ANNEXURES

ANNEXURES

Annexure A

HISTORY OF TINGYI'S SHARE TRADING PRICE

AND TURNOVER

Stock Historical Data

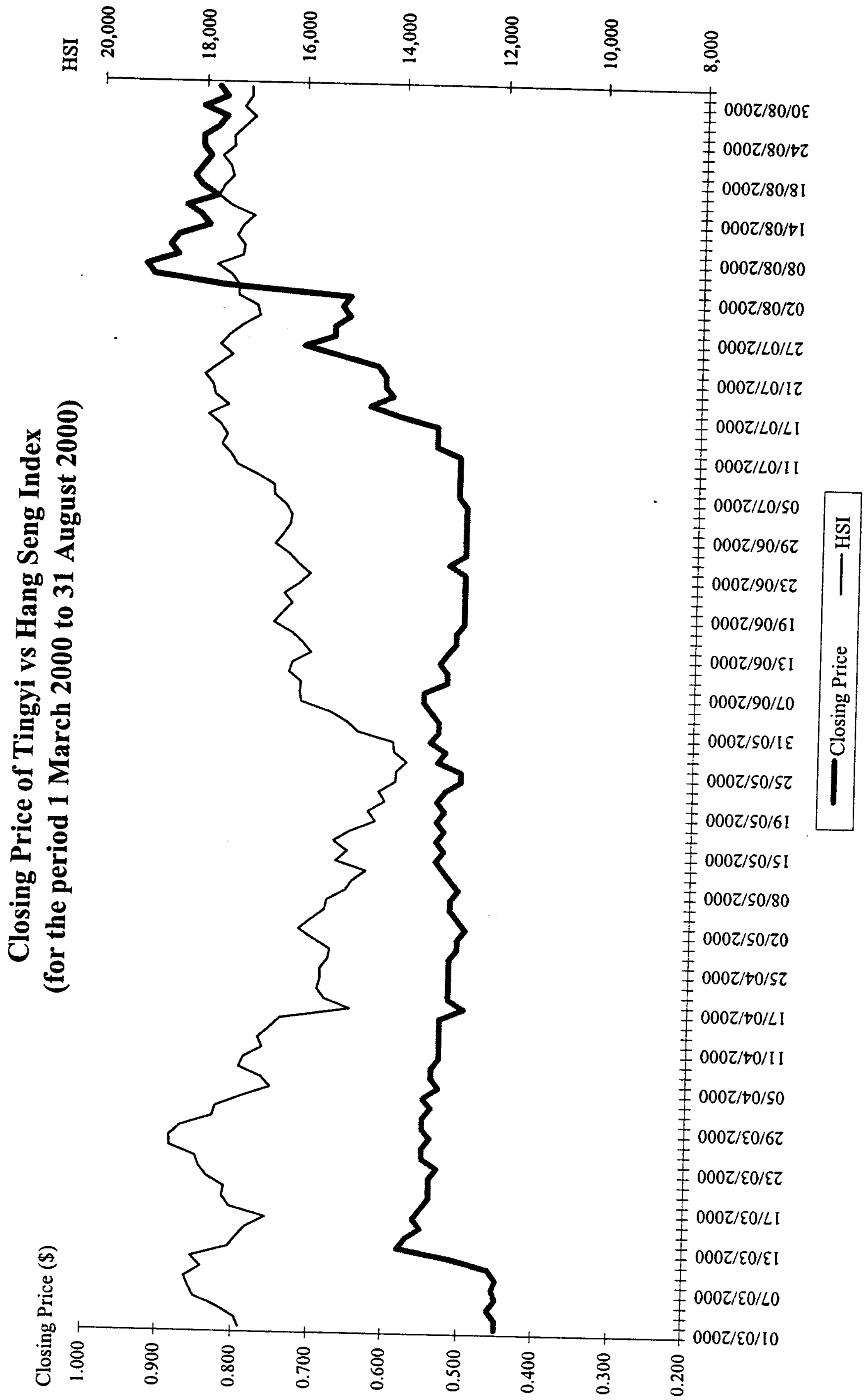
Stock	00322 - TINGYI
Date (dd/mm/yyyy)	01/03/2000 - 31/08/2000
Max / Min Closing Price	0.94 / 0.45
Max / Min Price	1 / 0.415
Weighted Average Price	0.69

Total Volume	258,152,345 shares
Daily Average	2,048,828 shares
Total $ Turnover	178,123,415
Average $ Turnover	1,413,678

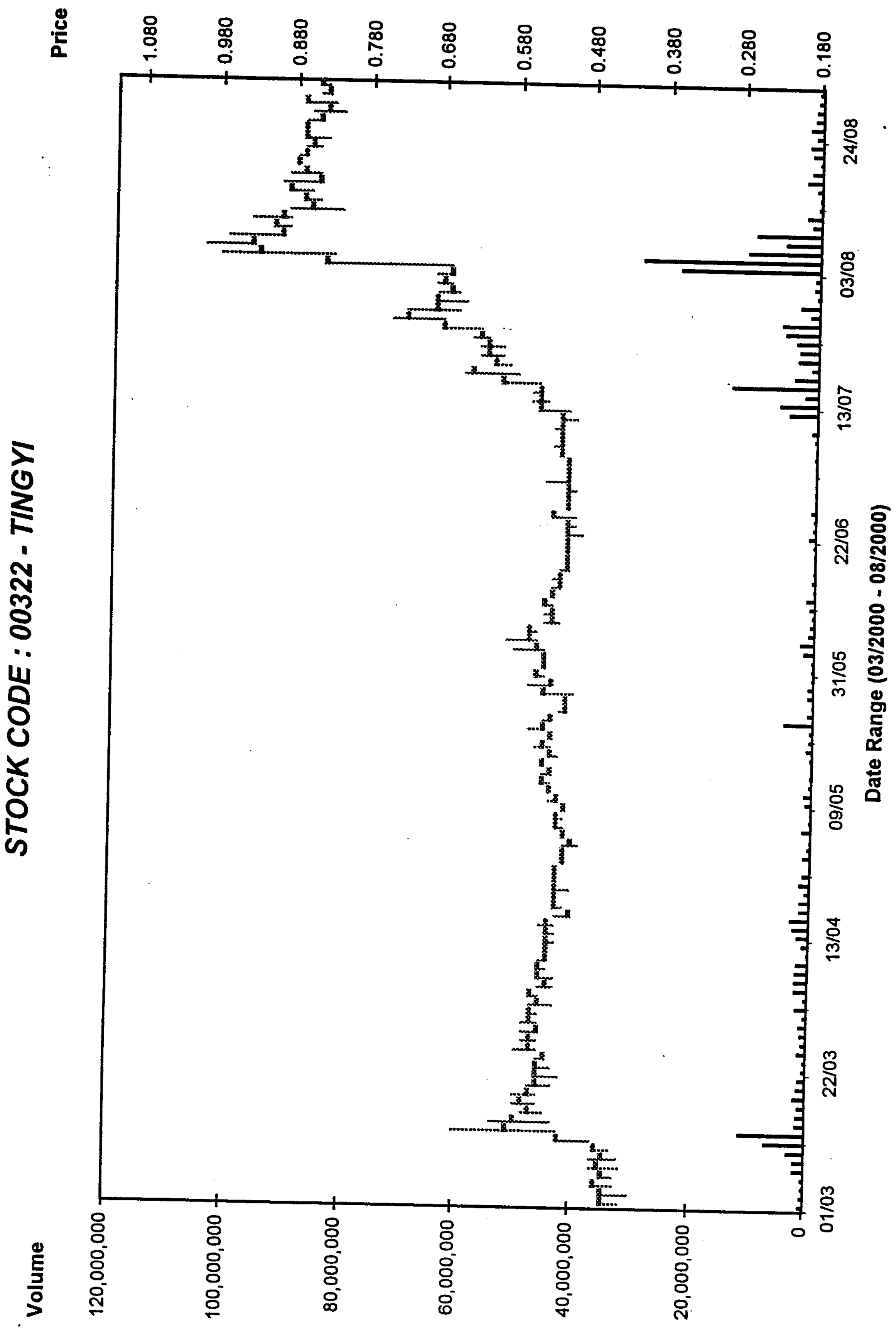
Date	Volume	$ Turnover	High	Low	Close	%Change	HSI Close
01/03/2000	764,000	339,050	0.450	0.425	0.450	5.88	16,843.59
02/03/2000	520,000	229,700	0.450	0.415	0.450	0.00	16,936.81
03/03/2000	376,690	166,353	0.460	0.435	0.460	2.22	17,285.24
06/03/2000	384,000	168,280	0.450	0.435	0.450	-2.17	17,758.76
07/03/2000	1,766,000	784,190	0.465	0.425	0.455	1.11	17,865.36
08/03/2000	1,688,265	763,431	0.465	0.430	0.450	-1.10	17,951.43
09/03/2000	2,886,000	1,295,820	0.460	0.440	0.460	2.22	17,637.03
10/03/2000	6,764,000	3,285,730	0.510	0.465	0.510	10.87	17,831.86
13/03/2000	11,204,000	6,331,280	0.650	0.510	0.580	13.73	17,096.68
14/03/2000	1,564,000	856,220	0.600	0.520	0.570	-1.72	16,929.16
15/03/2000	1,352,000	737,120	0.560	0.530	0.550	-3.51	16,747.20
16/03/2000	1,134,000	620,700	0.570	0.540	0.560	1.82	16,359.00
17/03/2000	1,886,000	1,053,700	0.570	0.540	0.550	-1.79	17,082.99
20/03/2000	1,390,000	745,500	0.550	0.520	0.540	-1.82	17,234.46
21/03/2000	1,082,000	563,820	0.540	0.510	0.540	0.00	17,199.98
22/03/2000	532,000	282,280	0.540	0.520	0.540	0.00	17,547.04
23/03/2000	380,000	202,800	0.540	0.530	0.530	-1.85	17,710.58
24/03/2000	1,302,000	711,580	0.570	0.540	0.550	3.77	17,784.57
27/03/2000	790,000	435,700	0.560	0.540	0.550	0.00	18,292.86
28/03/2000	906,000	498,000	0.560	0.540	0.540	-1.82	18,301.69
29/03/2000	1,210,000	663,000	0.560	0.540	0.550	1.85	18,096.37
30/03/2000	550,000	301,500	0.550	0.540	0.550	0.00	17,467.15
31/03/2000	1,834,000	983,400	0.550	0.520	0.540	-1.82	17,406.54
03/04/2000	520,000	284,400	0.550	0.540	0.550	1.85	16,892.93
05/04/2000	2,110,000	1,127,000	0.540	0.520	0.530	-3.64	16,318.44
06/04/2000	2,100,000	1,110,000	0.540	0.520	0.540	1.89	16,491.39
07/04/2000	2,030,000	1,081,200	0.540	0.530	0.540	0.00	16,941.68
10/04/2000	1,840,000	976,200	0.540	0.530	0.530	-1.85	16,850.74
11/04/2000	210,000	111,300	0.530	0.530	0.530	0.00	16,487.66
12/04/2000	950,000	503,160	0.530	0.520	0.530	0.00	16,577.09
13/04/2000	1,890,000	983,800	0.530	0.520	0.530	0.00	16,352.56
14/04/2000	2,650,000	1,409,000	0.540	0.520	0.530	0.00	16,142.76
17/04/2000	3,080,000	1,556,000	0.520	0.500	0.500	-5.66	14,762.37
18/04/2000	1,530,000	788,700	0.520	0.510	0.520	4.00	15,278.32
19/04/2000	1,484,000	771,680	0.520	0.520	0.520	0.00	15,427.20
20/04/2000	706,000	357,120	0.520	0.500	0.520	0.00	15,367.14
25/04/2000	1,648,000	856,960	0.520	0.520	0.520	0.00	15,380.01

