953
Current portion of interest-bearing borrowings		186,606	164,974
Advance payments from customers		7,372	9,675
Taxation		<u>2,575</u>	<u>714</u>
		<u>481,226</u>	<u>427,456</u>
Net current liabilities		<u>(104,100)</u>	<u>(95,342)</u>
Total assets less current liabilities		<u>920,963</u>	<u>862,671</u>
Non-current liabilities			
Long-term interest-bearing borrowings		13,581	269,796
Other non-current payables		10,913	5,112
Employee benefit obligations		4,887	3,808
Deferred tax liabilities		<u>6,176</u>	<u>5,834</u>
		<u>35,557</u>	<u>284,550</u>
Minority interests		<u>86,963</u>	<u>6,634</u>
NET ASSETS		<u>798,443</u>	<u>571,487</u>
CAPITAL AND RESERVES			
Issued capital		27,943	27,943
Reserves		706,788	480,392
Proposed final dividend		<u>63,712</u>	<u>63,152</u>
		<u>798,443</u>	<u>571,487</u>

Notes:

1. **Basis of preparation**

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. **Turnover and contribution by product**

The Group operates mainly in 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 major products is set out below:

	Turnover		Profits (losses) attributable to shareholders	
	2004	2003	2004	2003
	US\$’000	US\$’000	US\$’000	US\$’000
Instant noodles	849,932	783,441	17,478	45,093
Beverages	479,398	363,753 [▲]	9,474	7,914 [▲]
Bakery	83,833	72,573	(15,904)	(7,454)
Others	53,726	40,924 [▲]	275,381	(9,737) [▲]
Total	<u>1,466,889</u>	<u>1,260,691</u>	<u>286,429</u>	<u>35,816</u>

[▲] The comparative information of turnover and profits (losses) attributable to shareholders has been restated and reclassified to conform to current year’s presentation.

3. **Profit from operations**

Profit from operations is stated after charging the following:

	2004	2003
	US\$’000	US\$’000
Depreciation	<u>89,586</u>	<u>76,338</u>

4. Taxation

	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
Current tax		
PRC income tax	8,601	7,864
Deferred taxation		
Origination and reversal of temporary differences	<u>(25)</u>	<u>4</u>
	<u><u>8,576</u></u>	<u><u>7,868</u></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 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\$286,429,000 (2003: US\$35,816,000) and on the weighted average of 5,588,705,360 (2003: 5,588,705,360) ordinary shares in issue during the year.

No diluted earnings per share is presented as the conversion price of the Company's convertible bonds were higher than the market price of the Company's shares in both periods.

6. Trade Receivables

The majority of the Group's sales is cash-on-delivery. The remaining balances of sales are at credit terms ranging from 30 to 90 days. The ageing analysis of the trade receivables as at the balance sheet date is as follows:

	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
0 - 90 days	60,717	54,076
Over 90 days	<u>10,782</u>	<u>8,039</u>
	<u><u>71,499</u></u>	<u><u>62,115</u></u>

7. Trade Payables

The ageing analysis of trade payables as at the balance sheet date is as follows:

	2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
0 - 90 days	173,107	148,436
Over 90 days	<u>15,291</u>	<u>19,704</u>
	<u><u>188,398</u></u>	<u><u>168,140</u></u>

Business Review

The PRC's gross domestic products (GDP) in the year 2004 achieved a growth of 9.5% and the total amount for retail market also increased by 13.3% from the previous year.

In 2004, the Group's turnover was US\$1,466.889 million, an increase of 16.4% over 2003. The growth rates for turnover of instant noodle, beverage and bakery were 8.5%, 31.8%[△] and 15.5% respectively. In the fourth quarter, the Group's turnover was US\$329.118 million, 7.2% higher than the same period last year. The increase was mainly from sales growth in instant noodle business and bakery business.

During the year, the prices for the Group's core materials, such as flour, palm oil and PET plastic materials have increased by more than 30%, 10% and 20% respectively. As a result, the Group's gross margin declined by 0.3pp to 27.6%. Other net income was US\$302.188 million, sharply increased by 1,508.1% from 2003. It was mainly because of the capital gain from the shares transfer. Distribution costs rose by 22.9% to US\$305.092 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 good use of the cash from the shares transfer to repay most of the loans, the Group's finance cost sharply decreased by 28.3% to US\$14.878 million. Earnings before interest, tax, depreciation and amortization (EBITDA) was US\$398.945 million, increased by 185.4%. The profit attributable to shareholders for the year 2004 was US\$286.429 million, representing earnings per share of US 5.13 cents and a growth by 701.6% from previous year.

Instant Noodle Business

In year 2004, under the strategy of promoting "Beef Stew Flavor" as a primary brand and aiming at different flavors in various areas, instant noodle business introduced a series of essential products with local characters and fully developed the pith of China's eating culture. "The Best of Asian Series" also let China's consumers enjoy multinational delicious Asian flavours and, at the same time, provided consumers for more choices. Furthermore, "Mian-Ba La Mian" was successfully designed for an image of high quality noodles by "Experts' Favorite Enjoyment". Due to new products and original product series winning the favor of customers, the Group's leader position in high-end instant noodle market was further strengthened.

