

## Tsit Wing International Holdings Limited

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### Third Quarter Financial Statement And Dividend Announcement

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#### PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

##### 1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

	<u>Group</u>		<u>Inc / (dec)</u>	<u>Group</u>		<u>Inc / (dec)</u>
	<u>9 months ended 30/09/2003</u>	<u>9 months ended 30/09/2002</u>		<u>3 months ended 30/09/2003</u>	<u>3 months ended 30/09/2002</u>	
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
<b>Revenue</b>	197,604	201,477	(1.9)	69,254	68,164	1.6
<b>Cost of sales</b>	(100,900)	(103,042)	(2.1)	(35,257)	(34,775)	1.4
<b>Gross profit</b>	<u>96,704</u>	<u>98,435</u>	(1.8)	<u>33,997</u>	<u>33,389</u>	1.8
Other operating income	1,091	973	12.1	449	354	26.8
Operating expenses						
Sales & marketing	(33,045)	(37,985)	(13.0)	(11,359)	(13,560)	(16.2)
General & administration	(30,606)	(28,990)	5.6	(10,599)	(9,902)	7.0
<b>Profit from operations</b>	<u>34,144</u>	<u>32,433</u>	5.3	<u>12,488</u>	<u>10,281</u>	21.5
Finance cost	(169)	(264)	(36.0)	(51)	(79)	(35.4)
<b>Profit before income tax</b>	<u>33,975</u>	<u>32,169</u>	5.6	<u>12,437</u>	<u>10,202</u>	21.9
Income tax	(7,118)	(5,600)	27.1	(2,407)	(1,853)	29.9
<b>Profit after income tax</b>	<u>26,857</u>	<u>26,569</u>	1.1	<u>10,030</u>	<u>8,349</u>	20.1
Minority interests	845	976	(13.4)	309	359	(13.9)
<b>Profit attributable to shareholders</b>	<u>27,702</u>	<u>27,545</u>	0.6	<u>10,339</u>	<u>8,708</u>	18.7

Profit before income tax has been arrived at after (crediting) / charging:

	<u>Group</u>		<u>Group</u>	
	<u>9 months ended</u>	<u>9 months ended</u>	<u>3 months ended</u>	<u>3 months ended</u>
	<u>30/09/2003</u>	<u>30/09/2002</u>	<u>30/09/2003</u>	<u>30/09/2002</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from non-related companies	(1,091)	(916)	(452)	(307)
Interest expense to non-related companies	169	264	51	79
Foreign exchange gain	(873)	(325)	(25)	(7)
Loss on disposal of property, plant & equipment	10	1	13	0
Depreciation expense	4,672	4,971	1,596	1,740
Allowance for doubtful trade receivables	1,549	425	244	40
Allowance for inventories	157	463	69	400

**1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year**

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2003</u>	<u>31/12/2002</u>	<u>30/09/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b><u>ASSETS</u></b>				
<b>Current assets:</b>				
Cash	105,428	88,965	16,683	34,577
Trade receivables	34,352	34,222	-	-
Other receivables and prepayments	7,513	6,852	2,011	2,513
Inventories	32,112	38,846	-	-
Total current assets	<u>179,405</u>	<u>168,885</u>	<u>18,694</u>	<u>37,090</u>
<b>Non-current assets:</b>				
Subsidiaries	-	-	107,351	96,915
Property, plant and equipment	36,090	34,285	-	-
Deposits paid for acquisition of property, plant and equipment	289	206	-	-
Deferred tax assets	163	-	-	-
Total non-current assets	<u>36,542</u>	<u>34,491</u>	<u>107,351</u>	<u>96,915</u>
<b>Total assets</b>	<u>215,947</u>	<u>203,376</u>	<u>126,045</u>	<u>134,005</u>

