



康師傅 控股有限公司\*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

THIRD  
QUARTERLY  
REPORT  
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.





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## 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<br>(Unaudited)<br><i>US\$'000</i> | Nine Months<br>(Unaudited)<br><i>US\$'000</i> | Three Months<br>(Unaudited)<br><i>US\$'000</i> | Nine Months<br>(Unaudited)<br><i>US\$'000</i> |
| Turnover                                       | 2            | 426,167  | 1,137,771                                     | 360,754  | 953,748                                       |
| Cost of sales                                  |              | (295,810)                                      | (810,562)                                     | (248,971)                                      | (679,844)                                     |
| 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                       |              | (9,634)  | (31,917)                                      | (5,939)  | (15,101)                                      |
| 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                  |              | 2,167  | 4,012   | 2,013  | 3,074   |
| Profit before taxation                         |              | 28,084   | 298,152                                       | 19,333   | 35,040  |
| Taxation                                       | 5            | (2,754)  | (4,951)                                       | (1,818)  | (5,279)                                       |
| Profit from ordinary activities after taxation |              | 25,330   | 293,201                                       | 17,515   | 29,761  |
| Minority interests                             |              | (5,656)  | (7,498)                                       | (178)  | (400)   |
| Net profit attributable to shareholders        |              | 19,674   | 285,703                                       | 17,337   | 29,361  |
| Earnings per share                             | 6            |  |   |  |   |
| Basic  |              | 0.35 cents                                     | 5.11 cents                                    | 0.31 cents                                     | 0.53 cents                                    |
| Diluted  |              | N/A  | N/A   | N/A  | N/A   |





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Condensed Consolidated Balance Sheet

As at 30th September 2004

|  | <i>Notes</i> | As at<br>30th September 2004<br>(Unaudited)<br>US\$'000 | As at<br>31st December 2003<br>(Audited)<br>US\$'000 |
|--|--------------|---|--|
| <b>ASSETS AND LIABILITIES</b>                  |              |   |  |
| <b>Non-current assets</b>                      |              |   |  |
| Property, plant and equipment                  |              | 918,522   | 909,750  |
| Interest in associates                         |              | 75,847  | 39,814   |
| Other non-current financial assets             |              | 2,012   | 2,619  |
| Deferred tax assets                            |              | 5,831   | 5,830  |
|  |              | 1,002,212   | 958,013  |
| <b>Current assets</b>                          |              |   |  |
| Current investments                            |              | 19,408  | 1,142  |
| Inventories                                    |              | 92,237  | 99,691   |
| Trade receivables                              | 8            | 87,074  | 62,115   |
| Prepayments and other receivables              |              | 93,224  | 74,188   |
| Pledged bank deposits                          |              | 2,155   | 1,793  |
| Bank balances and cash                         |              | 172,383   | 93,185   |
|  |              | 466,481   | 332,114  |
| <b>Current liabilities</b>                     |              |   |  |
| Trade payables                                 | 9            | 205,987   | 168,140  |
| Other payables                                 |              | 134,199   | 83,953   |
| Current portion of interest-bearing borrowings | 11           | 183,666   | 164,974  |
| Advance payments from customers                |              | 12,566  | 9,675  |
| Taxation                                       |              | 2,857   | 714  |
|  |              | 539,275   | 427,456  |
| <b>Net current liabilities</b>                 |              | (72,794)  | (95,342)   |
| <b>Total assets less current liabilities</b>   |              | 929,418   | 862,671  |
| <b>Non-current liabilities</b>                 |              |   |  |
| Long-term interest-bearing borrowings          | 11           | 16,080  | 269,796  |
| Other non-current payables                     |              | 7,634   | 5,112  |
| Employee benefit obligations                   |              | 12,988  | 3,808  |
| Deferred tax liabilities                       |              | 5,834   | 5,834  |
|  |              | 42,536  | 284,550  |
| <b>Minority interests</b>                      |              | 93,077  | 6,634  |
| <b>NET ASSETS</b>                              |              | 793,805   | 571,487  |
| <b>CAPITAL AND RESERVES</b>                    |              |   |  |
| Issued capital                                 | 12           | 27,943  | 27,943   |
| Reserves                                       | 13           | 765,862   | 480,392  |
| Proposed final dividend                        |              | —   | 63,152   |
|  |              | 793,805   | 571,487  |





# TINGYI (CAYMAN ISLANDS) HOLDING CORP.

## Condensed Consolidated Statement of Changes in Equity

For the Nine Months Ended 30th September 2004

|  | <b>2004</b><br><b>(Unaudited)</b><br><i>US\$'000</i> | <b>2003</b><br><b>(Unaudited)</b><br><i>US\$'000</i> |
|--|--|--|
| Shareholders' equity at 1st January                                    | 571,487  | 587,354  |
| Net gains (losses) not recognised in the consolidated income statement |  |  |
| Exchange translation differences                                       | (233)  | 248  |
| Profit for the period  | 285,703  | 29,361   |
| Dividend   | (63,152)   | (51,975)   |
| Shareholders' equity at 30th September                                 | <u>793,805</u>                                       | <u>564,988</u>                                       |

