



康師傅控股有限公司

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2003

SUMMARY

During the second quarter of the year 2003, as affected by the outbreak of SARS, the Group's sales have increased but are still far below the Group's expectation. Second quarter in the PRC is traditionally the peak season for beverages and low season for instant noodles. When all outdoor and group activities were suspended and most of the Group's promotion events had to be cancelled, the sales of the Group's beverage dropped by 15.83% as compared to the second quarter of corresponding period last year since ready-to-drink (RTD) beverage are mainly consumed in outdoors. At the same time, consumers stocked up on basic necessities so that the sales of the Group's instant noodle recorded a significant growth of 41.66% as compared to the second quarter of corresponding period last year. As a whole, the Group's profitability was sharply squeezed in the second quarter mainly because (1) the assets of beverage business have not been fully utilized; (2) the gross margin of instant noodles is lower than beverages; (3) price for the Group's main raw material has increased sharply in the first half of the year and (4) there is little room for reducing fixed costs within a short period of time.

Highlights of the Group's interim results: (Comparative figures are based on the corresponding period last year)

- Turnover of the Group amounted to US\$593 million, an increase by 11.47%.
- Gross margin of the Group was 27.34%, last year was 35.17%.
- Profit attributable to shareholders amounted to US\$12.024 million, dropped by 76.51%.
- Earnings per share amounted to US0.22 cents, last year was US0.92 cents.
- Turnover for instant noodle, beverage and bakery was US\$366 million, US\$180 million and US\$36.091 million respectively, and the product growth rates were 23.68%, -3.75% and -11.59% respectively.

INTERIM 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 six months ended 30th June 2003 together with the unaudited comparative figures for the corresponding period in 2002. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

Condensed Consolidated Income Statement

For the Six Months Ended 30th June 2003

		2003	2002
		(Unaudited)	(Unaudited)
	Notes	US\$'000	US\$'000
Turnover	2	592,994	531,955
Cost of sales		(430,873)	(344,890)
Gross Profit		162,121	187,065
Other revenue		710	1,224
Other net income		7,894	10,140
Distribution costs		(117,647)	(96,694)
Administrative expenses		(19,642)	(21,053)
Other operating expenses		(9,162)	(10,385)
Profit from operations	3	24,274	70,297
Finance costs	4	(9,628)	(12,612)
Share of profit (loss) of associates		1,061	(1,017)
Profit before taxation		15,707	56,668
Taxation	5	(3,461)	(4,602)
Profit from ordinary activities after taxation		12,246	52,066
Minority interests		(222)	(869)
Net profit attributable to shareholders		<u>12,024</u>	<u>51,197</u>
Earnings per share	6	<u>0.22 cents</u>	<u>0.92 cents</u>

Notes

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group’s unaudited interim financial statements. These unaudited interim 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 interim 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 interim 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 and segment results by major products is as follows:

	For the six months ended 30th June					
	Turnover				Segment results	
	2003		2002		2003	2002
	(Unaudited)		(Unaudited)		(Unaudited)	(Unaudited)
	US\$'000	%	US\$'000	%	US\$'000	US\$'000
Instant noodles	365,622	62	295,624	56	27,371	41,293
Beverages	180,238	30	187,254	35	769	29,643
Bakery	36,091	6	40,823	8	(2,966)	(1,233)
Others	11,043	2	8,254	1	(1,978)	3,137
Total	<u>592,994</u>	<u>100</u>	<u>531,955</u>	<u>100</u>	<u>23,196</u>	<u>72,840</u>

3. Profit from operations

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

	For the six months ended 30th June	
	2003	2002
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Depreciation	36,933	32,732
Reversal of provision for impairment loss from associates included in other net income	<u>—</u>	<u>(2,855)</u>

4. Finance costs

	For the six months ended 30th June	
	2003	2002
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Interest expenses:		
Bank and other loans wholly repayable within five years	<u>9,628</u>	<u>12,612</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.

