



康師傅 控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

FIRST
QUARTERLY
REPORT
2004

* For identification purposes only



SUMMARY

During the first quarter of the year 2004, the strong domestic demand led to the growth of the PRC's economy. In the first quarter, the PRC's gross domestic products (GDP) and the total amount for retail market in the PRC increased by 9.7% and 10.7% respectively as compared to the corresponding period last year. The continuous growth for the PRC domestic demand benefited the Group's sales. Under the pressure from the price increase in the Group's core materials, overall performance for the Group's first quarterly results still maintained steady growth.

- Turnover of the Group amounted to US\$361 million, an increase by 23.69%;
- Gross margin of the Group was 26.69% as compared to 26.08% in the corresponding period last year;
- Profit attributable to shareholders amounted to US\$12.377 million, increased by 39.18% to the corresponding period last year;
- Earnings per share amounted to US0.22 cents as compared to US0.16 cents in the corresponding period last year;
- Turnover for noodle, beverage and bakery were US\$221 million, US\$116 million and US\$19.541 million respectively, and the product growth rates were 24.25%, 57.57% and -5.84% respectively.

FIRST QUARTER RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited condensed consolidated first quarter financial statements of the Company and its subsidiaries (the "Group") for the three months ended 31st March 2004 together with the unaudited comparative figures for the corresponding period in 2003. These first 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 Ended 31st March 2004

		2004 (Unaudited) US\$'000	2003 (Unaudited) US\$'000
	<i>Notes</i>		
Turnover	2	360,720	291,638
Cost of sales		(264,434)	(215,582)
Gross Profit		96,286	76,056
Other revenue		519	324
Other net income		3,689	4,109
Distribution costs		(67,543)	(50,252)
Administrative expenses		(10,010)	(11,364)
Other operating expenses		(4,936)	(3,808)
Profit from operations	3	18,005	15,065
Finance costs	4	(5,219)	(4,891)
Share of profit of associates		1,168	481
Profit before taxation		13,954	10,655
Taxation	5	(1,394)	(1,665)
Profit from ordinary activities after taxation		12,560	8,990
Minority interests		(183)	(97)
Net profit attributable to shareholders		12,377	8,893
Earnings per share	6	0.22 cents	0.16 cents





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Condensed Consolidated Balance Sheet

As at 31st March 2004

		As at 31st March 2004 (Unaudited) US\$'000	As at 31st December 2003 (Audited) US\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		916,602	909,750
Interest in subsidiaries		53,544	39,814
Interest in associates		2,653	2,619
Other non-current financial assets		5,830	5,830
		<u>978,629</u>	<u>958,013</u>
Current assets			
Current financial assets		25,411	1,142
Inventories		84,436	99,691
Trade receivables	8	63,397	62,115
Prepayments and other receivables		92,353	74,188
Pledged bank deposits		2,754	1,793
Bank balances and cash		92,153	93,185
		<u>360,504</u>	<u>332,114</u>
Current liabilities			
Trade payables	9	163,522	168,140
Other payables		87,392	83,953
Current portion of interest-bearing borrowings	11	175,844	164,974
Advance payments from customers		32,874	9,675
Taxation		1,046	714
		<u>460,678</u>	<u>427,456</u>
Net current liabilities		<u>(100,174)</u>	<u>(95,342)</u>
Total assets less current liabilities		<u>878,455</u>	<u>862,671</u>
Non-current liabilities			
Long-term interest-bearing borrowings	11	271,710	269,796
Other non-current payables		5,946	5,112
Employee benefit obligations		3,944	3,808
Deferred tax liabilities		5,834	5,834
		<u>287,434</u>	<u>284,550</u>
Minority interests		<u>6,817</u>	<u>6,634</u>
NET ASSETS		<u>584,204</u>	<u>571,487</u>
CAPITAL AND RESERVES			
Issued capital	12	27,943	27,943
Reserves	13	493,109	480,392
Proposed final dividend		63,152	63,152
		<u>584,204</u>	<u>571,487</u>





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Condensed Consolidated Statement of Changes in Equity

For the Three Months ended 31st March 2004

	2004 (Unaudited) <i>US\$'000</i>	2003 (Unaudited) <i>US\$'000</i>
Shareholders' equity at 1st January	571,487	587,354
Net gains (losses) not recognised in income statement		
Exchange translation differences	340	(46)
Profit for the period	12,377	8,893
	<u>584,204</u>	<u>596,201</u>
Shareholders' equity at 31st March	<u>584,204</u>	<u>596,201</u>

