

THIRD QUARTERLY REPORT

2005



康師傅

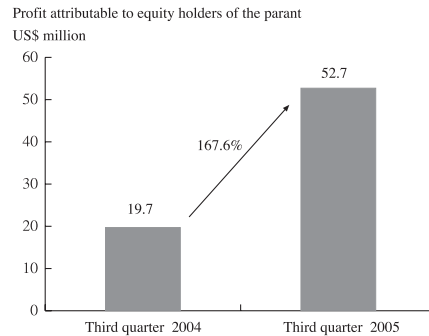
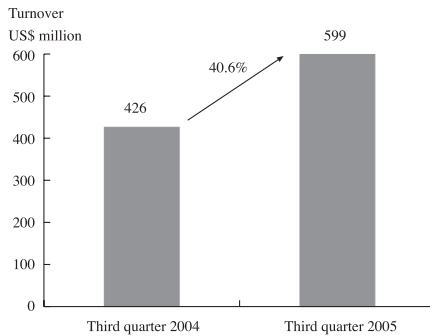


康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

* For identification purposes only



SUMMARY

In the third quarter of year 2005, the PRC's gross domestic products (GDP) increased by 9.4% as compared to the corresponding period in 2004. During the first nine months of the year, the PRC's consumer price index (CPI) increased by 2% as compared to the same period last year. Benefiting from the firm control on its overall operation, the Group experienced a continued blooming financial results in the third quarter although the price of main raw materials for production still maintained at a high level during the period. Furthermore, the Group's profit in the third quarter realized the highest record both in turnover and net profit in term of a single quarter. During the period, the Group's total turnover and profit attributable to equity holders of the parent increased by 40.60% and 167.62% respectively, and the gross margin of the Group also increased by 2.77ppt. as compared to the same period in 2004. During the third quarter which is a beverages' peak season in the PRC, the Group's beverage business broke the record again and gained a brilliant achievement both in sales and profit. Due to the adjustment on product structure and effective control on costs, the Group's instant noodles performed well in its overall business. In addition, during the period, sales and profit of the Group's bakeries still maintained a healthy growth.

The Board of Directors would like to say their appreciation to the management team and all staff for their contribution. Due to their efforts, the Group overcame the big challenge and reached such a bountiful results.

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\$599 million, an increase by 40.60%.
- Gross margin of the Group was 33.36%, last year was 30.59%.
- Profit attributable to equity holders of the parent amounted to US\$52.652 million, increased by 167.62%, last year was US\$19.674 million.
- Earning per share amounted to US 0.94 cents, last year was US 0.35 cents.
- Turnover for instant noodles, beverage and bakery were US\$295 million, US\$257 million and US\$27.823 million respectively, and the product growth rates were 30.26%, 61.13% and 24.81% respectively.

THIRD QUARTER RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited condensed consolidated third quarterly financial statements of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30th September 2005 together with the unaudited comparative figures for the corresponding period in 2004. These third quarterly 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 2005

	Note	For the period ended			
		30th September 2005		30th September 2004	
		Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000	Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000
Turnover	2	599,210	1,445,861	426,167	1,137,771
Cost of sales		(399,291)	(978,738)	(295,810)	(810,562)
Gross profit		199,919	467,123	130,357	327,209
Other revenue		765	2,256	1,895	3,159
Other net income		4,151	13,512	5,974	284,055
Distribution costs		(106,892)	(258,402)	(87,439)	(244,068)
Administrative expenses		(15,820)	(40,425)	(11,258)	(30,704)
Other operating expenses		(1,811)	(15,146)	(9,634)	(31,917)
Finance costs	3	(1,774)	(7,042)	(3,978)	(13,594)
Share of profit of associates		2,091	6,280	2,167	4,012
Profit before taxation	4	80,629	168,156	28,084	298,152
Taxation	5	(5,620)	(13,655)	(2,754)	(4,951)
Profit for the period		75,009	154,501	25,330	293,201
Attributable to					
Equity holders of the parent		52,652	108,962	19,674	285,703
Minority interests		22,357	45,539	5,656	7,498
		75,009	154,501	25,330	293,201
Earnings per share	6				
Basic		0.94 cents	1.95 cents	0.35 cents	5.11 cents
Diluted		N/A	N/A	N/A	N/A