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 six months ended 30th June 2003 (2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Instant Noodle Business

In the first half of 2003, the turnover of instant noodle grew by 23.68% to US\$365.622 million as compared to the same period last year and amounted to 62% 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 so that the sales of instant noodle reached a new record. During the period, the sales for bowl noodle surged by 39.04% because (1) the demand of bowl noodles has increased continuously as consumers in big cities are willing to pay more money in return for the convenience; and (2) the sales in Taiwan market are successful as bowl noodle is the major part of Taiwan instant noodle market. The growth of packet noodles is mainly from the low-end noodle "Fu Moon Du". The sales growth for high-end packet noodle would be slowdown when both sales from bowl noodles and low-end packet noodles have increased continuously. This trend is same as the development of the PRC instant noodle market. During the outbreak of the SARS in the second quarter, the demand for instant noodle sharply increased. As a result, the sales of the instant noodle business were well-performed even in the traditional low season. According to AC Nielsen, based on volume and value, for the period from April to May 2003, the Group gained market share of 31.7% and 42.1% respectively in the PRC instant noodle market and maintained the leader position, same period last year was 28.2% and 40% respectively. After entering Taiwan market for six months, according to AC Nielsen's latest report in June, based on volume, Master Kong's instant noodle has gained 22.3% market share in Taiwan instant noodle market and kept hot sales. As consumers would look for value for money, the Group launched a series of better valued products which met with consumers' requests for varied quality and quantity of instant noodle.

During the first half of 2003, the gross margin of instant noodle segment was 21.65%, a drop by 6.17pp as compared to corresponding period last year. The decline was mainly because (1) palm oil price stood at a high level; (2) the marketing strategy for "increasing quantity, without changing price" and the change of bowl noodle package led to higher cost of raw materials; (3) there was fast growth from the low-margin low-end noodle; and (4) the production in Taiwan has not achieved the economies of scale as it is still in the beginning stage. Profit attributable to shareholders for instant noodle business for the period was US\$21.792 million. It was US\$30.084 million for the corresponding period last year.

Beverage Business

In the first half of 2003, the turnover of beverage amounted to US\$180.238 million, dropped by 3.75% and representing a 30% of the Group's total turnover. The sales of beverage in the second quarter were below the Group's expectation and could not maintain the first quarter's growth rate. As described earlier, as affected by the outbreak of SARS, the "May 1" golden holiday was cancelled. During the second quarter, the life of consumers and their consumption behavior have changed. The significant decline for travel and tourism, outdoor activities, consumption in restaurant and commercial events have a significant impact on the Group's RTD beverage sales. Despite of the worse situation, the Group was successful to launch "Master Kong Mineralized Water" and "Ur Tea" health non-sugar green tea. Nevertheless, the Group still maintained the leader position in the the PRC RTD tea market and extended the market share in the diluted juice drinks market by using "Dual-brand Name" strategy. According to AC Nielsen, based on volume, for the period from April to May 2003, the Group gained market share of 45.3% and 20.9% in the PRC RTD tea market and diluted juice drinks market respectively. The Group's RTD tea drinks is number 1 in the market and diluted juice drinks is number 2 and its market share was 15.5% in the same period last year.

After SARS, the Group is full of confidence that the sales of beverage would recover and increase as soon as possible. As consumers take more care of their health than before, the Group highlights the concepts of health for juice and green tea. 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 maintains the investment in advertisement and promotion for the Group's core beverage "Master Kong Iced Tea", "Master Kong Green Tea" and "Fresh Daily C" series through "Thematic Consumer Promotion" and "Major Musical Event Campaign".

During the period, the gross margin of beverage segment was 41.04%, a drop by 5.32pp as compared to corresponding period last year. The decline was mainly because the raw material prices for PET and juice increased by 40% in the first quarter and 10% in the second quarter and the production lines have not been fully utilized. In the first half of 2003, loss attributable to shareholders for beverage business was US\$1.281 million whereas profit attributable to shareholders was US\$26.321 million for the corresponding period last year.