During the period, in order to enhance the Group's competitive ability in low-end market, which held 65% market share in the PRC's instant noodle market, and improve the potential

for development, the Group obtained the whole operation right for Yi Wan Xiang Food Co., Ltd., which is principally engaged in the production and distribution of low-end instant noodles, through an agreement with the joint venture partner, Wang Zhong-Wang. In addition, the Group continued to enlarge its operative area in low-end noodles by strengthening the Group's current management on low-end brand, for example, launching new product "Gao Tang Hao Zi Wei" etc. According to AC Nielsen, for the period of December 2004 to January 2005, the Group gained 27.4% market share by sales volume and 37.7% market share by value in the PRC instant noodle market.

In 2004, turnover for instant business amounted to US\$849.932 million, grew by 8.5% from previous year and representing 57.9% of the Group's total turnover. The growth mainly came from high-end bowl noodles. Due to the continuous high price for instant noodles' core materials such as flour and palm oil, some of the small factories have been closed during this difficult period. Facing the difficult conditions, the Group actively improved the production management and upgraded the existing machinery to strengthen production capacity and reduce manpower requirement so that the pressure on gross margin arising from the increase in prices of core materials was mitigated.

During the year, the gross margin of instant noodle dropped by 1.9pp to 19.3% and profit attributable to shareholders was US\$17.478 million, dropped by 61.0% mainly because of the decline of gross margin and the increase in advertising and promotion expenses.

Beverage Business

In year 2004, the Group established the market position successfully in diversified non-carbonated beverage. "Master Kong", as a primary brand, held an advantageous position in Ready-to-drink tea and bottle water area. In addition, backed by the image of "Master Kong", "Fresh Daily C" and "X-Sports" had become a famous brand in diluted juice and sports drink markets. The Group's tea drinks gained 47.0% market share in sales volume and still kept No.1 position in the market. The Group's diluted juice drinks gained No.2 position in the market and 20.6% market share in sales volume.

During the year, the flagship product "Ice Tea" continued to gain the absolute leading position in the market due to the successful marketing strategy of "Celebrity + Music". With the advance of consumers' health concern, the Group promoted its products, including green tea, juice, mineral water and sports drink, by using the "Fresh, Natural and Healthy" conception as an entrance to the market. The Group also stressed the product differentiation and adopted the flexible marketing strategy. All these efforts had satisfied the consumers' demands and driven the total revenues achieving a high level. In 2004, turnover for beverage business amounted to US\$479.398 million and increased by 31.8%[△] as compared to last year. The proportion to Group's total turnover increased to 32.7% and last year was 28.9%[△]. During the year, the Group also introduced the new product "X-Sports" besides introducing the new flavors of current products.

During the year, the prices of main raw materials for beverage business such as PET plastic resin and sugar continued to maintain at a high level. Owing to the Group's high efficient production facilities and the continuous effort in strengthening production management, the gross margin for beverage business maintained at a high level of 39.6% and same period last year was 40.4%[△]. Profit attributable to shareholders was US\$9.474 million, increased by 19.7%[△] mainly because of the well control for production expenses.

In April 2004 the Group completed the transfer of 49.99% interest in beverage business to AI Beverage a joint venture company of Asahi and Itochu to enhance the Group's competitiveness in the PRC beverage market.

[△] The percentage of turnover by product type, growth rate of turnover, gross margin and growth rate of profit attributable to shareholders regarding beverage segment before revision was 30.0%, 26.5%, 40.7% and 37.5% respectively.

Bakery Business

In 2004, turnover for bakery business amounted to US\$83.833 million, grew by 15.5% from previous year and representing 5.7% of the Group's total turnover. The sales increase was mainly because of the successful policy of sales focus on sandwich crackers, thin crackers and cakes and the launch of new products with glaring package in good timing. In addition, the achievable sales strategy of "Celebrity" and "Thematic Consumer Promotion" also benefited the bakery sales performance. According to AC Nielsen, based on sales value, for the period in December 2004/January 2005, "Master Kong"'s sandwich crackers maintained leading position when gained 22.7% market share by volume and 27.5% 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 made use of those existing production facilities to produce different flavours of bakery so that more choices were provided to consumers. During the year, the Group has produced different flavors for existing products and launched "Petite Cake".

In the year of 2004, the gross margin of bakery business was 34.8%, grew by 2.4pp when compared to the same period last year. The growth was mainly because of the sales focus on those high margin products. Overall operation has been improved gradually. Loss attributable to shareholders was US\$15.904 million, last year's loss was US\$7.454 million. The increase of loss was mainly due to the impairment loss of US\$10 million recognised on the property, plant and equipment in the second quarter.

Supporting Business

The Group entered into an agreement in relation to the co-operation with Itochu to form a strategic partnership in logistics business in the PRC in April 2004. With the agreement, the Group would transfer 49.99% interest in Tingtong to Itochu. The Group believes that the co-operation will benefit the two groups' operation in the PRC logistics industry. In May 2005, the Group will complete to transfer 49.99% equity interests in Tianjin Tingjia Machinery Co., Ltd to New Tokyo Menki Co., Ltd. which is principally engaged in research and design of instant noodle production process facilities. Tianjin Tingjia is the Group's

wholly-owned subsidiary and engaged in installation and maintenance of plant and machinery. The co-operation will enhance the Group's production skill in instant noodle process facilities and further strengthen the Group's vertical integration in instant noodle business.