Condensed Consolidated Balance Sheet

As at 30th September 2005

		As at 30th September 2005 (Unaudited) US\$'000	As at 31st December 2004 (Audited) US\$'000
	<i>Note</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		954,939	879,964
Prepayments for operating lease		52,930	52,581
Interest in associates		43,263	53,154
Interest in a joint venture		—	30,058
Other non-current financial assets		3,059	3,109
Deferred tax assets		6,197	6,197
		<u>1,060,388</u>	<u>1,025,063</u>
Current assets			
Current financial assets	8	79,486	16,466
Inventories		104,590	96,590
Trade receivables	9	110,153	71,499
Prepayments and other receivables		82,622	65,025
Pledged bank deposits		7,365	1,394
Bank balances and cash		163,261	126,152
		<u>547,477</u>	<u>377,126</u>
Current liabilities			
Trade payables	10	280,197	188,398
Other payables		130,801	96,275
Current portion of interest-bearing borrowings	12	111,551	186,606
Advance payments from customers		21,346	7,372
Taxation		7,008	2,575
		<u>550,903</u>	<u>481,226</u>
Net current liabilities		<u>(3,426)</u>	<u>(104,100)</u>
Total assets less current liabilities		<u>1,056,962</u>	<u>920,963</u>
Non-current liabilities			
Long-term interest-bearing borrowings	12	43,550	13,581
Other non-current payables		11,964	10,913
Employee benefit obligations		5,568	4,887
Deferred tax liabilities		6,176	6,176
		<u>67,258</u>	<u>35,557</u>
NET ASSETS		<u>989,704</u>	<u>885,406</u>
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent			
Issued capital	13	27,943	27,943
Reserves	14	828,205	706,788
Proposed final dividend		—	63,712
		<u>856,148</u>	<u>798,443</u>
Minority interests		<u>133,556</u>	<u>86,963</u>
		<u>989,704</u>	<u>885,406</u>





TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Condensed Consolidated Statement of Changes in Equity

For the Nine Months Ended 30th September 2005

	Attributable to equity holders of the parent (Unaudited) <i>US\$'000</i>	Minority interests (Unaudited) <i>US\$'000</i>	Total (Unaudited) <i>US\$'000</i>
As at 1st January 2004	571,487	6,634	578,121
Net losses not recognised in the condensed consolidated income statement			
Exchange translation difference	(233)	—	(233)
Dividend	(63,152)	—	(63,152)
Disposal of partial interests in subsidiaries	—	78,946	78,946
Profit for the period	285,703	7,498	293,201
	<u>222,318</u>	<u>86,444</u>	<u>308,762</u>
As at 30th September 2004	<u>793,805</u>	<u>93,078</u>	<u>886,883</u>
As at 1st January 2005	798,443	86,963	885,406
Net gains not recognised in the condensed consolidated income statement			
Exchange translation difference	12,455	—	12,455
Dividend	(63,712)	(4,696)	(68,408)
Contributions from minority interests	—	5,750	5,750
Profit for the period	108,962	45,539	154,501
	<u>57,705</u>	<u>46,593</u>	<u>104,298</u>
As at 30th September 2005	<u>856,148</u>	<u>133,556</u>	<u>989,704</u>

Condensed Consolidated Cash Flow Statement

For the Nine Months Ended 30th September 2005

	2005 (Unaudited) <i>US\$'000</i>	2004 (Unaudited) <i>US\$'000</i>
Net cash from operating activities	333,749	134,507
Net cash (used in) generated from investing activities	(147,309)	243,229
Net cash used in financing activities	(143,360)	(298,176)
Increase in cash and cash equivalents	43,080	79,560
Cash and cash equivalents at 1st January	127,546	94,978
Cash and cash equivalents at 30th September	<u>170,626</u>	<u>174,538</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	163,261	172,383
Pledged bank deposits	7,365	2,155
	<u>170,626</u>	<u>174,538</u>





Notes:

1. Basis of preparation

Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited third quarterly financial statements. These unaudited third quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. These condensed third quarterly financial statements should be read in conjunction with the 2004 annual financial statements.