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2003</u>	<u>31/12/2002</u>	<u>30/09/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b><u>LIABILITIES AND EQUITY</u></b>				
<b>Current liabilities:</b>				
Trust receipt loans and overdrafts	6,689	3,631	-	-
Trade payables	14,400	21,279	-	-
Other payables	12,130	13,013	2,335	2,615
Income tax payable	6,784	2,192	238	126
Total current liabilities	<u>40,003</u>	<u>40,115</u>	<u>2,573</u>	<u>2,741</u>
<b>Non-current liabilities:</b>				
Deferred income tax	<u>2,239</u>	<u>1,614</u>	-	-
<b>Minority interests</b>				
	<u>7,644</u>	<u>8,489</u>	-	-
<b>Capital and reserves:</b>				
Issued capital	40,000	40,000	40,000	40,000
Share premium	28,225	28,225	28,225	28,225
Contributed surplus	48,563	48,563	48,563	48,563
Translation reserve	(357)	42	-	-
Accumulated profits	49,630	36,328	6,684	14,476
Total equity	<u>166,061</u>	<u>153,158</u>	<u>123,472</u>	<u>131,264</u>
<b>Total liabilities and equity</b>	<u>215,947</u>	<u>203,376</u>	<u>126,045</u>	<u>134,005</u>

**1(b)(ii) Aggregate amount of group's borrowings and debt securities**

**Amount repayable in one year or less, or on demand**

As at 30 September 2003		As at 31 December 2002	
Secured	Unsecured	Secured	Unsecured
HK\$	HK\$	HK\$	HK\$
-	6,688,890	-	3,630,669

**Amount repayable after one year**

As at 30 September 2003		As at 31 December 2002	
Secured	Unsecured	Secured	Unsecured
HK\$	HK\$	HK\$	HK\$
-	-	-	-

**Details of any collateral**

Not Applicable

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year**

	<u>Group</u>		<u>Group</u>	
	9 months ended	9 months ended	3 months ended	3 months ended
	<u>30/09/2003</u>	<u>30/09/2002</u>	<u>30/09/2003</u>	<u>30/09/2002</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cash flows from operating activities:</b>				
Profit before income tax	33,975	32,169	12,437	10,202
Adjustments for:				
Depreciation	4,672	4,971	1,596	1,740
Interest expense	169	264	51	79
Allowance for inventories	157	463	69	400
Allowance for doubtful trade receivables	1,549	425	244	40
Loss on disposal of plant and equipment	10	1	13	0
Interest income	(1,091)	(916)	(452)	(307)
Operating profit before working capital changes	39,441	37,377	13,958	12,154
Decrease (Increase) in				
- trade receivables	(1,679)	951	(1,860)	326
- other receivables & prepayments	(661)	(1,451)	(1,383)	803
- inventories	7,345	10,378	4,869	1,969
(Decrease) Increase in				
- trade payables	(6,879)	(2,417)	(44)	(1,065)
- other payables	(883)	(299)	3,232	3,218
Cash generated from operations	36,684	44,539	18,772	17,405
Dividend paid	(14,400)	(16,000)	(5,600)	(4,000)
Interest paid	(169)	(264)	(51)	(79)
Interest received	1,091	916	452	307
Income tax paid	(2,064)	(2,242)	(77)	(3)
Net cash from operating activities	<u>21,142</u>	<u>26,949</u>	<u>13,496</u>	<u>13,630</u>
<b>Cash flows from investing activities:</b>				
Purchase of property, plant and equipment	(7,179)	(7,640)	(3,277)	(2,150)
Deposits paid for acquisition of property, plant & equipment	(83)	(732)	(62)	(379)
Proceeds from disposal of property, plant & equipment	52	16	25	4
Net cash used in investing activities	<u>(7,210)</u>	<u>(8,356)</u>	<u>(3,314)</u>	<u>(2,525)</u>
<b>Cash flows from financing activities:</b>				
Trust receipt loans				
Proceeds	33,465	30,668	10,431	10,144
Repayment	(30,407)	(31,197)	(9,675)	(11,686)
Net cash from (used in) financing activities	<u>3,058</u>	<u>(529)</u>	<u>756</u>	<u>(1,542)</u>
Net effect of exchange rate changes in consolidating subsidiaries	(527)	(73)	(91)	12
Net increase in cash	16,463	17,991	10,847	9,575
Cash at beginning of the period	88,965	61,803	94,581	70,219
<b>Cash at end of the period</b>	<u><u>105,428</u></u>	<u><u>79,794</u></u>	<u><u>105,428</u></u>	<u><u>79,794</u></u>