26/04/2000	1,100,000	572,000	0.520	0.520	0.520	0.00	15,227.39
27/04/2000	30,000	15,300	0.510	0.510	0.510	-1.92	15,192.87
28/04/2000	1,100,000	561,000	0.510	0.510	0.510	0.00	15,519.30
02/05/2000	440,000	219,000	0.510	0.490	0.500	-1.96	15,817.76
03/05/2000	6,000	3,060	0.510	0.510	0.510	2.00	15,577.47
04/05/2000	1,342,000	691,220	0.520	0.510	0.520	1.96	15,314.07
05/05/2000	250,000	129,700	0.520	0.510	0.520	0.00	15,268.64
08/05/2000	80,000	40,800	0.510	0.510	0.510	-1.92	14,901.00
09/05/2000	810,000	421,700	0.530	0.520	0.520	1.96	14,776.90
10/05/2000	1,170,000	620,100	0.530	0.530	0.530	1.92	14,492.92
12/05/2000	375,560	199,200	0.540	0.530	0.540	1.89	15,111.94
15/05/2000	242,000	128,660	0.540	0.530	0.530	-1.85	14,881.30
16/05/2000	10,000	5,400	0.540	0.540	0.540	1.89	15,160.29
17/05/2000	285,160	150,977	0.530	0.520	0.530	-1.85	14,827.81
18/05/2000	820,000	444,300	0.550	0.530	0.540	1.89	14,322.60
19/05/2000	470,000	251,100	0.530	0.530	0.530	-1.85	14,478.26
22/05/2000	410,000	224,900	0.560	0.540	0.540	1.89	14,140.73
23/05/2000	4,736,000	2,513,300	0.540	0.530	0.530	-1.85	14,257.18
24/05/2000	790,000	404,800	0.520	0.510	0.510	-3.77	13,933.98
25/05/2000	70,000	35,700	0.510	0.510	0.510	0.00	13,921.06
26/05/2000	772,000	392,400	0.540	0.500	0.540	5.88	13,722.70
29/05/2000	730,000	397,300	0.560	0.530	0.530	-1.85	13,975.07
30/05/2000	190,000	104,000	0.550	0.540	0.550	3.77	13,990.90
31/05/2000	256,000	138,240	0.540	0.540	0.540	-1.82	14,713.86
01/06/2000	220,000	118,800	0.540	0.540	0.540	0.00	14,941.19
02/06/2000	1,632,000	922,860	0.580	0.540	0.550	1.85	15,284.10
05/06/2000	2,158,000	1,228,260	0.590	0.550	0.560	1.82	15,861.68
07/06/2000	876,000	484,080	0.560	0.550	0.560	0.00	15,900.06
08/06/2000	616,000	328,040	0.540	0.520	0.530	-5.36	15,876.93
09/06/2000	320,000	171,600	0.540	0.530	0.530	0.00	16,120.26
12/06/2000	650,000	349,180	0.540	0.530	0.540	1.89	16,055.05
13/06/2000	1,300,000	689,000	0.530	0.530	0.530	-1.85	15,692.94
14/06/2000	176,000	91,620	0.530	0.520	0.520	-1.89	15,857.07
15/06/2000	400,000	209,000	0.530	0.520	0.520	0.00	16,080.34
16/06/2000	142,000	73,200	0.520	0.510	0.510	-1.92	16,434.38
19/06/2000	110,000	56,100	0.510	0.510	0.510	0.00	16,267.47
20/06/2000	114,000	58,140	0.510	0.510	0.510	0.00	16,086.74
21/06/2000	250,000	127,500	0.510	0.510	0.510	0.00	16,238.14
22/06/2000	990,000	494,100	0.510	0.490	0.510	0.00	15,952.36
23/06/2000	446,000	227,360	0.510	0.500	0.510	0.00	15,738.08
26/06/2000	218,000	109,300	0.530	0.500	0.530	3.92	15,978.91
27/06/2000	648,000	330,480	0.510	0.510	0.510	-3.77	16,155.77
28/06/2000	76,000	38,760	0.510	0.510	0.510	0.00	16,438.42
29/06/2000	50,000	25,200	0.510	0.500	0.510	0.00	16,286.80
30/06/2000	68,000	36,180	0.540	0.510	0.510	0.00	16,155.78

03/07/2000	68,000	34,680	0.510	0.510	0.510	0.00	16,124.97
04/07/2000	100,000	51,000	0.510	0.510	0.510	0.00	16,235.76
05/07/2000	336,800	175,104	0.520	0.520	0.520	1.96	16,474.27
06/07/2000	80,000	41,900	0.530	0.520	0.520	0.00	16,489.59
07/07/2000	320,000	166,400	0.520	0.520	0.520	0.00	16,829.96
10/07/2000	850,000	442,500	0.530	0.520	0.520	0.00	17,238.67
11/07/2000	20,000	10,200	0.520	0.500	0.520	0.00	17,359.66
12/07/2000	4,750,000	2,525,080	0.550	0.510	0.550	5.77	17,552.26
13/07/2000	6,340,000	3,487,000	0.560	0.540	0.550	0.00	17,449.50
14/07/2000	2,090,000	1,149,600	0.560	0.550	0.550	0.00	17,586.16
17/07/2000	14,546,000	8,723,920	0.600	0.550	0.600	9.09	17,834.78
18/07/2000	3,988,000	2,483,840	0.650	0.580	0.640	6.67	17,440.83
19/07/2000	986,000	591,600	0.610	0.590	0.610	-4.69	17,710.07
20/07/2000	3,384,000	2,075,600	0.630	0.600	0.620	1.64	17,758.51
21/07/2000	3,120,000	1,940,300	0.630	0.600	0.620	0.00	17,920.86
24/07/2000	3,688,000	2,331,540	0.640	0.620	0.630	1.61	17,659.69
25/07/2000	5,584,000	3,644,680	0.680	0.630	0.680	7.94	17,375.34
26/07/2000	6,210,000	4,467,286	0.750	0.680	0.730	7.35	17,620.23
27/07/2000	1,446,000	989,640	0.730	0.660	0.690	-5.48	17,450.09
28/07/2000	3,122,000	2,107,000	0.690	0.650	0.690	0.00	17,183.93
31/07/2000	366,000	245,960	0.690	0.660	0.670	-2.90	16,840.98
01/08/2000	888,000	603,840	0.690	0.670	0.680	1.49	16,897.45
02/08/2000	662,000	449,360	0.690	0.670	0.670	-1.47	17,277.39
03/08/2000	23,717,710	18,683,571	0.840	0.670	0.840	25.37	17,274.28
04/08/2000	30,152,800	28,119,302	0.980	0.830	0.930	10.71	17,425.70
07/08/2000	12,148,000	11,655,346	1.000	0.940	0.940	1.08	17,727.25
08/08/2000	5,872,000	5,426,820	0.970	0.900	0.900	-4.26	17,211.84
09/08/2000	10,795,360	9,797,896	0.910	0.890	0.910	1.11	17,181.99
10/08/2000	1,476,000	1,327,660	0.940	0.890	0.900	-1.10	17,333.21
11/08/2000	2,378,000	2,045,200	0.890	0.820	0.860	-4.44	17,214.42
14/08/2000	398,000	344,400	0.870	0.850	0.870	1.16	16,998.06
15/08/2000	146,000	127,440	0.890	0.860	0.890	2.30	17,463.53
16/08/2000	702,000	616,700	0.900	0.850	0.850	-4.49	17,734.15
17/08/2000	2,468,000	2,163,140	0.890	0.850	0.870	2.35	17,622.01
18/08/2000	1,616,000	1,422,080	0.880	0.880	0.880	1.15	17,440.00
21/08/2000	230,000	200,500	0.880	0.870	0.870	-1.14	17,501.48
22/08/2000	1,540,000	1,325,140	0.870	0.850	0.860	-1.15	17,668.28
23/08/2000	2,018,000	1,701,900	0.870	0.840	0.870	1.16	17,427.40
24/08/2000	1,046,000	906,240	0.870	0.870	0.870	0.00	17,439.70
25/08/2000	2,070,000	1,791,180	0.870	0.850	0.850	-2.30	17,236.74
28/08/2000	1,230,000	1,041,400	0.860	0.820	0.840	-1.18	17,019.76
29/08/2000	1,088,000	942,400	0.870	0.830	0.870	3.57	17,240.11
30/08/2000	678,000	574,100	0.850	0.840	0.840	-3.45	17,095.88
31/08/2000	480,000	404,380	0.850	0.840	0.850	1.19	17,097.51



Closing Price of Tingyi vs Hang Seng Index
(for the period 1 March 2000 to 31 August 2000)


STOCK CODE : 00322 - TINGYI
Price
1.080
0.980
0.880
0.780
0.680
0.580
0.480
0.380
0.280
0.180
Volume
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
01/03
22/03
13/04
09/05
31/05
22/06
13/07
03/08
24/08
Date Range (03/2000 - 08/2000)

Annexure B

JIM LAM'S REPORT BY E-MAIL DATED 13TH JULY 2000 FOLLOWING HIS FIRST VISIT TO TINGYI

Jim Lam
13/07/2000 12:19

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cc: Lawrence-HK Ang/DMGSHK/DBAsia/DeuBa@DBAsia; Brian Leung/DMGSHK/DBAsia/DeuBa@DBAsia; Christine Pu/CH/DBAsia/DeuBa@DBAsia

Subject: Re: Company Visit Note - Tingyi (0322.HK; HK$0.55; Not Rated)

Interesting investment idea - we think Tingyi is a largely ignored, cheap and direct play on the recoverying China consumer market.

Company Visit Note.do

Regards,

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Tingyi (Cayman Islands) (0322.HK; HK$0.55; Not Rated) – Company Visit Note
We visited the management of Tingyi recently. Overall, we believe the company is seeing a strong turnaround in all its major business segments – noodles, baked products and beverages, thanks to the improving consumer sentiment in China and a more friendly operating environment as Uni President withdrawn from its previous destructive price-cutting strategy. Substantial increase in sales which, combined with Tingyi's much strengthened cost-cutting measures, lead us to believe that the company should return to profitability in the current year following a massive loss of US$36m in 1999. We are in the process of finalizing our earnings estimates and recommendation, and would re-initiate our coverage on the stock early next week.

Key points:

- **Strong turnaround in core businesses.** Total sales rose sharply by 19% YoY in the first five months of the year, led by the 15% and 78% YoY growth in noodles and beverage sales. The management attributes the strong performance to the improvement in consumer sentiment and the strong rebound in tourism activities in China. In the first five months of the year, the three key product groups - noodles, baked products and beverages accounted for 75%, 10% and 12% of the Tingyi's total turnover.

- **Reversing margin trend.** In the past few years, Tingyi suffered from a persistent decline in gross margin due to the general shift in demand from the more expensive bowl noodles and high-end packet noodles (Master Kon) to low-end packet noodles (Fu Moon Du), made worst by the destructive price-cuttings by its major competitor - Uni President. Consequently, overall gross margin fell to 27.9% in 1999 from 28.9% in 1997. We believe overall gross margin will increase in the current year, fuelled by the significant growth in higher-margin products. For instance, in the first five months of the year, sales of bowl noodles and PET tea series, which command a relatively high gross margin of 35% and 40% respectively, were up strongly by 32% and over 5x to US$61m and US$21m. We estimate full year gross margin could increase by as much as 2.6 p.p. to 30.5% in 2000, owing to the substantial increase in sales volume and the shift in sales mix towards the more expensive products.

- **Restructured distribution system.** In the past, the majority of Tingyi's products were sold to the so-called "tier-one" wholesalers. The products would have to move through 2-3 more layers of sub-distributors before reaching the end-retailers. Since 1998, the company has substantially revamped its inefficient distribution system. Under the current restructured distribution channel, products are sold either to the end-retailers or the level immediately above that, leading to much faster response time and inventory turnover. More significantly, we understand that Tingyi is currently in the process of building up its own distribution network in China - operating license in Shanghai was already acquired and that in Beijing and Guangzhou are expected to be obtained soon. In our view, this will be a major positive factor longer term, as it should greatly facilitate the company's plan to transform from a manufacturing-based consumer company to one that is centered on distribution strength, further enhancing its operational efficiency. Furthermore, such a forward-looking strategy could generate substantial new business opportunities going forward, particularly after China's likely WTO entry which should lead to the opening up of the country's wholesale and retail distribution networks to foreign investors. Given the increasing enthusiasm of investors on China's logistics and distribution systems, this could also be a potential spin-off candidate.

- **Strengthening cost control initiatives.** In 1999, Tingyi only made a small profit of US$1m at the operating level, owing to a 24% surge in distribution costs to US$113m as a result of the above-mentioned restructuring plan. Since the entry of Sanyo in mid-1999, there has been a major shift in management focus. Overall, we believe the management has now been driven more by the bottom line rather than market share as was the case before the partial stake disposal to Sanyo by Ting Hsin. Management expects to see a double-digit decline in its operating cost for the current year, which will be driven primarily by further staff cuts, localization of management, and reduction in distribution costs. In 1999, about 3,700 employees or 26% of the company's total staff force were cut, including almost two-fifth of the expatriate personnel from Taiwan. In order to save costs, Tingyi plans to cut no less than 3,500 jobs in the current year.