Adoption of the New Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKASs"), herein collectively referred to as the new HKFRSs, which are effective for accounting periods beginning on or after 1st January 2005. The Group adopted the new HKFRSs on 1st January 2005 and the above financial data included the impact upon adoption of these new HKFRSs. The adoption of the new HKFRSs has no material impact on the results of the Group apart from certain change in the accounting presentation.

2. Turnover and segment result by major products

The Group operates mainly in The People's Republic of China (the "PRC"). Turnover and contribution to the Group's profit are mainly from the PRC.

An analysis of the Group's turnover by major products is set out below:

	For the period ended			
	30th September 2005		30th September 2004	
	Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000	Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000
Instant noodles	294,508	735,441	226,098	625,339
Beverages	256,948	589,761	159,468*	412,438*
Bakery	27,823	70,636	22,292	60,678
Others	19,931	50,023	18,309*	39,316*
Total	599,210	1,445,861	426,167	1,137,771

An analysis of the Group's segment result by major products is set out below:

	For the period ended			
	30th September 2005		30th September 2004	
	Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000	Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000
Instant noodles	30,524	69,360	18,567	21,036
Beverages	47,550	95,702	11,595*	27,251*
Bakery	2,075	2,648	(670)	(14,005)
Others	(709)	1,167	758*	497*
Total	79,440	168,877	30,250	34,779

* The comparative information of turnover and segment result has been restated and reclassified to conform to current period's presentation.





3. Finance costs

	For the period ended			
	30th September 2005		30th September 2004	
	Three Months (Unaudited)	Nine Months (Unaudited)	Three Months (Unaudited)	Nine Months (Unaudited)
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest expenses:				
Bank and other loans wholly repayable within five years	1,774	7,042	3,978	13,594
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. Profit before taxation

Profit before taxation is stated after charging (crediting) the following:

	For the period ended			
	30th September 2005		30th September 2004	
	Three Months (Unaudited)	Nine Months (Unaudited)	Three Months (Unaudited)	Nine Months (Unaudited)
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Depreciation	24,759	70,439	22,145	65,551
Gain on disposal of partial interest in subsidiaries	—	—	—	(272,955)
Gain on disposal of partial interest in an associate	—	—	—	(2,528)
Impairment loss for property, plant and equipment	—	—	—	10,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. Taxation

	For the period ended			
	30th September 2005		30th September 2004	
	Three Months (Unaudited)	Nine Months (Unaudited)	Three Months (Unaudited)	Nine Months (Unaudited)
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
PRC enterprise income tax	5,620	13,655	2,754	4,951
	<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 as there was no assessable profit in Hong Kong for the period.

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.

6. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the parent for the period of US\$108.962 million (2004: US\$285.703 million) and on the weighted average of 5,588,705,360 (2004: 5,588,705,360) ordinary shares in issue during the period.

The Company has repaid the Group's Convertible Bonds which due in June 2005. No comparative figure for 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 the same period last year.





7. Dividend

The Board of Directors resolves that no dividend be paid for the nine months ended 30th September 2005 (2004: nil).

8. Current Financial Assets

Included in current financial assets are specific bank call deposits with relatively high interest rates amounting to US\$73.990 million. These deposit contracts can not be terminated without notice. Accordingly the deposits are classified as current financial assets.

9. 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:

	As at 30th September 2005 (Unaudited) US\$'000	As at 31st December 2004 (Audited) US\$'000
0 - 90 days	93,804	60,717
Over 90 days	16,349	10,782
	<u>110,153</u>	<u>71,499</u>

10. Trade Payables

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

	As at 30th September 2005 (Unaudited) US\$'000	As at 31st December 2004 (Audited) US\$'000
0 - 90 days	251,550	173,107
Over 90 days	28,647	15,291
	<u>280,197</u>	<u>188,398</u>

11. Pledge of property, plant and equipment

At 30th September 2005, the Group has pledged property for operating lease with aggregate net book values of approximately US\$1.989 million (31st December 2004: US\$2.052 million) to secure general banking facilities granted to the Group.