**1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year**

<b>Group</b>	<b>Issued Capital HK\$'000</b>	<b>Share Premium HK\$'000</b>	<b>Contributed Surplus HK\$'000</b>	<b>Translation Reserve HK\$'000</b>	<b>Accumulated Profits HK\$'000</b>	<b>Total HK\$'000</b>
Balance at 1 Jul 2002	40,000	28,225	48,563	106	24,071	140,965
Currency translation Differences	-	-	-	(13)	-	(13)
Net profit for the period	-	-	-	-	8,708	8,708
Dividend paid	-	-	-	-	(4,000)	(4,000)
Balance at 30 Sep 2002	<u>40,000</u>	<u>28,225</u>	<u>48,563</u>	<u>93</u>	<u>28,779</u>	<u>145,660</u>
Balance at 1 Jul 2003	40,000	28,225	48,563	(257)	44,891	161,422
Currency translation Differences	-	-	-	(100)	-	(100)
Net profit for the period	-	-	-	-	10,339	10,339
Dividend paid	-	-	-	-	(5,600)	(5,600)
Balance at 30 Sep 2003	<u>40,000</u>	<u>28,225</u>	<u>48,563</u>	<u>(357)</u>	<u>49,630</u>	<u>166,061</u>

<b>Company</b>	<b>Issued Capital HK\$'000</b>	<b>Share Premium HK\$'000</b>	<b>Contributed Surplus HK\$'000</b>	<b>Accumulated Profits HK\$'000</b>	<b>Total HK\$'000</b>
Balance at 1 Jul 2002	40,000	28,225	48,563	2,575	119,363
Net profit for the period	-	-	-	2,920	2,920
Dividend paid	-	-	-	(4,000)	(4,000)
Balance at 30 Sep 2002	<u>40,000</u>	<u>28,225</u>	<u>48,563</u>	<u>1,495</u>	<u>118,283</u>
Balance at 1 Jul 2003	40,000	28,225	48,563	9,974	126,762
Net profit for the period	-	-	-	2,310	2,310
Dividend paid	-	-	-	(5,600)	(5,600)
Balance at 30 Sep 2003	<u>40,000</u>	<u>28,225</u>	<u>48,563</u>	<u>6,684</u>	<u>123,472</u>

**1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

There was no change in the Company's share capital throughout the third quarter of years 2002 and 2003.

**2 Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)**

The figures have not been audited or reviewed by our auditors.

**3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

Not applicable.

**4 Whether the same accounting policies and methods of computation as in the issuer' most recently audited annual financial statements have been applied**

The group has applied the same accounting policies and methods of computation in the financial statement for the current reporting period compared with those of the audited financial statements as at December 31, 2002 except the provision for deferred tax.

**5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change-**

In compliance with the newly implemented Hong Kong Statement of Standard Accounting Practice ("SSAP") no. 12, deferred tax provision of the Hong Kong incorporated subsidiaries for the current reporting period was adjusted accordingly.

In the past, only items affecting the income statement were considered and a partial provision approach could be adopted by these subsidiaries. The revised Standard focuses on the balance sheet by recognizing the tax effects of temporary differences in respect of all assets and liabilities and full provision is required subject to very limited exceptions. Hence, a total deferred tax provision of HK\$0.5 millions was made in the accounts of the subsidiaries for the first nine months of year 2003, which is included in the consolidated financial statements of the group for the nine months ended 30/09/2003. This change in accounting policy is not adopted retrospectively as the amount relating to prior years was HK\$0.19 millions, which is not material.

**6 Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

	9 months ended 30/09/2003	9 months ended 30/09/2002	3 months ended 30/09/2003	3 months ended 30/09/2002
Based on the weighted average number of ordinary shares in issue, and on a fully diluted basis	17.31 HK cents 17.30 HK cents	17.22 HK cents N/A	6.46 HK cents 6.46 HK cents	5.44 HK cents N/A

Notes:

The basic earnings per share for the first nine months and the third quarter of financial years 2003 and 2002 are based on the group's profit attributable to shareholders divided by the number of ordinary shares of 160,000,000 in issue during the period.

The fully diluted earnings per share for the first nine months and the third quarter of financial year 2003 is based on the profit attributable to shareholders divided by the adjusted number of ordinary shares of 160,136,000 and 160,086,000 respectively (2002: N/A) in issue during the period. There was no dilution for the corresponding periods of last year as no share options were outstanding as at the end of those periods.

**7 Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year**

	Group		Company	
	30/09/2003	31/12/2002	30/09/2003	31/12/2002
Net asset backing per ordinary share based on issued share capital at the end of the period reported on	103.8 HK cents	95.7 HK cents	77.2 HK cents	82.0 HK cents

Notes

The net asset backing per ordinary share as at 30 September 2003 and 31 December 2002 are based on the issued share capital of 160,000,000 shares as at that date.