- **Financial position no longer a major concern.** In the past, one major concern on the company was its extremely high net gearing ratio – 96% in 1997 and 105% in 1998. The situation was exacerbated by the general credit tightening by international banks towards Chinese companies following the GITIC debacle. However, we believe the financial position of Tingyi has improved significantly following the US$100m rights issue proceeds in mid-1999, with overall net gearing ratio fell back to a more manageable level of 68% at the end of 1999. In light of the company's conservative capex programme (<US$10m p.a.) and forecast strong free cash flow of at least US$100m p.a., we expect Tingyi's financial position to improve further over the coming years. Current cash and debt balances are estimated at US$120m and US$405m (US$289m short-term debts and US$116m long-term), respectively, which can be translated into a net gearing ratio of 58%. **Barring any major acquisitions, which we think would be highly unlikely, we estimate the company will become debt-free by 2002.**

Annexure C

JIM LAM'S FURTHER REPORT DATED 17TH JULY 2000 ON TINGYI

Annexure C

Equity Research Asia-Pacific

Morning Conference Note

17 July 2000

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Deutsche Bank

Tingyi (Cayman Islands)

On the Rebound; Resuming Coverage with a BUY Rating

Rating remains
BUY

Price (14 July 2000)
HK$0.55

Ticker
0322.HK (Reuters)
322 HK (Bloomberg)

MITA (P) No.

Y/E 30 Jun	Sales (US$m)	Net profit (US$m)	EPS (US$ cents)	EPS Growth (%)	P/E (x)	EV/ EBITDA (x)	Yield (%)
1999	609	(36)	(0.82)	n.a.	n.a.	7.2	7.6
2000F	711	32	0.56	n.a.	12.5	3.3	7.6
2001F	815	57	1.02	81.1	6.9	2.5	7.6
2002F	923	85	1.53	49.0	4.6	2.0	7.6

Source: Deutsche Bank Research Estimates, Company Information

Shares outstanding (m):	5,595.8	Market capitalisation (US$m):	396
Est 3 yr EPS Cagr (%):	64.3	HSI:	17,586
Daily volume (US$m):	0.06	52-wk high/low ():	0.68/0.40

We are re-initiating coverage of Tingyi (Cayman Islands) with a BUY rating. Our 12-month target price is HK$1.00 (4.5x 2001F EV/EBITDA and 0.3x PEG), which implies 82% upside from the current level. The stock currently trades on a 2001F PER and EV/EBITDAR multiple of 6.9x and 2.5x respectively, a discount of 44% and 65% to other food companies in the region. On this basis, we believe valuation of the stock is low, especially in a recovering market. Strong rebound in top-line revenue growth amid increased focus on cost-cuttings indicates potential for upside earnings surprises. Tingyi is China's No.1 instant noodle maker with a 26.1% market share in 1999; 12 p.p. ahead of its nearest rival President. Currently, instant noodle penetration in China is about 10% that of Hong Kong/Taiwan and 5% that of Korea/Japan.

- **The big sell-off.** Tingyi has traditionally been one of the favourite China plays due to its strong brand equity and direct exposure to the country's lucrative F&B markets. The stock underwent a significant de-rating since mid-1997 when the financial crisis struck Asia. Disappointing sales figures as consumers opted for lower-end products together with increased competition from its direct competitor Uni-President have dragged the company's business into a net loss in 1999. Consequently, the stock price has tumbled by almost 75% from its peak of HK$2.325 in late 1996, made worst by the company's liquidity problem first came into light in 1998. Over the past 12 months, the stock has essentially been stuck in a trading range, moving between HK$0.50-0.75 for most of that time.

- **Strong rebound in top-line growth offers hints of a re-rating.** However, we would argue that the de-rating has almost run its course. Despite the share price remains range-bound, we understand that the company has made good progress in all its major business segments since late 1999. In the first five months of the year, overall sales grew strongly by 19% against a slight increase of 3% in 1999. The rebound in sales was driven primarily by a 15% and 78% surge in noodle and beverage sales, which in turn can be attributable to the sustained pick-up in consumer sentiment and travel demand in China. Significantly, after raising its market share to slightly over 14% in 1999 (see Figure 1), Uni-President (1216 TT) appears to have retreated from its offensive price-cuttings strategy. Whether this reflects Uni-President's desire to improve profitability after gaining market share, or whether it simply reflects the fact that Tingyi now no longer represents a take-over target (and it may be both) doesn't matter; the result is the same – a bounce-back in profitability almost seems assured.

- **Reversing margin trend trend.** Over the past several years, Tingyi has suffered from a persistent decline in gross margin (from 28.9% in 1997 to 27.9% in 1997) which was mainly driven by: 1) a change in sales mix away from the high-end packet noodles in favour of the low-end, lower-margin ones; 2) pricing pressure stemmed from the destructive price war by Uni-President; and 3) low level of beverage sales leading to sub-optimal plant utilisation rate. Encouragingly, the declining gross margin trend is showing signs of a turnaround. Overall, we estimate the company's gross margin to increase by 2.6 p.p. to 30.5% in 2000, owing to the pick-up in sales of higher-margin products and the substantial improvement in beverage sales. In the first five months of the year, sales of bowl noodles and PET tea series, which command relatively high gross margins of around 35% and 40%, rose strongly by 32% and over 5x to US$61m and US$21m, respectively.

- **Restructured distribution system.** In the past, the majority of Tingyi's products were sold through the cash-rich, Level 1 distributors – the wholesalers, which would then help to move the products through 2-3 more layers of subdistributors before reaching the end-retailers. This distribution system was a highly efficient one as it reduced the need for Tingyi to maintain its own sales force. In recent years, however, competitors which found it hard to sell their products through the Level 1 distributors - as they were already selling Tingyi's products - have turned to the next level of subdistributors, which are often based on more favourable sales terms e.g. longer credits period. Consequently, it has become more difficult for the Level 1 distributors to penetrate Tingyi's products to this second layer of subdistributors. Since late 1998, the company has started to substantially revamp its distribution system. Under the new distribution channel, products are sold either to the end-retailers or the level immediately above that. In addition to removing the bottleneck, this distribution system also offers Tingyi much faster response time and inventory turnover.

- **More encouragingly, a self-owned distribution system is now under construction.** We understand that Tingyi is now in the process of constructing its own distribution network in China covering most of the country's major provinces and cities. We applaud this forward-looking strategy, as it should greatly facilitate the company's transition from a manufacturing-based consumer company to one that is centred on distribution strength. Given the increasingly competitive landscape, we believe distribution capability has become a much more important factor determining the ultimate success of any consumer company in China. Such a self-owned distribution network, in our view, will also offer Tingyi substantial new business opportunities going forward, as China's admission to the WTO should lead to the gradual opening up of the country's wholesale and retail distribution networks to foreign investors. Given the market's increasing enthusiasm on China's logistics and distribution systems, such a comprehensive distribution channel also represents an attractive candidate for potential spin-off.

- **Shareholders focus.** In the past, we were concerned about the management's aggressive business growth plan that has put severe pressure on its cash flow and financial position. Since Sanyo Foods of Japan bought a 33% stake in the company at HK$0.80 per share from Ting Hsin in June 1999, we have seen several major changes which we believe should lead to incremental shareholder returns. First, there has been an easing of the strict market share mentality in favour of a more profit-oriented approach. Second, aggressive cost-cuttings measures have been put in place to bring the company's overall productivity and efficiency more in line with that of Sanyo. Finally, we see increased financial restraint that should lead to more careful use of cash. Since the beginning of 2000, Sanyo has seconded production, management and financial experts to assist the company to strengthen its production and management techniques and improve its financial structure. Following the shareholding change in mid-1999, Ting Hsin and Sanyo (each holds a 33.14% stake) now have equal broad representation - four directors from Ting Hsin and four from Sanyo.

- **Aggressive cost-cuttings measures well in place.** In 1999, about 3,600 employees (about 16% of the work force) were cut, including mostly production staff in the noodle division and about two-fifth of expatriate management personnel from Taiwan. For 2000, management has budgeted a double-digit decline in operating costs that will be achieved by: 1) continual streamlining of its labour force - e.g. rationalisation of the restructured distribution network and staff cuts at the beverage and bakery divisions); 2) trim the organisational structure and reduce overheads - minimising organisational levels and merging departments; and 3) localisation of senior management. We anticipate additional 3,500 jobs to be cut in 2000, equivalent to approx. 18% of the existing labour force. Furthermore, as most of the costs involved in the restructuring of the distribution channel have already been incurred, this should provide room for further cost-savings. Total distribution costs surged 24% surge to US$113m in 1999 as a result of the distribution channel restructuring.

- **Substantially improved financial position and cash flows.** Following the 17-for-50 rights issue priced at HK$0.55 per share which raised US$100m in November 1999 and the subsequently repayment of all the outstanding floating rate notes amounting to U$107m, the company's financial position has been improved substantially. We estimate the company currently has around US$115m cash on hand. Total outstanding debt balance should be around US$400m. Of the balance, about US$289m are short-term bank borrowings and the rest long-term debts, including around US$97m outstanding convertible bonds.

Given Tingyi's capex programme has already peaked in 1998, with limited capex of around US$10m estimated for each of the next several years, we estimate its free cash flow to increase steadily from here and expect no major problem for Tingyi to satisfying its outstanding financial obligations. Despite a net loss of US$36m, management still paid out a DPS of US$0.00537 (US$30m in total) in 1999, reflecting its confidence on the company's financial health. Overall net debt/equity ratio is estimated to fall to 56% by the end of this year from 68% in 1999 and 105% in 1998. In our forecasts, we have assumed a rollover of all the US$289m short-term bank borrowings (mainly borrowed from the Mainland Chinese banks) and a constant DPS of US$0.00537 for each of the coming three years. **Barring any major acquisitions, which we think would be highly unlikely, we estimate the company will become debt-free by 2003.**

- **Compelling relative valuation.** Shares of Tingyi are currently trading on an attractive 6.9x 2001F PER and 2.5x EV/EBITDA multiple with a 7.6% prospective dividend yield. While we recognise the differences in risk profile and the market capitalisation between Tingyi and other regional food conglomerates, a 65% EV/EBITDA multiple discount does appear excessive to us (see Figure 2).

  We believe institutional investors have long ago resigned themselves from the stock to expecting the worst. This suggests that sellers of the stock should be few and that support should be strong at the current level, particularly given its relatively high dividend yield. Historically, the stock has traded within a PER range of 12-16x before its earnings started to decline in 1997.

  We believe there is no close comparable for Tingyi within our China stock universe, given the unique nature of its businesses. The best comparables, in our view, are probably other listed leading instant noodle manufacturers such as Uni-President in Taiwan and Nissan (2897 JP) in Japan. Comparing Tingyi with either company shows a significant valuation discount in the range of 73% to 85%. This is despite our forecast much stronger earnings growth for Tingyi.

- **DCF valuation shows the stock has a fair value of HK$1.58 per share.** We have also computed a discounted cash flow (DCF) valuation for Tingyi, yielding an equity value of HK$1.58 per share (see Figure 7), versus the current share price of HK$0.55. Conversely, we noted that the current share price has only discounted the company's free cash flows for the next three years, implying a payback period of less than 3 years. Our DCF calculation is based on the following assumptions:

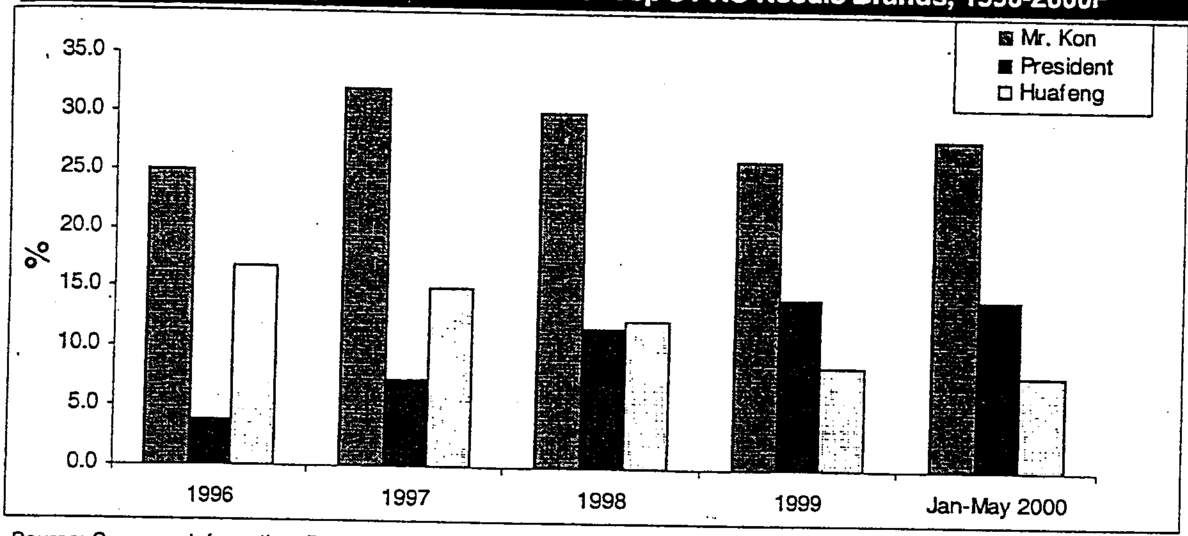
  1) annual free cash flow (FCF) growth rate of 20% over 2000-2005;

  2) long-term FCF growth rate of 3% from 2006 onwards.