Bakery Business

In the first half of 2003, the turnover of bakery amounted to US\$36.091 million, dropped by 11.59% and representing a 6% of the Group's total turnover. The performance for bakery segment was below expectation mainly because of the shorter product life cycle and the higher possibility of substitutes for bakery products. During the period, the sales for the nutritional "Muffin" and traditional Chinese bakery "Egg Rolls" were satisfactory. Export business kept stable. Through the strategic alliances, the Group launched chocolate wafer and lottery pop in early of the year. The sales have achieved the Group's expectation and have built up the foundation in the market. The Group will make use of 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 April to May 2003, Master Kong's sandwich crackers gained 27% market share in the PRC sandwich crackers market.

During the period, the gross margin of bakery segment was 25.97%, fell by 4.55pp when compared to the same period in 2002 mainly because the utilization rate for production line was low and the sales for high margin products were under-performed. Loss attributable to shareholders for the period was US\$3.382 million whereas loss attributable to shareholders was US\$1.952 million for the corresponding period in last year.

Financing

As of 30th June 2003, the Group's total liabilities amounted to US\$806 million, representing an increase of US\$226 million from US\$580 million as at 31st December 2002. Total assets amounted to US\$1,360 million. The debt ratio increased by 9.9 pp to 59.28% as compared to 31st December 2002. The Group's long-term and short-term loans increased by US\$103.285 million as compared to 31st December 2002 because the expansion of the Group's beverage facilities has significantly increased the "Trust Receipts Loan" (T/R loan) of short-term loan and the Group's risk management has been started to deal with the uncertainty of SARS. To maintain a healthy financial structure, the Group has gradually replaced the T/R loans by mid-term and long-term loans. As the Group repays T/R loans gradually, the Group's total loans will be reduced. As of 30th June 2003, the Group has cash on hand of US\$163 million.

Financial Ratio

	As at 30th June 2003	As at 31st December 2002
Finished goods turnover (days)	12.41	12.03
Accounts receivable turnover (days)	15.93	13.30
Current ratio (times)	0.80	1.01
Debt ratio (%)	59.28	49.38
Gearing ratio (times)	0.55	0.45

Production Scale

The Group has increased 25 production lines for PET beverage in the first half of 2003. At the end of June, out of the 25 new lines, 23 lines have been put in production and the rest 2 lines have commenced production in the third quarter. In the third quarter, the Group's production capacity for PET beverage would be doubled as compared to the end of last year.

To cope with the growth in instant noodle market, the Group has increased new production facilities in Guangzhou, Hangzhou, Wuhan and Taiwan. The three new lines in Taiwan have been put in production in July and the rest of the new facilities in the other three locations will commence production within the third quarter. The Group believes that those expansion will strengthen the market competitiveness of the Group and benefit the growth of the Group's sales.

Human Resources

As of 30th June 2003, the Group employed 26,223 staff (31st December 2002: 26,542). 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 robust growth of the PRC retail market and steady rise in consumer spending will further expand the room of development for the instant food market. The Group believes that the negative impact from SARS is a one-off incident. It is pleased to see that the sales for beverages have been steadily recovering after SARS and the flood was under control in July and in August respectively. In the eastern and southern regions of the PRC, weather is hotter than normal so that there are better sales in the Group's beverage in these areas. However, intense competition in price would affect the Group's margin. To maintain continuous profit growth in this competitive market is particularly challenging. The Group will make use of the advantage of the Group's brand, marketing and sales network. The Group's strategies are as follow:

1. Production: Production cost is expected to decrease through professional technology and management.
2. Operation: (1) Strengthen brand awareness and extend 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 has acquired equipment for beverage and noodles business and those facilities will fully commence production by the end of the third quarter. 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.

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.

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 46(1) to 46(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.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 22nd August 2003
Website: <http://www.tingyi.com>
<http://www.irasia.com/listco/hk/tingyi>