12. Interest-bearing borrowings

	As at 30th September 2005 (Unaudited) US\$'000	As at 31st December 2004 (Audited) US\$'000
Bank loans wholly repayable within five years:		
Secured	1,233	1,208
Unsecured	153,868	108,979
Convertible bonds	—	90,000
	<u>155,101</u>	<u>200,187</u>
Portion classified as current liabilities	<u>(111,551)</u>	<u>(186,606)</u>
Non-current portion	<u>43,550</u>	<u>13,581</u>
The maturity profile of the interest-bearing borrowings is as follows:		
Bank loans:		
Within one year	111,551	96,606
In the second year	43,550	13,581
	<u>155,101</u>	<u>110,187</u>
Convertible bonds:		
Within one year	—	90,000
	<u>155,101</u>	<u>200,187</u>

13. Issued capital

	Ordinary shares of US\$0.005 each	
	No. of shares	US\$'000
Authorised:		
At 31st December 2004 and 30th September 2005	<u>7,000,000,000</u>	<u>35,000</u>
Issued and fully paid:		
At 31st December 2004 and 30th September 2005	<u>5,588,705,360</u>	<u>27,943</u>





14. Reserves

	Capital redemption reserve US\$'000	Share premium US\$'000	Exchange translation reserve US\$'000	General reserve US\$'000	Capital revaluation reserve US\$'000	Property revaluation reserve US\$'000	Retained profits US\$'000	Total US\$'000
At 31st December 2004	36	332,478	904	73,679	308	3,535	359,560	770,500
Exchange translation difference	—	—	12,455	—	—	—	—	12,455
Transfer to general reserve	—	—	—	(2,865)	—	—	2,865	—
Profit for the period	—	—	—	—	—	—	108,962	108,962
Dividend	—	—	—	—	—	—	(63,712)	(63,712)
At 30th September 2005	<u>36</u>	<u>332,478</u>	<u>13,359</u>	<u>70,814</u>	<u>308</u>	<u>3,535</u>	<u>407,675</u>	<u>828,205</u>

15. Commitments

	As at 30th September 2005 (Unaudited) US\$'000	As at 31st December 2004 (Audited) US\$'000
(a) Capital commitments Contracted but not provided for	<u>84,088</u>	<u>61,373</u>
(b) Commitments under operating lease At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases, which are payable as follows:		
Within one year	2,929	3,551
In the second to fifth years, inclusive	8,871	5,164
Over five years	13,271	14,398
	<u>25,071</u>	<u>23,113</u>

16. 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 2005		30th September 2004	
	Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000	Three Months (Unaudited) US\$'000	Nine Months (Unaudited) US\$'000
(a) Sales of goods to: Associates	<u>8,673</u>	<u>25,219</u>	<u>7,341</u>	<u>23,843</u>
(b) Purchases of goods from: Companies under control by directors of the Company A company in which a director has beneficial interest Associates	3,380 5,119 61,492 <u>69,991</u>	8,530 13,575 149,953 <u>172,058</u>	2,081 2,405 34,728 <u>39,214</u>	6,865 8,559 102,603 <u>118,027</u>
(c) Processing charges by: An associate	<u>324</u>	<u>1,036</u>	<u>400</u>	<u>1,264</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

Sales for the third quarter grew at 40.6% to US\$599.210 million over same period last year. This was driven by a 30.26% increase in instant noodle sales, 61.13% increase in beverage sales and 24.81% growth in bakery sales.

Overall gross margin expanded 2.77ppt. when compared to 30.59% in the third quarter 2004 mainly because the sales portion of high margin beverage product increased to 43% of total sales during the peak season. The fast growth for high end pack noodle and container noodle and the high utilization rate for main production lines during the period also contributed to the gross margin improvement.