Condensed Consolidated Cash Flow Statement

For the Three Months Ended 31st March 2004

	2004 (Unaudited) <i>US\$'000</i>	2003 (Unaudited) <i>US\$'000</i>
Net cash from operating activities	25,929	76,091
Net cash used in investing activities	(40,950)	(43,999)
Net cash from financing activities	14,950	17,042
	<u>(71)</u>	<u>49,134</u>
(Decrease) increase in cash and cash equivalents	(71)	49,134
Cash and cash equivalents at 1st January	94,978	99,913
	<u>94,907</u>	<u>149,047</u>
Cash and cash equivalents at 31st March	<u>94,907</u>	<u>149,047</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	92,153	147,549
Pledged bank deposits	2,754	1,498
	<u>94,907</u>	<u>149,047</u>





Notes to the Condensed Consolidated Financial Statements

For the Three Months Ended 31st March 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 Society of 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 31 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 three months ended 31st March			
	2004		2003	
	(Unaudited)		(Unaudited)	
	US\$'000	%	US\$'000	%
Instant noodles	220,837	61	177,730	61
Beverages	116,103	32	73,685	25
Bakery	19,541	6	20,752	7
Others	4,239	1	19,471	7
Total	<u>360,720</u>	<u>100</u>	<u>291,638</u>	<u>100</u>

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

	For the three months ended 31st March	
	2004	2003
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Instant noodles	6,093	14,575
Beverages	11,680	1,487
Bakery	(1,694)	(1,529)
Others	1,633	90
Total	<u>17,712</u>	<u>14,623</u>

3. Profit from operations

Profit from operations is stated after charging the following:

	For the three months ended 31st March	
	2004	2003
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Depreciation	<u>21,884</u>	<u>18,267</u>





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4. Finance costs

For the three months ended 31st March

	2004	2003
	(Unaudited)	(Unaudited)
	<i>US\$'000</i>	<i>US\$'000</i>

Interest expenses:

Bank and other loans wholly repayable within five years

5,219

4,891

5. Taxation

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.

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 of US\$12.377 million (2003: US\$8.893 million) and on the weighted average of 5,588,705,360 (2003: 5,588,705,360) ordinary shares in issue during the year.

Diluted earnings per share have 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 three months ended 31st March 2004 (2003: nil).

8. Trade receivables

Most of the Group's sales are based on cash before delivery policy and the credit period for the rest of sales is from 30 days to 90 days.

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

	As at	As at
	31st March 2004	31st December 2003
	(Unaudited)	(Audited)
	<i>US\$'000</i>	<i>US\$'000</i>
Within 90 days	56,299	54,076
Over 90 days	7,098	8,039
	<u>63,397</u>	<u>62,115</u>





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9. Trade payables

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

	As at 31st March 2004 (Unaudited) US\$' 000	As at 31st December 2003 (Audited) US\$' 000
Within 90 days	147,763	148,436
Over 90 days	15,759	19,704
	<u>163,522</u>	<u>168,140</u>

10. Pledge of property, plant and equipment

At 31st March 2004, the Group has pledged property, plant and equipment with aggregate net book values of approximately US\$59.971 million (31st December 2003: US\$66.487 million) to secure general banking facilities granted to the Group.

11. Interest-bearing borrowings

	As at 31st March 2004 (Unaudited) US\$' 000	As at 31st December 2003 (Audited) US\$' 000
Bank loans wholly repayable within five years:		
Secured	18,846	21,866
Unsecured	338,708	322,904
Convertible bonds	90,000	90,000
	<u>447,554</u>	<u>434,770</u>
Portion classified as current liabilities	(175,844)	(164,974)
Non-current portion	<u>271,710</u>	<u>269,796</u>

The maturity profile of the interest-bearing borrowings is as follows:

Bank loans:

Within one year	175,844	164,974
In the second year	152,978	134,924
In the third to fifth years, inclusive	28,732	44,872
	<u>357,554</u>	<u>344,770</u>

Other loans:

Within one year	—	—
In the second year	90,000	90,000
In the third to fifth years, inclusive	—	—
	<u>447,554</u>	<u>434,770</u>





12. Issued capital

	Ordinary shares of US\$0.005 each	
	No. of shares	US\$'000
Authorised:		
At 31st December 2003 and 31st March 2004	7,000,000,000	35,000
Issued and fully paid:		
At 31st December 2003 and 31st March 2004	5,588,705,360	27,943