## Condensed Consolidated Cash Flow Statement

For the Nine Months Ended 30th September 2004

|   | <b>2004</b><br><b>(Unaudited)</b><br><i>US\$'000</i> | <b>2003</b><br><b>(Unaudited)</b><br><i>US\$'000</i> |
|---|--|--|
| Net cash from operating activities                            | 134,507  | 153,368  |
| Net cash from (used in) investing activities                  | 243,229  | (124,392)  |
| Net cash (used in) from financing activities                  | (298,176)  | 53,933   |
| Increase in cash and cash equivalents                         | 79,560   | 82,909   |
| Cash and cash equivalents at 1st January                      | 94,978   | 99,913   |
| Cash and cash equivalents at 30th September                   | <u>174,538</u>                                       | <u>182,822</u>                                       |
| <b>Analysis of the balances of cash and cash equivalents:</b> |  |  |
| Bank balances and cash  | 172,383  | 182,112  |
| Pledged bank deposits   | 2,155  | 710  |
|   | <u>174,538</u>                                       | <u>182,822</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<br>(Unaudited)<br>US\$'000 | Nine Months<br>(Unaudited)<br>US\$'000 | Three Months<br>(Unaudited)<br>US\$'000 | Nine Months<br>(Unaudited)<br>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          | 10,834                                  | 19,884                                 | 7,015                                   | 18,058                                 |
| 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<br>(Unaudited)<br>US\$'000 | Nine Months<br>(Unaudited)<br>US\$'000 | Three Months<br>(Unaudited)<br>US\$'000 | Nine Months<br>(Unaudited)<br>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          | 1,560                                   | 274,849                                | 2,374                                   | 396                                    |
| 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<br>(Unaudited)<br>US\$'000 | Nine Months<br>(Unaudited)<br>US\$'000 | Three Months<br>(Unaudited)<br>US\$'000 | Nine Months<br>(Unaudited)<br>US\$'000 |
| 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     | —                                       | 10,000                                 | —                                       | —                                      |
|  | <u>—</u>                                | <u>—</u>                               | <u>—</u>                                | <u>—</u>                               |





#### 4. Finance costs

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

#### 5. Taxation

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

#### 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 is as follows:

|                | As at<br>30th September 2004<br>(Unaudited)<br><i>US\$'000</i> | As at<br>31st December 2003<br>(Audited)<br><i>US\$'000</i> |
|----------------|--|---|
| Within 90 days | 78,673   | 54,076  |
| Over 90 days   | 8,401  | 8,039   |
|                | <u>          </u>  | <u>          </u>   |
|                | <u>87,074</u>  | <u>62,115</u>   |





## 9. Trade payables

The ageing analysis of the trade payables is as follows:

|                | As at<br>30th September 2004<br>(Unaudited)<br><i>US\$'000</i> | As at<br>31st December 2003<br>(Audited)<br><i>US\$'000</i> |
|----------------|--|---|
| Within 90 days | 186,118  | 148,436   |
| Over 90 days   | 19,869   | 19,704  |
|                | <u>205,987</u>   | <u>168,140</u>  |

## 10. Pledge of property, plant and equipment

At 30th September 2004, the Group has pledged property, plant and equipment with aggregate net book values of approximately US\$15,024,000 (31st December 2003: US\$66,487,000) to secure general banking facilities granted to the Group.

## 11. Interest-bearing borrowings

|  | As at<br>30th September 2004<br>(Unaudited)<br><i>US\$'000</i> | As at<br>31st December 2003<br>(Audited)<br><i>US\$'000</i> |
|--|--|---|
| Bank loans wholly repayable within five years: |  |   |
| Secured  | 2,207  | 21,866  |
| Unsecured                                      | 107,539  | 322,904   |
| Convertible bonds                              | 90,000   | 90,000  |
|  | <u>199,746</u>   | <u>434,770</u>  |
| Portion classified as current liabilities      | (183,666)  | (164,974)   |
| Non-current portion                            | <u>16,080</u>  | <u>269,796</u>  |

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

|  |                |                |
|--|----------------|----------------|
| Bank loans:                            |                |                |
| Within one year                        | 93,666         | 164,974        |
| In the second year                     | 10,080         | 134,924        |
| In the third to fifth years, inclusive | 6,000          | 44,872         |
|  | <u>109,746</u> | <u>344,770</u> |
| Other loans:                           |                |                |
| Within one year                        | 90,000         | —              |
| In the second year                     | —              | 90,000         |
|  | <u>199,746</u> | <u>434,770</u> |