Operating profit jumped sharply to US\$77.207 million in the third quarter 2005 from US\$31.660 million in same period 2004, an increase of 143.87% and operating margin was up by 5.46ppt. to 12.89%. The most important driver for the significant operating margin recovery was a decline of the distribution costs by 2.68 ppt. as percentage of total sales which amounted to 17.84% in the third quarter 2005 as compared to 20.52% from a year ago. The Group also well control of the portion of overall advertising and promotional expenses of sales. During the period the portion of these expenses to total sales amounted to 10.32%, last third quarter was 11.96%. Finance costs decreased by 55.40% to US\$1.774 million mainly because of the repayment of the Group's 2002 Convertible Bonds which have been due in June 2005. During the third quarter of year 2005, the profit attributable to equity holders of the parent sharply increased by 167.62% to US\$52.652 million, representing earnings per shares of US0.94 cents. This bountiful results have realized the highest record in terms of the Group's sales and profit in a single quarter!

Instant Noodle Business

In the third quarter of year 2005, turnover for instant noodle business amounted to US\$294.508 million, grew by 30.26% from the same period last year and representing 49% of the Group's total turnover. The successful sales were mainly attributable to continuing brand investment under the current solid base of "Better Access, Broader Reach". Also, leveraging on the strategy of overall improvement on the sense of value for high-end instant noodle products and effective communication with media, the Group put all its effort to build "Master Kong" as a high-value brand name and achieved a significant growth in both container noodles and high-end packet noodles. In addition, leveraging on deep plowing in village markets and increased consumers' demands on instant noodles in rural areas, the Group continued to build low-end price instant noodles' production factories in the third quarter. The increase in production capacity will strengthen the Group's sales in low-end price products and further shorten the distance between the Group and rural consumers. At the same time, the operation cost of low-end price instant noodles can be controlled effectively to enhance the Group's competitive ability in such market. During the period, by the extended flavor and package, the Group introduced different kinds of container noodle and packet noodle to provide more choices to consumer. According to AC Nielsen, for the period of August to September 2005, by sales value, the Group's market share has increased to 40.39% in the PRC instant noodle market and is No.1 in the market.

During the period, the gross margin of the Group's instant noodle increased by 2.41ppt to 24.40% mainly because of the continuous increase in sales portion of high margin container noodles and high-end packet noodles. In the third quarter, despite the continuous high price for core materials flour and palm oil, the gross margin still improved as result of the cost control and the refining production process. Profit attributable to equity holders of the parent grew by 70.48% to US\$27.257 million. Profit growth was mainly because of the adjustment on products mix and effective cost control.

Beverage Business

In the third quarter of year 2005, turnover for beverage business achieved a new record in a single quarter and amounted to US\$256.948 million, grew by 61.13% from the same period last year and representing 43% of the Group's total turnover. In order to suit for the peak season, the Group continued to promote tea drinks products and improved the performance significantly through the strategies of extended flavors and product differentiation. The new products Jasmine Tea and Ice Shock Tea, which were launched in the second quarter, kept best selling in the period. The leading position of Master Kong's tea drinks was further consolidated. During the period, for diluted juice series, the Group continued to stimulate demands and improve sales by the flavors of Daily C with Pulp Orange Juice and Pulp Grapefruit Juice. Master Kong Mineralized Water had a remarkable performance. Through the improvement on production efficiency, all Master Kong Mineralized Water production lines operated at full capacity and captured the market share successfully by optimising its competitive capability. According to AC Nielsen, for the period of August to September 2005, market share for Master Kong's Ready-To-Drink Tea increased to 44.8% and still kept No.1 position in the market. Leveraging on the leading competitive position that was attributable to the extended brand, flavor and package, Master Kong's juice drink series gained No.3 position in the diluted juice market and 18.3% market share.