**8 A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on**

On the back of the Closer Economic Partnership Arrangement ("CEPA") between the mainland China and Hong Kong, as well as the increasing tourist arrivals as a result of the relaxation on travel policy towards the mainlanders, market sentiments much improved during the third quarter ("3Q").

Riding on the favorable condition, we successfully increased our 3Q-turnover from HK\$68.2 millions of last year to HK\$69.3 millions this year representing a growth of 1.6% and our quarterly profit before tax also rose from HK\$10.2 millions to HK\$12.4 millions with a very encouraging increase of 21.9%.

For the first nine months of FY2003, our total turnover and profit before tax reached HK\$197.6 millions and HK\$34.0 millions respectively. While the turnover still dropped by 1.9%, we have gained back our profit shortfall in the first half and attained an increase of 5.6% by the end of the third quarter.

### **Catering**

Our sales to the catering segment in Hong Kong (“HK”) recovered satisfactorily. Due to SARS, this major market recorded a sales decrease of 1.6% for the first half of FY2003. Fortunately, there was a turnaround in the third quarter resulting in a quarterly increase of 6.5% and ended up with a small improvement of 1.1% over the nine-months period. The improvement was mainly attributable to the increasing sales of grocery products to our customers.

However, the satisfactory 9-months result in HK was mostly offset by the negative growth of 10.3% in the PRC and 18.5% in Canada. In the PRC, positive results of our restructure did not come up timely as we expected. We believe we need work harder to improve our operations in this region, both in the perspective of business promotion and sales administration. In Canada, other than the impact of SARS, the decrease was mainly due to our cessation of selling Lipton tea leaves since March this year when the international supplier of Lipton tea set up its own office to act as the sole distributor in Canada.

Overall, our catering sales increased by 0.1% during the last three quarters.

### **Fast Moving Consumer Goods (“FMCG”)**

While our total FMCG sales increased by 1.4% to HK\$13.3 millions over the last nine months, an operating loss of HK\$1.1 millions was incurred due to the substantial spending on advertising and promotion (“A&P”) in order to sustain our sales in this extremely competitive market and in particular for the launch of our new canned drink – Tamarind Tea.

In comparison with the performance of same period last year, we found the loss narrow down from HK\$2.5 millions to HK\$1.1 millions as a result of our tight control of the A&P expenses during the SARS period and our postponement of the launch of the Tamarind Tea to the second half of this year leading to cost saving as some promotional activities originally planned for the summer time were cancelled. Same period last year, we held two large-scale promotional activities for the then newly launched product, one in April and one in September.

### **Café**

Our café business in Hong Kong recorded a decrease of 62.9% in turnover and a total operating loss of HK\$0.26 millions during the past nine months. Due to the expiry of the tenancy agreement, our café restaurant located in Tsimshatsui closed in February 2003, for which staff redundancy and severance payment of approximately HK\$0.2 million were incurred.

Our first “Salsa café” in Shanghai opened in July in the Super Brand Mall of the PuDong area. As most shops in this Mall have not commenced business as they originally scheduled, we had to conduct road shows and join some promotional activities of the Mall to boost our sales. During the third quarter, our PRC café business generated total sales of approximately HK\$68,000 and we are now negotiating with the landlord of the Super Brand Mall for a temporary rental reduction.

### **Geographical Markets**

Our Hong Kong and Canadian operations remained profitable while our PRC market still operated at a loss. Our business transacted through our Zhuhai subsidiary incurred a loss of HK\$1.8 millions during the past nine months, which was 11.8% less than the corresponding loss of last year.

**9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results**

Not Applicable

**10 A Commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months**

The Hong Kong economy has gradually recovered from the SARS impact happened in quarter 2. With more and more support from the Chinese Government and the Hong Kong Government on CEPA (Closer Economic Partnership Arrangement), the Mainland Individual Tourist Visit Arrangement, and the increased Hong Kong Government participation in social activities, we have seen signs of improvement on the Hong Kong GDP and unemployment rate. The catering segment especially the Tea Bistros and fast food chains have been benefited from all these arrangement. However, the 4-5 stars hotel segment has picked up at a slower rate than other caterers.