  3) a relatively high discount rate of 18.3% based solely on the company's cost of equity as we believe Tingyi will become debt-free from 2003 onwards. Our cost of equity calculation is based on a risk-free rate of 14%, a beta of 0.7, and a market risk premium of 6.2%. It is worthwhile to note actual beta for Tingyi over the past 12 months was only 0.29, much lower than our assumed 0.7.

- **Currency risk.** Since Tingyi generate most of its revenues and pay most of its costs in RMB, our sensitivity analysis shows that every 10% devaluation in the RMB/USD exchange rate would reduce the company's 2001F net profit by 13% and that for 2002F by 12%. This is the case as RMB-denominated incomes are translated into a stronger reporting currency – the USD. Such estimates do not include the one-off translation loss that would arise from the translation of net RMB-denominated monetary assets. If we assume half of the company's net monetary assets are denominated in the RMB, a 10% RMB devaluation would thus result in an additional forex translation loss in the range of US$9-16m, depending on the timing of the devaluation.

Figure 1: Market Share of Top-3 PRC Noodle Brands, 1996-2000F



Source: Company Information, Deutsche Bank Research Estimates

Figure 2: International Food Companies – Valuation Matrix

Company	Bloomberg	Currency	Price 14-Jul-00	Market Cap. (US$m)	EPS (Local Currency) 2000F	EPS (Local Currency) 2001F	EPS Chng (%) 2000-2001F	PER (x) 2000F	PER (x) 2001F	PEG (x)	Historical Dividend Yield (%)	EV/EBITDA (x) 2000F	EV/EBITDA (x) 2001F
Asia													
Tingyi (Cayman Islands)	322 HK	US$	0.0707	395	0.0057	0.0102	81.1	12.5	6.9	0.2	7.60	3.3	2.5
Uni-President Enterprises	1216 TT	TWD	23.5	2,226	1.299	1.482	14.1	18.1	15.9	1.3	3.87	11.9	10.8
Nissin Food Products	2897 JP	JPY	2,615	3,095	88.3	90.2	2.2	29.6	29.0	13.4	0.92	16.5	16.3
Want Want	WANT SP	SGD	1.67	564	0.193	0.215	11.4	8.7	7.8	0.8	6.26	5.4	5.6
Tsingtao Brewery	168 HK	RMB	1.58	728	0.079	0.095	20.3	20.0	16.6	1.0	6.40	8.8	7.8
PT Indofood Sukses Makm	INDF IJ	IDR	4,700	906	709.0	856.0	20.7	6.6	5.5	0.3	0.00	4.2	4.1
Universal Robina	URC PM	PHP	5.3	177	0.886	0.974	9.9	6.0	5.4	0.6	0.94	3.9	2.6
Average							**22.8**	**14.5**	**12.4**	**2.5**	**3.71**	**7.7**	**7.1**
US													
Campbell Soup	CPB US	USD	27.875	11,739	1.67	1.75	4.8	16.7	15.9	3.5	3.23	9.2	9.4
General Mills	GIS US	USD	36.3125	10,584	1.990	2.203	10.7	18.2	16.5	1.7	3.03	10.7	10.3
Heinz (H.J.)	HNZ US	USD	41.5000	14,618	2.560	2.809	9.7	16.2	14.8	1.7	3.54	9.8	9.4
Hershey Foods	HSY US	USD	44.75	6,139	2.365	2.600	9.9	18.9	17.2	1.9	2.32	13.8	12.3
Keebler Foods	KBL US	USD	34.3125	2,895	1.81	2.05	13.3	19.0	16.7	1.4	1.31	9.6	9.2
Kellogg	KBL US	USD	29.1250	11,812	1.644	1.800	9.5	17.7	16.2	1.9	3.36	10.7	9.7
Nabisco	NA US	USD	52.4375	13,879	1.547	1.800	16.4	33.9	29.1	2.1	1.43	24.1	23.0
Ralcorp	RAH US	USD	13.5625	404	1.216	1.380	13.5	11.2	9.8	0.8	0.0	4.3	4.7
Average							**11.0**	**19.0**	**17.0**	**1.9**	**2.3**	**11.5**	**11.0**
Europe													
Cadbury Schweppes	CBRY LN	GBP	419	12,771	23.5	25.8	9.8	17.8	16.2	1.8	2.39	9.0	8.2
Danone	BN FP	EUR	149	20,334	5.355	5.895	10.1	27.8	25.3	2.8	1.80	11.8	11.3
Nestle SA	NESN SW	CHF	3,240	77,398	139.3	155.8	11.8	23.3	20.8	2.0	1.33	9.3	8.9
Unilever NV	URVR LN	GBP	399.25	17,433	26.78	29.04	8.4	14.9	13.7	1.8	3.13	6.6	7.7
Average							**10.0**	**21.0**	**19.0**	**2.1**	**2.2**	**9.2**	**9.0**

Source: Company Information, Deutsche Bank Research Estimates, Bloomberg

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Figure 3: Consolidation Income Statements

Year to Dec (US$m)	1996A	1997A	1998A	1999A	2000F	2001F	2002F
Sales							
Bowl noodles	127	126	110	117	150	180	207
High-end packet noodles	284	281	267	245	257	270	284
Low-end packet noodles	0	58	65	80	116	145	174
Snack noodles	42	61	21	14	7	6	5
Total noodles sales	454	526	463	456	530	600	669
Baked goods	16	34	55	71	74	77	80
Beverages	13	36	50	63	90	121	158
Others	0	7	18	18	17	16	15
Total	483	603	586	609	711	815	923
% change		24.8	(2.8)	3.9	16.9	14.6	13.2
Gross profit							
Noodles	138	164	139	125	159	191	223
Baked goods	4	3	18	25	26	27	28
Beverages	0	5	5	15	27	41	58
Others	0	3	2	5	5	5	5
Total	142	174	164	170	217	265	314
% change		22.5	(5.7)	3.2	28.0	21.9	18.7
Gross profit margin (%)							
Noodles	30.3	31.1	30.1	27.4	30.0	31.9	33.3
Baked goods	25.9	7.6	32.6	34.9	35.0	35.1	35.3
Beverages	2.5	13.9	9.9	23.0	30.0	33.9	37.0
Others	n.a.	45.1	12.9	29.0	30.0	30.4	30.6
Overall gross margin	29.4	28.9	28.0	27.9	30.5	32.4	34.0
Investment grants	14	14	17	5	6	6	6
Other net income	3	(3)	9	8	8	8	8
Dividend income from unlisted investment	0	0	0	1	1	1	1
Profit on disposal of short term investments	0	13	0	0	0	0	0
Distribution costs			(91)	(113)	(96)	(110)	(125)
Administrative expenses			(47)	(44)	(42)	(44)	(46)
Other operating expenses			(25)	(26)	(26)	(28)	(31)
Total operating expenses	(69)	(130)	(162)	(183)	(164)	(182)	(202)
	(51)	(107)	(136)	(169)	(149)	(167)	(187)
Operating profit	91.1	67	28	1	68	97	127
Operating margin (%)	18.9	11.2	4.8	0.1	9.6	11.9	13.8
EBITDA	117	107	85	61	132	164	197
EBITDA margin (%)	24.2	17.7	14.5	10.0	18.5	20.1	21.4
Interest income	0	6	6	2	3	5	7
Interest expenses	(11)	(34)	(43)	(37)	(32)	(31)	(27)
Less: Interest capitalised	5	9	7	0	0	0	0
Net interest expenses	(5)	(25)	(36)	(37)	(32)	(31)	(27)
Gain on repurchase of FRNs and CBs	0	0	5	5	0	0	0
Net finance costs	(5)	(19)	(25)	(30)	(29)	(26)	(21)
Share of lossses of associates	(0)	(0)	(1)	(0)	0	0	0
Profit before taxation	86	48	3	(30)	40	71	106
Pretax margin (%)	17.7	7.9	0.5	(4.9)	5.6	8.7	11.5
Taxation	(4)	(2)	(3)	(3)	(2)	(5)	(10)
Effective tax rate (%)	5.0	3.7	106.9	(8.9)	5.0	7.0	9.0
Profit/(loss) from ordinary activities after taxation	81	46	(0)	(33)	38	66	97
Minority interests	(2)	(3)	(3)	(3)	(6)	(9)	(11)
M.I. as a % of operating profit (%)	2.2	4.9	9.3	613.2	9.0	9.0	9.0
Net profit/(loss)	79	43	(3)	(36)	32	57	85
Net profit growth (%)	11.0	(46.0)	n.a.	n.a.	n.a.	81.1	49.0
Net profit margin (%)	16.4	7.1	(0.5)	(5.9)	4.4	7.0	9.3
Dividends	15	15	0	30	30	30	30
Retained Profit	64	28	(3)	(66)	2	27	55

Source: Company Information, Deutsche Bank Research Estimates

Figure 4: Major Sales Assumptions Adopted

	1996A	1997A	1998A	1999A	2000F	2001F	2002F
Sales growth (%)							
Bowl noodles	5.7	(1.2)	(12.7)	6.4	28.0	20.0	15.0
High-end packet noodles	39.0	(1.2)	(5.0)	(8.2)	5.0	5.0	5.0
Low-end packet noodles	n.a.	n.a.	12.1	23.1	45.0	25.0	20.0
Snack noodles	196.0	44.4	(65.6)	(33.3)	(50.0)	(20.0)	(10.0)
Noodles	33.8	15.9	(12.0)	(1.5)	16.2	13.3	11.5
Baked goods	n.a.	110.0	58.5	31.1	4.0	4.0	4.0
Beverages	n.a.	182.2	39.9	26.7	42.0	35.0	30.0
Others	n.a.	n.a.	174.3	(2.9)	(5.0)	(5.0)	(5.0)
Overall sales	42.3	24.8	(2.8)	3.9	16.9	14.6	13.2
Composition of noodle sales (%)	90.7	77.4	81.4	79.4	76.8	74.9	73.3
Bowl noodles	28.1	24.0	23.8	25.7	28.3	29.9	30.9
High-end packet noodles	62.6	53.4	57.7	53.7	48.5	45.0	42.4
Low-end packet noodles	0.0	11.0	14.0	17.5	21.9	24.1	26.0
Snack noodles	9.3	11.6	4.5	3.1	1.3	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company Information, Deutsche Bank Research Estimates