In spite of the fact that the price of PET plastic resin and sugar continued to stand at a high level, the gross margin of beverage business for the third quarter expanded 0.81ppt. from the same period last year and maintained at a high level of 42.08% due to the Group's highly efficient production facilities and vertical integrated production process which have offset the pressure of rising prices in raw material and the fast growth of sales leading to the high utilization rate for beverage production lines. Beverage business also achieved a new record for the profit attributable to equity holders of parent in a single quarter which was US\$22,070 million, increased by 296.71% mainly because of the effective cost control and growth on sales as a result of successful sales and marketing strategy.





Bakery Business

Due to the successful strategies of continuously emphasizing on brand management and product differentiation, bakery business turnover amounted to US\$27.823 million for the third quarter of the year 2005, increased by 24.81% from the same period last year and representing 5% of the Group's total turnover. According to AC Nielsen, for the period of August to September 2005, "Master Kong"'s sandwich crackers had a 26.2% market share and was No. 2 in the market. The gross margin for the third quarter increased to 40.03% as compared to 38.64% for the same period last year. The increase was mainly attributable to the increase of sales portion of high-margin product. Net profit attributable to equity holders of the parent was US\$1.601 million, grew by 287.47% from the same period last year.

On 4th July this year the Group established a joint venture company in Tianjin with Japanese Kameda Seika Co., Ltd. ("Kameda"). With Kameda's professional support, the Group may produce different kinds of rice product by fully utilizing the Group's production facilities for rice crackers. New product is expected to be launched in early next year.

In the fourth quarter, the bakery business will continue to strengthen brand investment and modern distribution network operation. A new production line of thin cracker has been put into operation in September so that gross margin and market share are expected to improve respectively. The selling price of core products "3+2" Sandwich Crackers, Muffin and Sweet Yolk Biscuit, etc., will be raised in the fourth quarter and gross margin of bakery business will be improved effectively. Bakery business is expected to realize a net profit for year 2005.

Other Business

The Group's refrigerated 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. In addition, the sales network for the Group's refrigerated products has been expanded from Shanghai to Beijing and Guangzhou.

On 11th July this year the Group also established another joint venture company in Hangzhou with Japanese Kagome Co., Ltd and Itochu Corporation to produce vegetable juice, mixed vegetable and fruit juice and vegetable and lactic beverage. Through this cooperation, the Group is expected to further diversifies its business into the production and distribution of beverages.

FINANCING

As of 30th September 2005, the Group's total liabilities amounted to US\$618 million, representing an increase of US\$101 million from US\$517 million as at 31st December 2004. Total assets amounted to US\$1,608 million. The leverage ratio calculated as total liabilities to total assets increased by 1.59ppt. to 38.45% as compared to 31st December 2004. The increase was mainly because of the increase in trade payables at the end of September for purchasing more raw materials in matching the requirements for the high season. The Group's long-term and short-term loans decreased by US\$45.086 million as compared to 31st December 2004. The Group's loans are mainly denominated in US dollars and the portion for US dollars and Renminbi in the Group's total borrowing was 94% and 6% respectively. In addition, the Group's transactions are mainly denominated in Renminbi. Revaluation in the Renminbi in terms of US dollars slightly by 2.4% brought an exchange gain of US\$18.489 million to the Group during the first nine months of the year. US\$6.034 million and US\$12.455 million of the exchange gain was stated in the income statement and reserves from exchange translation respectively. Accordingly it is expected that there will be no significant impact on the Group arising from the exchange rate fluctuation. As of 30th September 2005, the Group had no contingent liability and cash on hand amounted to US\$171 million.

Financial Ratio

	As at 30th September 2005	As at 31st December 2004
Finished goods turnover	8.57 Days	10.73 Days
Accounts receivable turnover	17.15 Days	16.62 Days
Current ratio	0.99 Times	0.78 Times
Debt ratio (Total liabilities to total assets)	38.45%	36.86%
Gearing ratio (Net debt to equity attributable to equity holders of the parent)	-0.02 Times	0.1 Times

The Group's 2002 Convertible Bonds have been due in June 2005. The Group repaid 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 in last year. The total repayment amount was US\$99.932 million.