Refrigeration Business

Currently, refrigeration business only has one production center in Hangzhou. After entering into China market for three years, its main products — “Daily C” and “Wei Chuan Yogurt Drink” — have gained No.1 brand in Shanghai's pure fruit juice market and No.2 brand in Shanghai's yogurt market respectively. The distribution network had expanded to Beijing since the second quarter of 2004.

The Group's refrigeration products achieved a rapid increase in sales through its successful marketing strategies. These strategies included introducing the promotion theme for the brand image-building with “Health, Fashion and Confidence”, positioning the products with a sense of high value, emphasizing on product differentiation and strengthening the communication between the products and the point of consumers' benefits. Besides adding the new flavors of current product series in year 2004, the Group also conducted the package extension policy and launched the cup yogurt that got the pretty well reaction from the market.

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 2004, the Group's cash and bank deposits amounted to US\$127.546 million, increased by US\$32.568 million from previous year. The main capital outlays were related to expenditure for acquisition of more instant noodle and bottle water production facilities. At the end of 2004, the Group's total borrowings decreased by US\$234.583 million and represented a drop of 54.0% from previous year to US\$200.187 million. The Group adjusted the ratio between long-term loans and short-term loans from the previous year's 62%: 38% to year 2004's 7%: 93%. The short-term loans have included the remaining principal amount of the Group's 2002 Convertible Bonds which is to be due in June 2005. The Group anticipates repaying the remaining principal amount of US\$90 million plus a redemption premium of US\$9.932 million from operating cash flows and cash from the shares transfer during the year. The total repayable amount will be US\$99.932 million. 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 2004, the Group's Renminbi debts represented 31% of total debts and at the end of 2003 it was 48%. 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 was no significant impact of exchange fluctuations during the year. As of 31 December 2004, Renminbi loan and the convertible bonds with fixed interest rate accounted for 76% of the Group's total borrowing and the Group had no contingent liabilities.

Financial Ratio

	For the year ended 31 December	
	2004	2003
Net Profit margin	19.53%	2.84%
Finished goods turnover	10.73 Days	12.42 Days
Accounts receivable turnover	16.62 Days	15.20 Days
Gearing ratio (Net debt to shareholders' equity)	0.14 Times	0.60 Times
Debt ratio (Total liabilities to total assets)	36.86%	55.19%

Production Scale

The Group has increased 12 production lines for instant noodle and all the lines have been put in production in the fourth quarter. To facing the high growth bottle water market and enhance the Group's competitive ability in beverage market, the Group has added 12 production lines for bottle water during the year and those lines have commenced production in the first quarter of 2005.

In the year 2005, the Group plans to invest US\$99 million in instant noodles 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 2004, the Group established a team operation with 341 sales offices, 72 warehouses and 61,065 direct retailers in the PRC. With the network, the Group's products and the new products can be distributed and 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 staff. The Group will continue to enhance "Better Access, Broader Reach" distribution strategy since the comprehensive sales network is the Group's valuable resources.

Human Resources

As of 31 December 2004, the Group employed 25,003 staff (2003: 27,803). The Group provides a competitive salary packages, insurance and medical benefit and professional training courses to employees. 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 ended 31 December 2004, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of 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 27 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.

Prospects

Due to the General Rich Policy pushed by the central government, the PRC's total retail and consumer expenditure will increase continuously and, at the same time, the growth of instant foods will be enlarged rapidly. The Group's business will benefit from it. Aimed at the characteristics of its products, the Group will continue to expand the sales area and enhance the modern distribution network management. As a result of experiencing the year 2004's squeeze of gross margin caused by the sharp price increase in raw materials, the Group will further refine its production process and strengthen its cost controls in order to stabilize the Group's gross margin level. Also, the Group will continue to manage the brand name and improve the marketing ability. Moreover, the Group will launch the competitive and high gross margin products timely by a combination of strategic partners and current R&D team. The Group will continue to improve the quality control system and establish the concept of "All QC".

In year 2005, under the "Profit Priority" precondition, the Group will expand its total sales, further strengthen the leading position of each product in the PRC market, and practise the concept of "Always Abreast of time, Continue to Building Value".

Purchase, Sale or Redemption of Shares and Convertible Bonds

There were no purchases, sales or redemptions of the Company's shares and the convertible bonds by the Company or any of its subsidiaries during the year.

Annual General Meeting

The 2005 Annual General Meeting of the Company will be held at the Conference Room of the Company at No.15, the 3rd Avenue, Tianjin Economic-Technological Development Area, Tianjin, PRC on Monday, 13 June 2005 at 3:00 p.m. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting, which is expected to be published on or before 12 May 2005.

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, 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, the PRC, 26 April 2005

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

* *For identification purposes only*

Please also refer to the published version of this announcement in The Standard.