Figure 5: Consolidation Balance Sheet

Year to Dec (US$m)	1996A	1997A	1998A	1999A	2000F	2001F	2002F
Non-current assets							
Property, plant and equipment	503.1	772.7	936.0	962.4	999.5	1,009.5	1,019.5
Less: accumulated depreciation	(45.2)	(84.5)	(140.7)	(199.2)	(262.5)	(329.1)	(399.0)
Net property plant and equipment	457.9	688.1	795.4	763.3	737.0	680.5	620.6
Construction in progress	186.4	133.7	53.2	27.1	0.0	0.0	0.0
Interest in associates	34.8	14.3	15.4	16.2	16.2	16.2	16.2
Other non-current financial assets	7.5	12.2	12.8	6.3	6.3	6.3	6.3
Total	686.5	848.3	876.8	812.8	759.5	702.9	643.0
Current assets							
Current investments	16.9	14.4	1.4	0.7	0.7	0.7	0.7
Inventories	72.1	100.2	85.3	68.7	80.2	92.0	104.1
Trade receivables	6.5	14.6	23.6	33.0	38.6	44.2	50.1
Prepayments and other receivables	59.7	75.0	68.6	62.7	62.7	62.7	62.7
Due from related companies	2.7	1.4	0.0	2.0	2.0	2.0	2.0
Bank balances and cash	112.7	113.6	77.0	89.1	135.4	229.0	261.1
Pledged bank deposits	0.0	0.0	6.5	4.9	0.0	0.0	0.0
Total	270.4	319.2	262.3	261.1	319.6	430.6	480.7
Current liabilities							
Trade and other payables	137.5	125.8	116.6	123.9	139.4	155.4	171.8
Due to associates	0.0	0.0	0.0	1.2	1.2	1.2	1.2
Due to related companies	9.9	0.3	1.8	3.7	3.7	3.7	3.7
Due to ultimate holding company	0.0	0.0	7.4	0.0	0.0	0.0	0.0
Short term interest-bearing borrowings	175.3	253.6	248.5	259.3	289.0	289.0	289.0
Current portion of long term interst-bearing borrowings	12.2	10.0	157.3	0.3	0.0	0.0	0.0
Taxation	1.2	1.0	1.3	1.8	2.0	5.0	9.6
Advance payments from customers	1.8	4.5	5.7	1.3	1.3	1.3	1.3
Proposed final dividends	15.0	15.0	0.0	30.0	30.0	30.0	30.0
Total	352.9	410.2	538.6	421.4	466.6	485.6	506.6
Net current assets	(82.5)	(91.0)	(276.4)	(160.4)	(147.0)	(55.0)	(25.9)
Total assets less current liabilities	604.0	757.4	600.4	652.5	612.5	648.0	617.2
Long term liabilities							
Interest-bearing borrowings	168.4	290.2	139.4	155.1	111.0	110.5	13.0
Minority interests	13.6	17.2	22.1	24.8	31.0	39.8	51.2
Net assets	422.0	450.0	438.9	472.5	470.5	497.7	553.0
Capital and reserves							
Issued capital	20.9	20.9	20.9	28.0	28.0	28.0	28.0
Reserves	401.1	429.1	418.0	444.6	442.6	469.8	525.1
Total shareholders' equity	422.0	450.0	438.9	472.5	470.5	497.7	553.0

Source: Company Information, Deutsche Bank Research Estimates

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Figure 6: Cash Flow Analysis

Source: Company Information, Deutsche Bank Research Estimates

Year to Dec (US$m)	1996A	1997A	1998A	1999A	2000F	2001F	2002F
Operating Activities							
Profit/(Loss) before taxation							
Depreciation	85.5	47.9	2.8	(29.9)	39.8	71.0	106.4
Loss/(profit) on disposal of property, plant and equipment	25.8	39.4	56.6	60.4	63.4	66.5	69.9
Interest expense	(0.1)	(0.0)	0.3	0.1	0.0	0.0	0.0
Interest income	1.4	25.1	35.6	37.5	31.8	31.2	27.4
Dividend received from investment	(0.2)	(6.2)	(5.7)	(2.3)	(3.1)	(5.0)	(6.6)
Gain on repurchase of FRNs and CBs	0.0	0.0	0.0	(0.6)	0.0	0.0	0.0
Net holding loss on non-current financial assets	0.0	0.0	(5.3)	(4.9)	(4.0)	0.0	0.0
Loss/(profit) on disposal of non-current financial assets	0.0	0.0	0.0	1.5	0.0	0.0	0.0
Share of losses of associates	0.0	0.0	0.0	0.7	0.0	0.0	0.0
Change in working capital	0.4	0.5	1.0	0.1	0.0	0.0	0.0
Cash Flow from Operating Activities	(2.5)	(68.5)	16.9	13.0	(1.6)	(1.4)	(1.6)
	110.4	38.1	102.1	75.6	126.3	162.3	195.5
Returns on Investment and Servicing of Finance							
Interest paid							
Interest received	(10.8)	(27.7)	(36.1)	(37.5)	(31.8)	(31.2)	(27.4)
Dividends received from non-current financial assets	6.6	4.3	7.3	2.3	3.1	5.0	6.6
Dividends paid	0.0	0.0	0.0	0.6	0.0	0.0	0.0
Dividend paid to M.I.	(25.5)	(15.0)	(15.0)	0.0	(30.0)	(30.0)	(30.0)
Cash flow from ROI and Servicing of Finance	0.0	0.0	(2.3)	(0.6)	0.0	0.0	0.0
	(29.7)	(38.4)	(46.1)	(35.2)	(58.7)	(56.2)	(50.8)
Taxation							
PRC tax paid	(2.3)	(2.0)	(2.6)	(2.2)	(1.8)	(2.0)	(5.0)
Investing Activities							
Purchase of property, plant and equipment							
Sale of property, plant and equipment	(336.8)	(207.6)	(81.6)	(9.9)	(10.0)	(10.0)	(10.0)
Sale of non-current financial assets	2.4	0.7	7.5	4.9	0.0	0.0	0.0
Net advances to related companies	0.0	0.0	0.0	4.3	0.0	0.0	0.0
Purchase of investments	0.0	(0.9)	0.9	0.0	0.0	0.0	0.0
Purchase of a subsidiary	(0.8)	(2.8)	(8.5)	0.0	0.0	0.0	0.0
Pre-operating costs	0.0	0.0	(0.6)	0.0	0.0	0.0	0.0
Interest in associates	(2.9)	(3.7)	0.0	0.0	0.0	0.0	0.0
Net advance to associates	(12.5)	0.0	(0.2)	0.0	0.0	0.0	0.0
Cash Flow from Investing Activities	(22.6)	20.0	0.0	(1.0)	0.0	0.0	0.0
	(373.2)	(194.4)	(82.4)	(1.6)	(10.0)	(10.0)	(10.0)
Net Cash Flow Before Financing Activities	(294.9)	(196.6)	(29.1)	36.6	55.7	94.1	129.7
Financing Activities							
Net proceeds from issue of shares							
Net proceeds from Issue of FRNs	156.9	0.0	0.0	0.0	0.0	0.0	0.0
Net proceeds from issue of CBs	148.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in short-term borrowings	0.0	126.8	0.0	0.0	0.0	0.0	0.0
Repayment of long-term borrowings	119.7	137.3	231.7	95.0	29.7	0.0	0.0
Repurchase of FRNs and CBs	(49.4)	(63.8)	(229.9)	(80.2)	(43.6)	0.0	0.0
Captial element of finance lease rental payments	0.0	0.0	(8.1)	(144.8)	0.0	0.0	(97.0)
Proceeds from rights issue	(4.4)	(2.5)	(2.3)	(0.5)	(0.5)	(0.5)	(0.5)
Repurchase of own shares	0.0	0.0	0.0	100.5	0.0	0.0	0.0
Expenses paid in connection with rights issue	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0
Decrease in pledged bank deposits	0.0	0.0	0.0	(0.8)	0.0	0.0	0.0
Financing from minority interests	0.0	0.0	5.6	1.6	0.0	0.0	0.0
Cash Flow from Financing Activities	6.3	0.3	4.1	3.4	0.0	0.0	0.0
	377.7	198.1	1.1	(26.0)	(14.4)	(0.5)	(97.5)
Increase in cash and cash equivalents							
Cash and cash equivalents at beginning of year	82.8	1.5	(28.0)	10.6	41.4	93.6	32.1
Effect of exchange difference	30.0	112.7	113.7	83.5	94.0	135.4	229.0
Cash and cash equivalents at end of year	(0.1)	(0.5)	(2.3)	(0.1)	0.0	0.0	0.0
	112.7	113.7	83.5	94.0	135.4	229.0	261.1

Source: company data and DB estimates

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Figure 7: DCF Valuation Summary

Share price (HK$)	0.55
NPV per share (HK$)	1.58
Share price discount to NPV	65.1%
Market Capitalization (HK$ m)	3,077.7

Year to Dec, US$m		Actual 1999	Forecast 2000	2001	2002	2003	2004	2005
Valuation Date	31-Dec-99	30-Jun-99	30-Jun-00	1-Jul-01	1-Jul-02	1-Jul-03	30-Jun-04	1-Jul-05
Free Cash Flow								
EBITDA		60.9	131.9	163.8	197.1	240.5	295.0	362.5
Less: Cash Tax Payable on EBIT		0.0	(3.4)	(6.8)	(11.4)	(18.4)	(28.3)	(42.2)
Plus: Decrease in Working Capital		13.0	(1.6)	(1.4)	(1.6)	(1.7)	(3.2)	(5.0)
Less: Capital Expenditure		(9.9)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Plus: Proceeds from Asset Sales		9.2	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow		73.3	116.8	145.5	174.0	210.3	253.5	305.2
Growth rate (%)				24.6	19.6	20.9	20.5	20.4

Year to Dec, Rmb m		2000	2001	2002	2003	2004	2005
Free Cash Flow for Valuation Purposes		116.8	145.5	174.0	210.3	253.5	305.2
WACC	18.3%	18.34%	18.34%	18.34%	18.34%	18.34%	18.34%
NPV of Free Cash Flow		107.4	113.0	114.2	116.6	118.8	120.8
Cumulative NPV of FCF as % of total mkt cap.		27.2%	55.7%	84.6%	114.1%	144.1%	174.6%

DCF Valuation (Rmb m)	
NPV for the next 6 years' forecast FCFs	690.9
Terminal value (growth rate = 3%)	732.0
Enterprise Value	1,422.9
Net Cash / (Debt)	(264.6)
Market Value of Minority Interests	(24.8)
Equity Value	1,133.5
No. of shares outstanding	5,595.8
Per Share Equity Value (US$)	0.20
Per Share Equity Value (HK$)	1.58

Source: Company Information, Deutsche Bank Research Estimates

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Annexure D

JIM LAM'S FURTHER REPORT DATED 25TH JULY 2000

FOLLOWING HIS SECOND VISIT TO TINGYI

Equity Research
Asia-Pacific

China
Food and Beverage

25 July 2000

Deutsche Bank

Tingyi (Cayman Islands)

Favourable Risk/Reward Profile

Rating remains
BUY

Price (24 July 2000)
HK$0.63

Ticker
0322.HK (Reuters)
322 HK (Bloomberg)

Y/E 31 Dec	Sales (US$m)	Net profit (US$m)	EPS (US$Cents)	EPS Growth (%)	P/E (x)	EV/ EBITDA (x)	Yield (%)
1999	609	(36)	(0.82)	n.a.	n.a.	8.1	6.6
2000F	711	32	0.57	n.a.	14.3	3.7	6.6
2001F	815	57	1.02	81.1	7.9	2.9	6.6
2002F	923	85	1.53	49.0	5.3	2.3	6.6

Source: Deutsche Bank Research Estimates, Company Information

Shares outstanding (m):	5,595.8	Market capitalisation (US$m):	453
Est 3 yr EPS Cagr (%):	64.3	HSI:	17,375
Daily volume (US$m):	0.1	52-wk high/low ():	0.68/0.40

We are resuming coverage of Tingyi with a BUY rating. Our 12-month target price is HK$1.00 (4.5x 2001F EV/EBITDA and 0.35x 2000F PEG), which implies 59% upside from the current level. The stock currently trades on a 2001F PER and EV/EBITDA multiple of 7.9x and 2.9x, respectively, a 40% and 62% discount to its regional peer group. We expect upside earnings surprises, boasted by the strong pick-up in revenue growth, lessening gross margin pressure and aggressive cost-cutting measures. Given the speed at which distressed Chinese stocks are re-rated once a catalyst appears, investors stand to gain exceptional returns by building up positions at the current levels.