HUMAN RESOURCES

As of 30th September 2005, the Group employed 27,279 staff (31st December 2004: 25,003). The Group provides a competitive salary packages, insurance and medical benefit and professional training courses to employees. The Group believes that the good management system for human resources will enhance employee's contribution to the Group.

PROSPECTS

The growth for the PRC consumers' income and the new concept for consumption will expand the development for the instant food market and benefit the growth for the Group's product directly. Based on the experience in tackling the high price for core raw materials during the past few quarters, management believes that the Group has ability to mitigate the pressure and the Group will continue to make use of the Group's advantages and to refine its overall operation. Under the "Profit Priority" policy, the Group has confidence to expand its total sales and further strengthen the leading position of each product in the PRC market.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. Throughout the nine months ended 30th September 2005, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

1. there is no separation of the role of chairman and chief executive officer. Mr. Wei Ing-Chou currently assumes the role of both the Chairman and the Chief Executive Officer of the Company;
2. all Independent 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; and
3. Mr. Wei Ing-Chou, the Chairman of the Board of the Company does not need to retire by rotation.

At present, the chairman of each of the Company's subsidiaries is responsible for the operation of the respective subsidiary. The Chief Executive Officer of the Group has not act as the Chairman of these subsidiaries. There is effective separation of the roles between the Chairman of the Company's subsidiaries and the Chief Executive Officer of the Group. In addition, Mr Wei Ing-Chou has been in charge of the overall management of the Company since the listing of the Company in 1996. Accordingly, although Mr Wei Ing-Chou does not need to retire by rotation and assumes the role of both the Chairman and the Chief Executive Officer of the Company, the Company considers that such arrangement at this stage can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to further develop its businesses effectively. In addition, through the above balancing mechanism of chairman of subsidiaries and the supervision of the Board and the independent non-executive directors, the interests of the shareholders are adequately and fairly represented.

The Company is considering the adoption of appropriate measures to ensure that the Company's corporate governance practices are no less stringent than those in the Code.

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 effective before 1st January 2005, the Company has established the Audit Committee in September 1999 and currently has three Independent Non-executive Directors, Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Tomoyuki Nakayama. On 24th June 2005, the Board of the Company appointed Mr. Tomoyuki Nakayama as an Independent Non-executive Director. The latest meeting of the Committee was held to review the results of the Group for the period.





Remuneration and Nomination Committee

The Remuneration and Nomination Committee was established on 11th August 2005. This Committee now comprises three Independent Non-executive Directors, Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Tomoyuki Nakayama.

The Committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The Committee also reviews the structure, size and composition of the Board from time to time and recommends to the Board on appointments of Directors and the succession planning for Directors.

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

There were no purchases, sales or redemptions of the Company’s shares by the Company or any of its subsidiaries during the period. The Group’s 2002 Convertible Bonds have been due in June 2005 and the Group has repaid the remaining principal amount of US\$90 million.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES

As at 30th September 2005, 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 <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 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 nine months ended 30th September 2005 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 2005, 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 2005, 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 30th September 2005, 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.

CAUTION STATEMENT

The Board wishes to remind investors that the financial statements and the financial outlines for the nine months ended 30th September 2005 are based on the Group's internal records and management accounts. The financial statements for the nine months ended 30th September 2005 have not been reviewed or audited by the auditors. The financial statements for the nine months ended 30th September 2004 are extracted from the unaudited financial statements already disclosed by the Group and have been restated, and the financial statements for the year ended 31st December 2004 are extracted from the audited financial statements as contained in the 2004 Annual Report and have been restated. **Investors are cautioned not to unduly rely on financial data, statistics and comparison for the nine months ended 30th September 2005. In the meantime, investors are advised to exercise caution in dealing in the shares of the Company.**

BOARD OF DIRECTORS

As at the date of this report, 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. Tomoyuki Nakayama, Mr. Hsu Shin-Chun and Mr. Lee Tiong-Hock are Independent Non-executive Directors of the Company.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 14th November 2005

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