13. Reserves

	Capital redemption reserve US\$'000	Share premium US\$'000	Exchange translation reserve US\$'000	General reserve US\$'000	Capital reserve US\$'000	Retained profits US\$'000	Total US\$'000
At 31st December 2003	36	332,478	760	66,960	308	143,002	543,544
Exchange translation differences	—	—	340	—	—	—	340
Transfer to general reserve	—	—	—	20	—	(20)	—
Profit for the period	—	—	—	—	—	12,377	12,377
At 31st March 2004	36	332,478	1,100	66,980	308	155,359	556,261
Representing:							
2003 final dividend proposed							63,152
Reserves							493,109
							556,261

14. Commitments

	As at 31st March 2004 (Unaudited) US\$'000	As at 31st December 2003 (Audited) US\$'000
(a) Capital commitments		
Contracted but not provided for	34,989	46,014
(b) Lease commitments		
At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases, which are payable as follows:		
Within one year	1,605	2,022
In the second to fifth years, inclusive	5,441	5,359
Over five years	26,792	25,709
	33,838	33,090





15. Related party transactions

Transactions

The following is a summary of significant related party transactions, in addition to those disclosed elsewhere in the financial statements, which were carried out in the ordinary course of the Group’s business.

		For the three months ended 31st March	
		2004	2003
		(Unaudited)	(Unaudited)
		US\$'000	US\$'000
(a)	Sales of goods to:		
	Associates	10,019	3,371
(b)	Purchases of goods from:		
	Companies under common control by directors common of the Company	1,712	1,205
	A company in which a director has beneficial interest	4,153	3,574
	Associates	32,104	19,916
		37,969	24,695
(c)	Processing charges by:		
	An associate	538	—

The price of the said transactions were based on normal commercial terms.





MANAGEMENT DISCUSSION AND ANALYSIS

Instant Noodle Business

Turnover for instant noodle segment amounted to US\$220.837 million, representing a 24.25% growth from previous year and 61% of the Group's turnover. The strong base of the dense distribution strategy and brand investment through the continuous increased advertisement were the major elements for the successful sales. The growth for the PRC instant noodle was mainly from the high-end container noodle and low-end noodle. To meet the market demand, the Group has launched some container noodles such as "The Best of Asian Series" and "Mixed Noodle Series". In addition, the Group strived to build up the brand of Master Kong as a high-valued brand of instant noodle by using effective media communication. As a result, all products' sales of the Group's container noodle achieved a fast growth and further strengthened the leader position. In addition, as the consumers from village and rural area have gradually increased their consumption in instant noodle, the sales for the Group's low-end noodle "Fu Man Duo" and "Good Taste" continued to grow. The Group will not neglect the low-end noodle market, which has 65% market share of the total PRC instant noodle market. And the sales for the middle to high-end packet noodle maintained stable growth. According to AC Nielsen, for the period of February to March 2004, the Group gained 43.2% market share by sales value in the PRC instant noodle market so that the Group's leader position was further strengthened. During the period, the gross margin for instant noodle dropped by 3.61pp to 18.44%. The decline was mainly due to the 34.4% and 13.46% price increase in the noodle's core material flour and palm oil respectively and the sales growth from low-end noodle was greater than high-end packet noodle. Profit attributable to shareholders dropped by 60.55% to US\$4.593 million.

Beverage Business

The Group continued to strengthen the sales channel since the last fourth quarter and refine the arrangement for distribution of products before the beginning of high season. Those efforts have benefited the first quarterly results. During the period, beverage segment turnover amounted to US\$116.103 million, representing a 57.57% growth from the previous year and 32% of the Group's total turnover. To meet the demand during the Chinese New Year, the Group has highly promoted the family size series such as Master Kong Ice Tea and diluted juice drinks and it was successful. The repackaging for all brand products and the renewal for the core advertisement and promotion have exposed a grand new image for the brand of Master Kong to consumer. In addition, the Group extended the sales area for Master Kong Mineralized Water and launched mango juice drinks so that turnover for the beverage segment reached new record. According to AC Nielsen, for the period of February to March 2004, the Group's Ready-To-Drink Tea gained 48.5% market share by sales value, No.1 in the market and the market share was two times higher than the No.2 player. Master Kong's diluted juice drinks was No.2 in the fast growing juice market and gained 20% market share. However, the price for PET resin still stood at a high level so that the gross margin for beverage business was affected to a certain extent. The new and highly efficient product lines which were added last year have been fully operated. Together with the Group's vertical integration production system, the Group can face less pressure caused by the price increase of raw materials. In the first quarter, the gross margin of beverage segment was 40.27%, same as last year. Profit attributable to shareholders increased by 1,690% to US\$10.178 million.