- **De-rating of the stock has gone too far.** Over the past 12 months, the stock has traded consistently between HK$0.50 and HK$0.75, down significantly compared with the trading range of HK$1.60 and HK$2.20 before its earnings started to decline in 1997. There have been good reasons for the de-rating of Tingyi, but the extent seems overdone to us, especially given the stock's current compelling valuation (both on a relative and absolute basis) and the recovering F&B market in China.
- **Catalysts for a possible re-rating.** Given the increasingly positive earnings outlook, the recovery of the Chinese economy and the ability of new management to demonstrate shareholders focus and financial restraint, we believe the risk/reward profile is sufficiently compelling for Tingyi to be considered a home for fresh money.
- **Focusing on distribution strength.** Selective replacement of the old inefficient, hierarchical, vertically organised distribution networks by a leaner, more market orientated system should lead to increased sales and offers quick response to the market and enhanced customer service. Recent attempts to construct its own distribution network should also provide Tingyi with significant new business opportunities, ~~in our view, especially after China's likely WTO entry.~~

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Investment Case

De-rating of Tingyi has gone too far

- **Resuming coverage with a BUY rating.** We believe the de-rating of Tingyi has gone too far. Historically, the stock has traded within a PER band of 12-16x on share price of between HK$1.60 and HK$2.20 before its earnings started to decline in 1997. Shares of Tingyi have essentially been stuck in a trading range in the past 12 months, moving between HK$0.50 and HK$0.75 for most of that time. Of course, we believe there have been some strategic reasons for the weakness in the share price – e.g. deteriorating earnings profile, rising industry competition, stringent financial conditions, etc. Nevertheless, given the recent substantive improvement in the company's businesses and its much strengthened financial position, we think the de-rating should have most likely run its course. From a valuation standpoint, we consider the shares trading up to our price target of HK$1.00 (4.5x 2001F EV/EBITDA and 0.35x PEG) within the next 12 months as neither unrealistic nor demanding.

In recent months, Tingyi has made good progress in its business

- **Rationale behind our positive stance.** Tingyi's earnings profile is dominated by its exposure to the China's instant noodle market, where it is already a major player. The market is showing some concrete signs of a recovery due to improving consumer sentiment and rising travelling activities. Other business lines (non-carbonated beverages and biscuits) do not look as if they can become important earnings contributors in the foreseeable future, but a successful turnaround of such operations, especially the beverage operation, clearly represents a strong impetus for near term earnings growth. We believe there are several strategic issues facing Tingyi at this time: 1) rising industry profitability owning to the rapid consolidation over the past few years; 2) a more benign pricing environment given Uni-President's (1216 TT; TW$26.2; Not Rated) new business strategy; and 3) China's likely WTO entry boosting the demand for high quality OEM and logistics services by global F&B companies which want to enter the China market.

We expect good 1H00 results to be announced on 2 August 2000

- **Strong top-line growth offers hints of upside earnings surprises.** We expect Tingyi to return to profitability when it announces its FY00 interim results due out on 2 August 2000, against a net loss of US24m a year ago. Strong top-line growth for the noodle and beverage segments, lessening margin pressure and strong operational leverage (we estimate depreciation charge accounts for around 40-45% of total operating costs) are the major drivers causing the strong bounce-back in profitability. We see some potential upside to our full year FY00 forecasts given acceleration in China's GDP growth and consumer demand may boost sales growth further and from better than expected cost-savings.

Every 10% devaluation in the RMB/USD exchange rate would reduce our recurring net profit forecasts by 20-26%

- **Currency risk.** Since Tingyi generate most of its revenues and pay most of its costs in RMB, our sensitivity analysis shows that every 10% devaluation in the RMB/USD exchange rate would reduce the company's 2001F operating profit by US$15m and that for 2002F by US$18m, or 26% and 20% of our forecast earnings. This is the case as RMB-denominated incomes are translated into a stronger reporting currency – the USD. Such estimates do not include the one-off translation loss that would arise from the translation of net RMB-denominated monetary assets. If we assume 70% of Tingyi's net monetary assets are in RMB, a 10% devaluation in RMB against the USD would result in an additional foreign exchange translation loss in the range of US$13-14m, depending on the timing of the devaluation.

Derating of the Stock Has Gone Too Far

The Big Sell-Off

Five factors had accounted for the underperformance of the stock

Tingyi has traditionally been one of the most favourite China plays due to its valuable brand equity among Chinese consumers and direct exposure to the country's lucrative F&B market. The stock, however, underwent a significant de-rating since mid-1997 when the financial crisis struck Asia.

Overall, we see five major factors that had previously weighted down the stock price:

- Slower-than-expected instant noodle sales growth adversely affected by the country's economic slowdown since 1998 amid increased competition from Uni-President Enterprises Co. (1216 TT; TWD25.2; Not Rated);
- Persistent gross margin erosion as consumers shifted away from the more expensive packet and bowl noodles in favour of the lower-end, lower-margin ones;
- Disappointed expectations created by management's over-ambitious growth plan. Diversification into the bakery and beverage operations in 1996 generated larger-than-expected start-up losses and longer-than-anticipated payback period. The beverage division was still loss-making in 1H00; and
- Excessive capital expenditures amid significant decline in profitability created concerns over the group's debt-servicing ability.
- Fear about the RMB devaluation risk as the company collects the majority of its revenue in RMB, yet borrowed mainly in USD.

Consequently, the stock price has tumbled sharply by almost 70% from around HK$2.00 in mid-1997. Over the past 12 months, the stock has essentially been stuck in a trading range, moving between HK$0.50-0.75 for most of that time.

Attactive Relative Valuation

We think the de-rating should have run its course

Of course, we believe there have been good reasons for the de-rating of the stock. Despite the share price remains range-bound, given the recent substantive improvement in underlying businesses amid its significantly strengthened balance sheet, we think the de-rating should have most likely run its course. Currently trading at 7.9x 2001F PER, 2.9x 2001F EV/EBTIDA and 6.6% dividend yield, we believe the stock represents great value, particularly to longer-term value investors.

Historically, the stock has traded within a PER band of 12-16x before its earnings started to decline in 1997

Figure 1: Historical Share Price Performance and PER Band

Source: Company Data, Deutsche Bank Research Estimates

The stock currently trades on a 76% valuation discount to Uni-President and 83% discount to Nissan

We believe there is no close comparable for Tingyi within our China stock universe, given the unique nature of its businesses. The best comparables, in our view, are probably other listed leading instant noodle manufacturers such as Uni-President Enterprises in Taiwan and Nissan Food Products (2897 JP; JPY2,760) in Japan. On a 76% discount to Uni-President Enterprises and 83% discount to Nissan on 2001F EV/EBITDA, we believe the stock's valuation is compelling. Whilst we recognise the differences in risk profile and market capitalisation, such a steep discount does appears excessive to us. Comparing Tingyi with other international/regional food companies also shows that the company is probably one of the lowest rated leading food retailers, especially given its much stronger earning growth momentum (see Figure 2).

Figure 2: Valuation Comparison – International Food Companies

Source: Company Information, Deutsche Bank Research Estimates

Absolute Valuation Looks Even More Compelling

We estimate the stock has an end-2000 NPV of HK$1.75 per share

We have also computed a discounted cash flow (DCF) valuation for Tingyi, yielding an equity value of HK$1.75 per share (see Figure 3). This indicates a discount of 64% relative to the current stock price of HK$0.63.

In our DCF calculation, we have projected annual free cash flow to 2005 and then discounted back to present value at the company's weighted average cost of capital. Our key assumptions include:

- Forecast free cash flow (FCF) increase of 20-25% p.a. over 2001-05F;
- Long-term FCF growth rate of 3% from 2006 onwards; and
- Our discount rate of 18.3% is relatively conservative, as this is based solely on the company's cost of equity - we believe Tingyi will become debt-free from 2003 onwards. We use a risk-free rate of 14%, a beta of 0.7, and a

market risk premium of 6.2%, which are all based on our Quantitative Research Team's estimates. It is also worthwhile to note that the actual beta for Tingyi over the past 12 months is only 0.29, much lower than the 0.7 assumed in our calculation. We think a beta of 0.29 for Tingyi is probably too low and could be distorted by the extremely depressed share price.

Current share price has only discounted FCFs for the next three years

Conversely, another way to quantity the market's low or negative expectations is to calculate the number of years of FCF that is required to match the current share price. Our DCF model indicates that the market has recognised the company's FCFs for the next three years over 2001-2003. This implies a payback period of less than 3 years for investing into the stock, which obviously seems too conservative to us.

Shares buy-back by Tingyi signals that the stock is undervalued

Contemporary finance theory suggests that companies that are engaging in shares buy-back are usually undervalued, as management is believed to possess better information than outsiders such as stock analysts and investors. Since December 1999, Tingyi has first started to redeem its own shares. Up until June, a total of 4.9m shares have been repurchased from the open market (see Figure 4).

Figure 3: DCF Valuation

Source: Deutsche Bank Research Estimates

Figure 4: Shares Redemption

Source: Datastream

Catalysts for a Possible Re-Rating

We have identified a number of catalysts that would help the stock to re-rate back to the pre-crisis level.

We expect Tingyi to see a strong rebound in profitability in 2000 due to robust sales growth

- **Earnings recovery well under way.** Tingyi has seen a noticeable recovery to almost all of its major business segments since 4Q99, and that the momentum has accelerated into 1H00. In the first five months of the year, overall sales grew strongly by 19% YoY against a slight increase of only 3% for full year 1999. The rebound was primarily driven by a 15% and 78% surge in noodle and beverage sales, which in turn can be attributable to the sustained pick-up in China's consumer sentiment and travelling activities. Significantly, after raising its market share to slightly over 14% in 1999 (see Figure 6), Uni-President appears to have withdrawn from its previously aggressive price-cutting strategy since the beginning of the year. Whether this reflects the company's desire to improve its own profitability after gaining a satisfactory market share, or it simply reflects the fact that Tingyi is no longer available as a take-over target (and it may be both) doesn't matte. The result is the same – a bounce-back in profitability almost seems assured.

Gross margin is also forecast to rebound by 2.6 p.p. YoY to 30.5%

- **Reversing margin trend.** Over the past years, Tingyi has suffered from a persistent decline in gross margin (from 29.4% in 1996 to 27.9% in 1999). This can be attributable to: 1) a change in sales mix away from the high-end packet noodles in favour of the low-end, lower-margin ones; 2) pricing pressure stemmed from the destructive price war by Uni-President; and 3) low level of beverage sales resulting in sub-optimal plant utilisation rate. Encouragingly, the declining gross margin trend has finally showing some signs of a recovery which, in our view, will compound the degree of the likely rebound in profit looking ahead into the current year. Overall, we estimate the company's gross margin will increase strongly by 2.6 p.p. to 30.5% in 2000. In the first five months of the year, sales of bowl noodles and PET-bottled tea series, which command relatively high gross margins of around 35% and 40%, rose strongly by 32% and over 6x to US$61m and US$13m, respectively. Overwhelming consumer response to the new PET-bottled Woolong and Green Tea products has led to a 78% increase in total beverage sales to US$34m.

The entry of Sanyo should ensure better shareholders focus

- **Increased shareholders' focus.** In the past, we were concerned about management's aggressive business growth plan that has subsequently resulted in a stressed cash flow and financial position in 1999. Since Sanyo Foods of Japan bought a 33% stake in the company at HK$0.80 per share from the major shareholder Ting Hsin in June 1999, we have seen several major changes which we believe should lead to incremental shareholder returns. First, we see an easing of the strict expansion mentality in favour of a more profit-oriented approach. Second, aggressive cost-cuttings measures are well in place which should bring overall productivity and operational efficiency more in line with that of Sanyo. Finally, we believe increased financial restraint should cause more careful use of cash. Since the beginning of 2000, Sanyo has seconded production, management and financial experts to assist the company to strengthening its production and management techniques as well as to improve the financial structure. Sanyo is Japan's leading instant noodles producer, with its packet noodles ranking first domestically in terms of sales volume. Established in 1953, Sanyo has more than 47 yeas experience of instant noodles production and distribution. It is well known for its brand "Sapporo Ichiban". Following the shareholding change in mid-1999, Ting Hsin and Sanyo (each holds a 33.14% stake) now have equal broad representation - four directors from Ting Hsin and four from Sanyo.

Operating costs are forecast to decline by double-digits given a series of stringent cost-cutting measures

- **Cost-cuttings measures well in place.** In 1999, about 3,600 employees (about 16% of the work force at end-1998) were trimmed, including mostly production staff at the noodle division and about two-fifth of expatriate management personnel from Taiwan. Operating costs still rose 13% in 1999 driven by a 24% rise in distribution expenses due to the restructuring of previous old inefficient distribution network. For 2000, management has budgeted a double-digit decline in operating costs, to be achieved mainly on the cut back of another 3,500 jobs (including mostly sales staff employed by the restructured distribution system and production staff at the beverage and bakery operations). Tingyi also plans to reduce its overheads by minimising the organisational levels, merging various departments with duplicated functions as well as localising senior management personnel.