## 12. Issued capital

|   | Ordinary shares of US\$0.005 each<br>No. of shares | US\$'000      |
|---|--|---------------|
| Authorised:                                   |  |               |
| At 31st December 2003 and 30th September 2004 | <u>7,000,000,000</u>                               | <u>35,000</u> |
| Issued and fully paid:                        |  |               |
| At 31st December 2003 and 30th September 2004 | <u>5,588,705,360</u>                               | <u>27,943</u> |







## 13. Reserves

|                                  | Capital redemption reserve<br><i>US\$'000</i> | Share premium<br><i>US\$'000</i> | Exchange translation reserve<br><i>US\$'000</i> | General reserve<br><i>US\$'000</i> | Capital reserve<br><i>US\$'000</i> | Retained profits<br><i>US\$'000</i> | Total<br><i>US\$'000</i> |
|----------------------------------|---|----------------------------------|---|------------------------------------|------------------------------------|-------------------------------------|--------------------------|
| At 31st December 2003            | 36  | 332,478                          | 760   | 66,960                             | 308                                | 143,002                             | 543,544                  |
| Exchange translation differences | —   | —                                | (233)   | —                                  | —                                  | —                                   | (233)                    |
| Transfer to general reserve      | —   | —                                | —   | 1,619                              | —                                  | (1,619)                             | —                        |
| Profit for the period            | —   | —                                | —   | —                                  | —                                  | 285,703                             | 285,703                  |
| Dividend                         | —   | —                                | —   | —                                  | —                                  | (63,152)                            | (63,152)                 |
| At 30th September 2004           | <u>36</u>                                     | <u>332,478</u>                   | <u>527</u>                                      | <u>68,579</u>                      | <u>308</u>                         | <u>363,934</u>                      | <u>765,862</u>           |

## 14. Commitments

|  | As at<br>30th September 2004<br>(Unaudited)<br><i>US\$'000</i> | As at<br>31st December 2003<br>(Audited)<br><i>US\$'000</i> |
|--|--|---|
| (a) <b>Capital commitments</b>   |  |   |
| Contracted but not provided for  | <u>51,650</u>  | <u>46,014</u>   |
| (b) <b>Lease commitments</b>   |  |   |
| At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases, which are payable as follows: |  |   |
| Within one year  | 529  | 2,022   |
| In the second to fifth years, inclusive  | 258  | 5,359   |
| Over five years  | —  | 25,709  |
|  | <u>787</u>   | <u>33,090</u>   |

## 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 period ended                           |   |  |   |
|---|--|---|--|---|
|   | 30th September 2004                            |   | 30th September 2003                            |   |
|   | Three Months<br>(Unaudited)<br><i>US\$'000</i> | Nine Months<br>(Unaudited)<br><i>US\$'000</i> | Three Months<br>(Unaudited)<br><i>US\$'000</i> | Nine Months<br>(Unaudited)<br><i>US\$'000</i> |
| (a) Sales of goods to:                                |  |   |  |   |
| Associates  | <u>7,341</u>                                   | <u>23,843</u>                                 | <u>775</u>                                     | <u>5,047</u>                                  |
| (b) Purchases of goods from:                          |  |   |  |   |
| Companies under common control                        |  |   |  |   |
| by directors of the Company                           | 2,081  | 6,865   | 1,989  | 4,283   |
| A company in which a director has beneficial interest | 2,405  | 8,559   | 3,556  | 9,465   |
| Associates  | <u>34,728</u>                                  | <u>102,603</u>                                | <u>27,034</u>                                  | <u>65,719</u>                                 |
|   | <u>39,214</u>                                  | <u>118,027</u>                                | <u>32,579</u>                                  | <u>79,467</u>                                 |
| (c) Processing charges to:                            |  |   |  |   |
| An associate  | <u>400</u>                                     | <u>1,264</u>                                  | <u>2,139</u>                                   | <u>5,833</u>                                  |

The above transactions were carried out on terms mutually agreed between the Group and the respective related parties and principally on cost plus basis.





## 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**

|                                     | <b>As at<br/>30th September 2004</b> | <b>As at<br/>31st December 2003</b> |
|-------------------------------------|--------------------------------------|-------------------------------------|
| 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.

**INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES**

As at 30th September 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<br><i>(Note)</i> |
| 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 Gishin 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 nine months ended 30th September 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 30th September 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 30th September 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**

| <b>Name of shareholder</b>               | <b>Number of shares</b> | <b>Shareholder's interests</b> |
|--|-------------------------|--------------------------------|
| 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 30th September 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, 24th November 2004

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