Bakery Business

The turnover for bakery segment amounted to US\$19.541million, dropped by 5.84% from previous year and representing 6% of the Group's total turnover. The decline was mainly due to the drop in sales of the Rice Cracker market. Other core products such as Sandwich Crackers, Muffin, Savoury Sandwich Crackers have good performance, and the new product "Sweet Yolk Biscuit" has been well received by the market. As a result, the Group achieved good development in both "Cake" and "Cracker" products. According to AC Nielsen, for the period of February to March 2004, Master Kong's Sandwich Crackers was No.2 in the market and gained 24% market share. During the period, the gross margin of bakery segment was 31.73%, increased by 4.25 pp when compared to the same period in 2003. To keep the first quarter's gross margin as the basis, the Group will try to gradually improve the performance for bakery business through the operation by strategic alliance and the improvement in the operation of weak products. Loss attributable to shareholders was US\$1.819 million and last year was US\$1.640 million.





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Financing

As of 31st March 2004, the Group's cash and bank deposits amounted to US\$94.907 million. Total liabilities amounted to US\$748 million, representing an increase of US\$36.106 million from US\$712 million as at 31st December 2003. Total assets amounted to US\$1,339 million. The leverage ratio (total liabilities to total assets) increased by 1pp to 56% as compared to 31st December 2003. The Group increased long-term and short-term loans by US\$12.784 million as compared to 31st December 2003.

Financial Ratio

	As at 31st March 2004	As at 31st December 2003
Finished goods turnover	11.64 Days	12.42 Days
Accounts receivable turnover	15.83 Days	15.20 Days
Current ratio	0.78 Times	0.78 Times
Debt ratio	55.87%	55.19%
Gearing ratio	0.60 Times	0.60 Times

The transfer of 49.995% interest in beverage business to AI Beverage Holding Co.Ltd. (AI Beverage), a joint venture company of Asahi Breweries, Ltd. and Itochu Corporation (Itochu) and the transfer of 49.99% interest in logistics business to Itochu have been completed before the end of April this year. The total consideration amounting to approximately US\$369.890 million has been recognised in the Group's accounts and the capital gain will be reflected in the Group's interim results.

CORPORATE GOVERNANCE

Code of Best Practice

Throughout the three months ended 31st March 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 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 period.





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 second quarter. Facing the pressure from market competition and the increasing production cost, the Group's strategies are as follows:

1. To introduce strategic partner and further develop the network in the PRC.
2. 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. Continue to strengthen the brand awareness, sales networks and customer service.
4. Strengthen and establish the Group's logistics system to enhance the quality and reduce the cost for distribution network.
5. Expand the market share for the refrigerated drinks in the eastern region and develop the northern market in the PRC in order to establish the Group's distribution ability in the refrigerated food market.
6. To further enhance the efficiency for system management by strengthening the ability for SAP and modifying the B2B operating system.

PURCHASE, SALE OR REDEMPTION OF SHARES AND CONVERTIBLE BONDS

During the period, the Company has not repurchased any of the Company's shares. During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares and convertible bonds.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES

As at 31st March 2004, the interests and short positions of the Directors and Chief Executive in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares

Name of directors	Number of ordinary shares	
	Personal interests	Corporate interests (Note)
Wei Ing-Chou	13,242,000	1,854,827,866
Wei Ying-Chiao	—	1,854,827,866
Wu Chung-Yi	—	1,854,827,866

Note: These shares are held by and registered under the name of Ting Hsin (Cayman Islands) Holding Corp. ("Ting Hsin"). Ting Hsin is beneficially owned as to approximately 55.10% by Ho Te Investments Limited, as to approximately 27.91% by Wu Chung-Yi through Gisshin Venture Capital Inc. and as to the remaining 16.99% by unrelated third parties. Ho Te Investments Limited is beneficially owned as to 25% by Wei Ing-Chou, 25% by Wei Ying-Chiao, and the remaining 50% is owned by Wei Yin-Chun and Wei Yin-Heng (brothers of the above two directors) in equal proportion.





At no time during the three months ended 31st March 2004 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in or any other body corporate.

Save as disclosed in this paragraph, as at 31st March 2004, none of the Directors and Chief Executive had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Chief Executive of the Company, as at 31st March 2004, the persons or companies (not being a Director or Chief Executive of the Company) who had interests or short positions in the Share of underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any number of the Group were as follows:

Long positions in Shares

Name of shareholder	Number of shares	Shareholder's interests
Ting Hsin (Cayman Islands) Holding Corp.	1,854,827,866	33.1889%
Sanyo Foods Co., Ltd.	1,854,827,866	33.1889%
Shyh Shiunn Investment Corporation	465,107,784	8.3200%

Save as disclosed above, as at 31st March 2004, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 25th May 2004

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