Strong operating cash flow and restrained capex ensure strong rise in free cash flow

- **Strengthening financial position and return of "free cash flow".** Following the 17-for-50 rights issue priced at HK$0.55 per share which raised US$100m in November 1999, the company has subsequently repaid all of its outstanding floating rate notes amounting to U$107m in November 1999. Tingyi's financial position has now improved substantially compared with a year ago. We estimate the company currently has around US$131m cash on hand. Total outstanding debt balance should be around US$407m at the end of June 2000. Of the balance, about US$283m are short-term bank borrowings and the rest long-term debts, including around US$97m outstanding convertible bonds (year-to-date the company has repurchased about US$20m face value of CBs).

Tingyi's capital expenditures have already peaked in 1998 with limited capex of around US$10m incurred in 1999 on repairs and maintenance of existing production facilities. The management has set out a strict policy in controlling capital investment and future expenditures are expected to be less than US$10m within the next few years. We thus expect free cash flow to increase steadily from here and foresee no major difficulty for the company to satisfying its outstanding financial obligations. Despite a net loss of US$36m, management still paid out a dividend of US$0.00537 per share (equivalent to US$30m in total) in 1999, reflecting its confidence on the company's financial health. Overall net debt/equity ratio is estimated to fall to 56% by the end of this year from 68% in 1999 and 105% in 1998. Furthermore, the management has taken steps to reduce the risk of currency mismatch. Its US dollar debts have now been reduced to about of 30% of total debts, down significantly from 93% at the end of 1997. In our forecasts, we have assumed a rollover of all the company's US$289m short-term bank borrowings (mainly borrowed from over 50 branches of Mainland Chinese banks) and a constant DPS of US$0.00537 for each of the coming three years. **Barring any more radical move such as engaging in major acquisition, which we think is highly unlikely, we expect Tingyi to become totally debt-free by 2003.**

Figure 5: New Board of Directors

Executive Directors		
Mr. Wei Ing-Chou	Chairman/Chief executive officer Age 46	Primarily responsible for the supervision and the management of the group as well as the formulation of the overall strategy of the group. Mr. Wei has over 20 years' experience in factory construction, production management and research in relation to food production.
Mr. Takeshi Ida*	Vice Chairman/Director Age 70	Founder and senior advisor of Sanyo Foods Co., Ltd. Mr. Takeshi Ida has been engaged in the noodle business for over 48 years.
Mr. Wu Chung-Yi	Director Age 44	Mr. Wu Chung-Yi has many years of experience in corporate management. He is also a director and a shareholder of Ting Hsin, the major shareholder of Tingyi.
Mr. Wei Ying-Chiao	Director Age 44	He has participated in the operation of Ting Hsin for more than 16 years and has extensive experience in food related business. He is responsible for marketing as well as strategic planning and the general management of the group.
Mr. Seiichi Ikeda*	Director Age 62	Mr. Seiichi Ikeda is the managing director and CFO of of Sanyo Foods Co., Ltd. He was engaged in the banking business for over 29 years before joining Sanyo Foods Co., Ltd. in 1991.
Mr. Ryo Yoshizawa*	Director Age 58	He is the director and general manager of the foreign business department of Sanyo Foods. Co, Ltd. He was banking business for over 31 years before joining Sanyo Foods Co., Ltd. in 1997.
Independent Non-executive Directors		
Mr. Hsu Shin-Chun	Non-executive Director Age 44	With more than 16 years of experience in the financial industry, he has comprehensive knowledge over the practice of financial market, and attains expertise in securities investments, corporate finance and financial engineering.
Mr. Katsuo Ko	Non-executive Director Age 60	He is the executive vice president of Marubeni Corporation. Mr. Katsuo Ko jointed Marubeni Corporation in 1963 and has been engaged in trading business in chemicals and foods for over 36 years.

* New executive directors seconded from Sanyo Food Co. Ltd. in July 1999

Figure 6: Market Shares of Top-Three Instant Noodle Brands in China

Source: Deutsche Bank Research Estimates

Figure 7: Overall Sales Revenue Breakdown – 1999A vs. 2000F

Source: Deutsche Bank Research Estimates

Figure 8: Noodle Sales Revenue Breakdown – 1999A vs. 2000F

Source: Deutsche Bank Research Estimates

Figure 9: Estimated Sales Growth – 1996-2002F

Source: Company Information, Deutsche Bank Research Estimates

Figure 10: Estimated Gross Margin – 1996-2002F

Source: Company Information, Deutsche Bank Research Estimates

Figure 11: Employees Number

Source: Company Information, Deutsche Bank Research Estimates

Figure 12: Net Debt/Gearing Ratio – 1996-2002F

Source: Company Information, Deutsche Bank Research Estimates

Figure 13: China Retail Sales

Source: Company Information, Deutsche Bank Research Estimates

Focusing On Distribution Strength

Near term strategy – restructuring the old inefficient distribution network

Improving sales prospects due to more efficient distribution channel

Since late 1998, Tingyi has begun to replace its old inefficient, hierarchical, vertically organised distribution networks by a leaner, more market orientated system. Up until 1998, Tingyi operated a three-tier distribution network. The first level of distributors were those cash-rich, state-owned distributors that buy goods direct from the company. In turn, these would sell the goods on to the wholesalers at the second level which were based in the provinces. The provincial distributors in turn distributed products to the third level – wholesalers in each city – which then sold the goods on to retailers. In recent years, competitors that found it difficult to sell their products through the top level distributors - as they were already selling Tingyi's products - have turned to the next level of subdistributors, often based on more favourable payment terms (e.g. long credits period versus Tingyi's strict cash-on-delivery policy). Consequently, it has become increasingly difficult for the first level distributors to penetrate Tingyi's products to this second layer of subdistributors, adversely affected the company's sales.

Since late 1998, the company has begun to substantially revamp its distribution channel, with products increasingly being sold either to the retailers or the level immediately above that (see Figure 14). In addition to removing the bottleneck, the prospects for such a decentralised logistic system appears good as this offers quick response to the market and enhanced customer service. This strategy is particularly positive in view of the rapid development of new retail outlets across the country in recent years, e.g. supermarkets, hypermarkets and 24-hour convenience stores. Nevertheless, we believe Tingyi will unlikely to bypass all its top level distributors but will remain flexible by adopting different logistics strategies for different parts of China.

Figure 14: Restructuring of Distribution System

Source: Company Information, Deutsche Bank Research Estimates

Figure 15: Number of Wholesalers and Retailers

Source: Company Information, Deutsche Bank Research Estimates

Longer term strategy – constructing its own distribution network

Self-owned distribution system should cause substantial new business opportunities after China's WTO entry

We understand that Tingyi is currently in the process of developing its own nation-wide distribution network, which is targeted to cover 33 major cities by mid-2001 and 92-100 major cities in the longer term. We applaud this forward-looking strategy, as it should greatly facilitate the company's transition from a manufacturing-based consumer company to one that is centred on distribution strength. Given the increasingly competitive operational landscape, we believe distribution capability has increasingly become the single most critical factor in determining the ultimate success of any consumer company in China.

Such a self-owned distribution network, in our view, will also provide Tingyi with significant new business opportunities going forward. China's WTO membership means that the country will open up its retail and distribution sectors to foreign enterprises. We therefore expect the government's policy of liberalising logistics and allowing foreigners greater control of the supply chain to continue to vacillate. This would imply great opportunities for suppliers of third parties logistics services, especially given the complete lack of good quality distribution and warehousing services in China at present. Given its comprehensive industry know-how (e.g. familiarity with key logistics issues and developed network of wholesalers and retailers) and established infrastructure (e.g. network of warehouses and transportation facilities), we believe Tingyi is well positioned to tap into this lucrative business segment. Given the potential number of logistics companies' IPO spin-offs, this may also imply meaningful appreciation potential going forward.

Figure 16: Sales Network

Source: Company Information, Deutsche Bank Research Estimates

Figure 17: Consolidated Income Statement

Source: Company Information, Deutsche Bank Research Estimates

Figure18: Major Sales Assumptions Adopted

Source: Company Information, Deutsche Bank Research Estimates

Figure 19: Consolidated Balance Sheet

Source: Company Information, Deutsche Bank Research Estimates

Figure 20: Cash Flow Analysis

Source: Company Information, Deutsche Bank Research Estimates

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* *Through Regis Partners, Inc*

Deutsche Bank

Additional information is available on request

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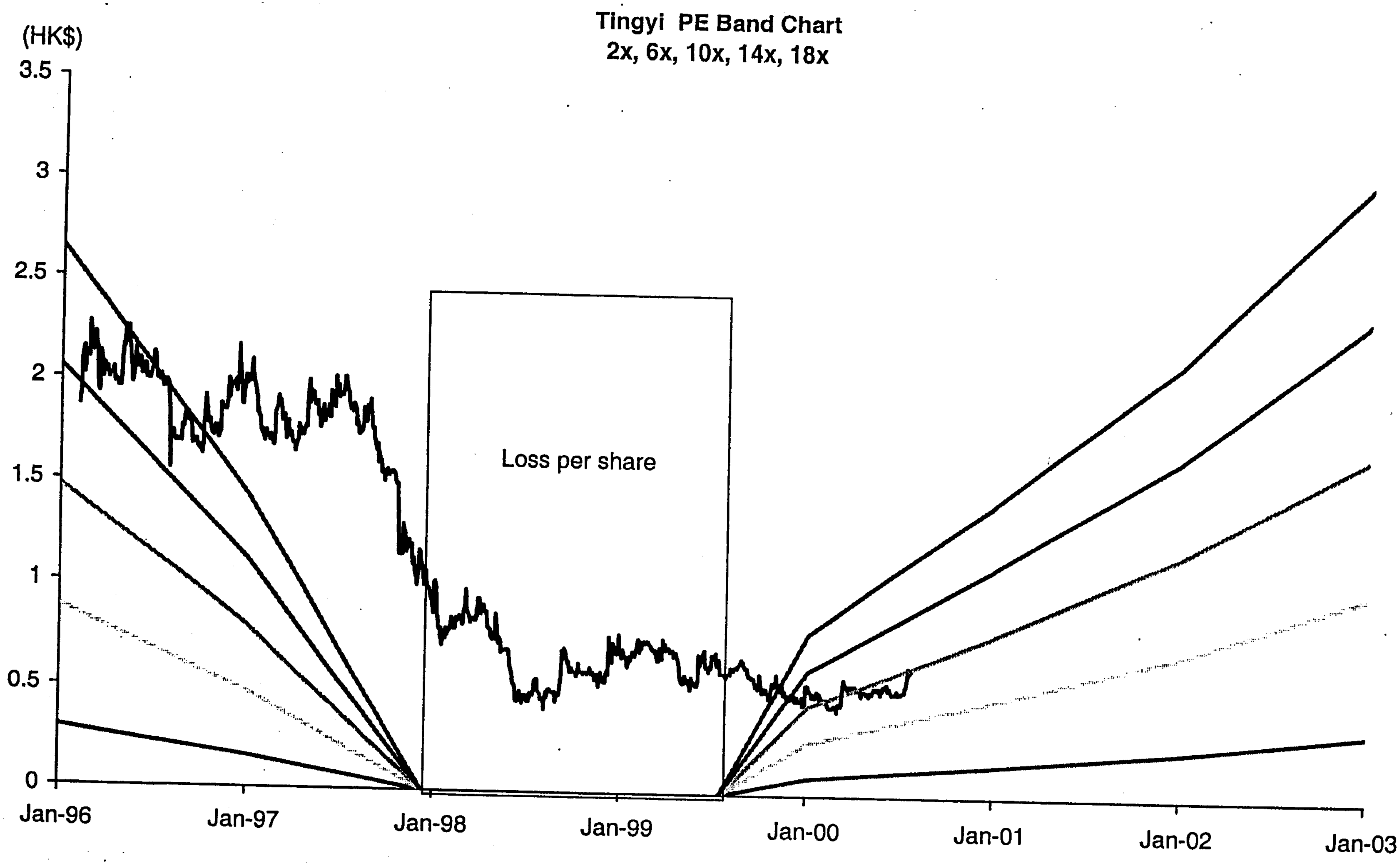

Tingyi PE Band Chart
2x, 6x, 10x, 14x, 18x
(HK$)
3.5
3
2.5
2
1.5
1
0.5
0
Loss per share
Jan-96
Jan-97
Jan-98
Jan-99
Jan-00
Jan-01
Jan-02
Jan-03

Annexure E

TINGYI'S ANNOUNCEMENT ON INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2000 PUBLISHED ON HONG KONG IMAIL DATED 3RD AUGUST 2000

HC ONG iMAIL 3 August 20

Annexure E

00004

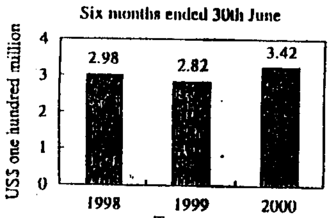
Tingyi (Cayman Islands) Holding Corp.

(Incorporated in the Cayman Islands with limited liability)

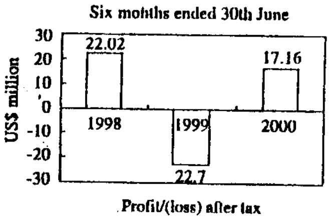
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2000

During the first half of the year 2000, GDP of the PRC [illegible] PRC showed signs of increase [illegible] reengineering coupled with the [illegible] of the Group's competitive advantages. Fo[illegible] recorded a net profit of US$17.161 million [illegible]

SUMMARY



Turnover



Profit/(loss) after tax

SUCCESSFUL IN CORPORATE REENGINEERING AND SIGNIFICANT INCREASE IN OVERALL PROFITABILITY

- Profit attributable to shareholders reached US$17.161 million, an increase by 175.49% as compared to the corresponding period last year;
- Gross margin of the Group increased to 30.17%, as compared to 25.99% in the corresponding period last year;
- Earnings per share was US0.31 cents;
- Turnover amounted to US$342 million, an increase by 21.13% as compared to the corresponding ·od last year;
- ·over for instant noodle, bakery and beverage were US$251 million, US$33.131 million and 49.402 million respectively. Their growth rates were 15.37%, 12.27% and 83.92% respectively from the previous year.

INTERIM RESULTS

The Board of Directors of Tingyi (Cayman Islands) Holding Corp. (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group"), prepared in accordance with the accounting principles generally in Hong Kong, for the six months ended 30th June 2000 as follows:

	Six months ended 30th June 2000 US$'000	1999 US$'000 (Note1)
Turnover *(Note 2)*	342,419	282,698
Profit / (loss) before taxation	20,714	(19,781)
Taxation *(Note 3)*	2,664	952
Profit / (loss) after taxation	18,050	(20,733)
Minority interests	889	1,999
Profit / (loss) attributable to shareholders	17,161	(22,732)
Interim dividend *(Note 4)*	0	0
Earnings / (loss) per share *(Note 5)*	US0.31 cents	US(0.54) cents

Notes:

1. In 1999, the Group has adopted for the revised and new Statements of Standard Accounting Practice ("SSAPs"). Details for the adoption have been included in the results announcement of the Group on 19th May, 2000.

2. Turnover

	Six months ended 30th June 2000 US$'000	2000 %	1999 US$'000	1999 %
Instant noodles	250,822	73.25	217,404	76.90
Bakery	33,131	9.68	29,509	10.44
Beverages	49,402	14.43	26,861	9.50
Others	9,064	2.64	8,924	3.16
Total	342,419	100.00	282,698	100.00

3. Taxation

·an Islands levies no tax on the income of the Group.

·ion for Hong Kong profits tax has been made as the Group's profit is not subject to Hong Kong profits tax.

Subsidiaries in the People's Republic of China ("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.

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.

4. Interim Dividend

The Company resolves that no interim dividend be paid for the six months ended 30th June 2000 (1999: nil).

5. Earnings/(Loss) per Share

The calculation of basic earnings per share is based on the earnings attributable to shareholders for the period under review of US$17,161,000 (1999: loss of US$22,732,000) and 5,593,890,724 shares (1999: 4,213,862,515 shares) in issue.

No figure for diluted earnings/(loss) per share is shown as the exercise of the conversion rights attached to the convertible bonds would result in increasing the earnings per share for the six months ended 30th June 2000 and decreasing the loss per share for the six months ended 30th June 1999 above the basic figures respectively.

ASSETS AND LIABILITIES

	As of 30th June 2000 US$'000	1999 US$'000
Property, plant and equipment	761,897	805,292
Interest in associates	15,256	15,732
Other non-current financial assets	6,390	7,838
Net current liabilities	(145,620)	(236,843)
Non-current interest-bearing borrowing	(124,956)	(148,152)
Minority interests	(23,367)	(27,787)
Net assets	489,600	416,080
Share capital	27,963	20,886
Reserves	461,637	395,194
	489,600	416,080

FINANCIAL RATIO

	Six months ended 30th June 2000	1999
Net profit / (loss) margin	5.01%	(8.04%)
Finished goods turnover	15.55 Days	27.85 Days
Accounts receivable turnover	16.65 Days	12.92 Days
Current ratio	0.68 Times	0.54 Times
Gearing ratio	52.83%	59.93%

BUSINESS REVIEW

Instant Noodle

The turnover of the Group's instant noodle grew by 15.37% when compared to the corresponding period last year. The growth was mainly due to the increase in sales of "Master Kon's Bucket Noodles" so that total turnover for bowl noodles increased by 30.89%. Sales of the Group's Fu- Moon-Du grew by 25.31% after the product entered the market for two years and the product has been one of the popular brand in low-end instant noodle market. Low-end noodles represented 70% of total instant noodle market.

During the period, the gross profit margin of instant noodles increased by 2.93pp. to 29.14% mainly because of the effective sales management and cost control.

Bakery

Total turnover of bakery rose by 12.27% when compared to the corresponding period last year, mainly from the growth in sales of rice crackers. During the period, Fresh-Pak rice crackers and rice chips entered the market. The Group not only supplied these products to the PRC market but also used the brand name of "ComeAlive" and OBM to export these products to the European, U.S. and Southeast Asian markets. In the first half of 2000, the gross profit margin for bakery products was 37.82%, an increase of 2.29pp when compared to a year ago.

Beverage

Beverage products scored significant gains owing to the growth of PET series, especially for the natural drinks green tea, Woolong tea and refreshment series, with supply lagging behind demand in the market. As a result, sales increased by 83.92% and profit after tax improved by 77.35% respectively from the last year. The Master Kon's tea series developed into the second-ranked brand in the market. During the period, the gross profit margin for beverage products increased by 17.66pp from 14.41% to 32.07%, mainly because of the increase in sales of high-margin PET series.

SALES NETWORK

As the "Better Access, Broader Reach" strategy began achieving results, especially shortened the time required when new products launched. At the same time, the Group's sales network was effectively under control. The Group established a system of rewards and penalties to motivate its wholesalers, while strengthening its partnership relations with sole agencies, which also helped to boost sales.

PROSPECTS

Along with the increase in income of PRC consumers and their new consumption pattern, the development potiential is immense for instant food market. The Group's strategies for the second half of the year are as follows:

1. Continue corporate restructuring, optimise operational efficiency and strengthen competitiveness;
2. Maximise the utilisation and profitability of idle facilities. The Group will continue to eliminate unnecessary expenses so as to achieve maximum profit while maintaining high quality standards;
3. Continue to improve assets management and develop export market;
4. Further improve its distribution system and strengthen its services levels;
5. Strengthen the existing product mix, actively develop new products and gradually increase expenditure on advertising and promotion, so as to enhance brand image and customer loyalty.

PURCHASE, SALE OR REDEMPTION OF SHARES AND CONVERTIBLE BONDS

Other than the Company's redemption of 3,214,000 shares during the period for approximately US$199,000, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

During the period, the Company repurchased US$14,819,000 face value of convertible bonds at considerations of approximately US$13,094,000, excluding expenses.

After 30th June 2000, the Company further repurchased US$6,350,000 face value of convertible bonds at an aggregate consideration of approximately US$6,339,000, excluding expenses.

All shares and convertible bonds repurchased have been cancelled and will not be reissued or resold.

AUDIT COMMITTEE

In September 1999, the Group has, pursuant to the listing Rules, formed an audit committee for the Group with written terms of reference approved by the board of directors. The latest meeting of the committee was held to review the results of the Group for the period.

CODE OF BEST PRACTICE

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited except all directors of the Company are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Articles of Association.

By Order of the Board
Wei Ing-Chou
Chairman

Tianjin, PRC, 2nd August 2000

Website: http://www.irasia.com/listco/hk/tingyi

Annexure F

SAMPLE COPY OF TYPE "A" SALMON LETTER

Annexure F

Counsel to the Insider Deaing Tribunal
c/o Edwin Choy,
Lawrence Lok, S.C.'s Chambers
10/F Printing House,
6 Duddell Street,
Central,
Hong Kong
Tel: 2526 0068 Fax: 28400131

CONFIDENTIAL

Ms. Anna HO Kwok Wing,
[redacted]

23rd February, 2006

Dear Madam,

Insider Dealing Tribunal's Inquiry into the trading of shares of Tingyi (Cayman Islands) Holding Corp ("Tingyi")

The Financial Secretary has, pursuant to the provisions of section 16(2) of the Securities (Insider Dealing) Ordinance Cap. 395 of the Laws of Hong Kong (the "Ordinance"), issued a Notice, dated 18 March 2004 (amended by an Amendment Notice dated 6 July 2005) to the Chairman of a division of the Insider Dealing Tribunal (the "Tribunal"), requiring the Tribunal to inquire into and determine –

(a) whether there has been insider dealing in relation to Tingyi connected with or arising out of the dealings in the listed securities of Tingyi by and on behalf of –

Anna Ho Kwok Wing during the period from 12 July 2000 to 28 July 2000 (both dates inclusive);

(b) in the event of there having been insider dealing as described in paragraph (a) above, the identity of each and every insider dealer; and

(c) the amount of any profit gained or loss avoided as a result of such insider dealing.

The Chairman of the Tribunal is the Honourable Mr. Justice McMahon. On 6 July 2005, the Financial Secretary has, pursuant to sections 15(2) and 15(5) of the Ordinance, and to paragraph 3 of the Schedule thereto, appointed Messrs Paul TONG Hin Sum and Jean Paul WOU to be members of the Tribunal for this inquiry.

In accordance with section 15(5) of the Ordinance and paragraph 18 of the Schedule thereto, the Tribunal has appointed Mr. Peter IP and the undersigned, both barristers-at-law, to act as counsel to the Tribunal for this inquiry.

In accordance with paragraph 17 of the Schedule to the Ordinance, the Tribunal has determined that your conduct will be the subject of this inquiry and that you are implicated and concerned in the subject matter of this inquiry. This inquiry has been convened as a result of an investigation carried out by the Securities and Futures Commission (the "Commission") pursuant to section 33 of the Securities and Futures Commission Ordinance Cap.24 into the circumstances surrounding the trading of shares of Tingyi which brought to light evidence suggesting that your conduct may have constituted acts in breach of section 9 of the Ordinance and that you may have been an insider dealer.

Enclosed herewith please find a synopsis of the results of the Commission's investigation. In due course, you (or your legal representatives on your behalf) will receive copies of statements and other evidence previously obtained by the Commission on which the synopsis is based. It is intended that this evidence gathered by the Commission will be adduced before the Tribunal.

The Tribunal intends to inquire into these allegations at public sittings and will require you to attend before it and give evidence in relation to these allegations. You are entitled to be represented by a barrister or a solicitor and may apply to the Tribunal to call witnesses or to adduce evidence in relevant to the matters concerning these allegations.

Unless you are notified to the contrary, the hearing will commence on **the 6th day of March, 2006 at 9.00 am at the Insider Dealing Tribunal on the 38th Floor, Immigration Tower, 7 Gloucester Road, Wan Chai, Hong Kong.** The hearing that day will be a preliminary hearing and is unlikely to last more than one hour. If you wish to be legally represented before the Tribunal, application should be made at the preliminary hearing. Your counsel or solicitor must be present at the hearing to make such application. If you do not wish to be legally represented, you must appear in person at the preliminary hearing.

It is anticipated that the Tribunal will commence its public sittings to hear evidence on the 3rd day of April 2006 at the abovementioned address. Thereafter, it is intended that the Tribunal will sit to hear evidence every weekday between 2.30 pm and 5.00 pm.

If you intend to instruct a solicitor and/or counsel to represent you, I shall be grateful if you or your solicitor could notify me by letter or fascimile at the above address prior to the preliminary hearing. As regards the delivery to you or collection of papers relevant to this inquiry, please kindly contact Mr. Herbert Li (Tel. No. 2867 4947) or Mr. Richard Fawls (Tel. No. 2867 2090) of the Department of Justice.

Yours faithfully,

Edwin Choy

Edwin Choy
Counsel to the Tribunal