Being the leading coffee and tea supplier with dominance in the catering segment, our dedicated staff have shown again their extraordinary effort that both our HK catering and HK FMCG sales are back on sales growth momentum. With good control on our operating expenses and improvement on the loss in China, we managed to increase our overall profit before tax in Q3 that led to a better overall nine months profit before tax than last year.

In Catering market, we have strong profit improvement versus last year due to proper control on selling expenses, although our coffee and tea sales volume were about the same as last year. We once again pioneer ourselves in developing the freshly espresso roasted and ground coffee to fast food chains, as reflected in the recent successful launch of this coffee concept in Fairwood fast food chain. This has again proven our market leadership in terms of innovation, product specialty and trend setting, and we shall continue to enhance our unique and unmatched services to introduce this new coffee concept to other fast food chains and individual caterers.

With continuous efforts put behind the grocery products, we have started to see promising sales result in Q3, which has endorsed our set objective to diversify our product portfolio. We shall continue to pursue further the development of our own branded grocery products, as well as to seek opportunity in taking up agency products. This will surely reinforce our catering dominance and enhance our sales and distribution efficiency and effectiveness.

We have another successful story in the HK FMCG market. Although with limited investment in such a highly competitive market, we managed to grow our FMCG business over competition, especially in both the coffee mix and milk tea mix segments. While the coffee and milk tea mix market has year-to-date single digit value growth versus last year, we have out-performed competition with strong double digit value growth.

According to A.C. Nielsen reports on the coffee mix segment, besides such big multinationals as Nestle and Maxwell, we are now the top player in Hong Kong amongst all other key players, local and international, with 31% value growth in Q3 versus last year and year-to-date cumulative value growth of 17% versus last year. As for the milk tea mix segment, we are in the top three position, with 63% value growth in Q3 versus last year leading to a year-to-date cumulative value growth of 78% versus last year. To ride on the success of our FMCG business, we have ventured into the new fruit tea segment with the launch of our new brand “Tropigo”. “Tropigo”, an exotic brand for the inquisitive mind, is focusing on developing a series of unconventional tea drinks sourced from tropical region. The first launch is Tamarind Tea, a tropical fruit originated from Africa and is now one of the most popular fruit in South East Asian countries. This new brand “Tropigo” and the new blending would definitely brings in exciting element into the HK market.

In China, we have a slower recovery from the SARS impact. Despite our effort to re-focus on sales operations through our own branches serving our catering business in Southern China, Shanghai and Beijing, we have yet to see major progress in sales development. However, our restructuring exercise has generated result that our Q3 loss was narrowed down and helped improve further our year-to-date loss in China versus 2002. In view of this, we will speed up further our restructuring process and expect to see some improvement in our China operation.

In spite of SARS impact and delay in café development, we have managed to setup and test our brand new concept café shop in Pudong, Shanghai, China, namely “Sallsa Café” with niche Latin American theme and unique gender coffee. Although it’s still too early to evaluate this brand new café development in China, initial progress and investment are within our expectation. In view of this, we target to open our second café in Shanghai by the end of this year.

In Hong Kong, we have refined our strategy with focus on small scale café shop development that we managed to have a profitable operation in Q3. In order to have a standardized Latin American style café development, with the same Sallsa Café setup as China, we shall open couple of café shops in Hong Kong in 2004 to have the same Latin theme as our China café shops.

**11 Dividend**

**(a) *Current Financial Period Reported On***

Any dividend declared for the current financial period reported on? None

Name of Dividend  
Dividend Type  
Dividend Rate  
Par value of shares  
Tax Rate

**(b) *Corresponding Period of the Immediately Preceding Financial Year***

Any dividend declared for the corresponding period of the immediately preceding financial year? None

Name of Dividend  
Dividend Type  
Dividend Rate  
Par value of shares  
Tax Rate

**(c) *Date payable***

Not Applicable

**(d) *Books closure date***

Not Applicable

**12 If no dividend has been declared / recommended, a statement to that effect**

Not Applicable

**PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT**  
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

**13 Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year**

Not Applicable

**14 In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments**

Not Applicable

**15 A breakdown of sales**

Not Applicable

**16 A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year**

Total Annual Dividend (Refer to Para 16 of appendix 7.2 for the required details)

	Latest Full Year (HK\$'000)	Previous Full Year (HK\$'000)
Ordinary (interim)		
Ordinary (final)		
Preference		
Total		

**BY ORDER OF THE BOARD**

**Mr. Wong Tat Tong**  
**Chairman and Managing Director**  
**21 November 2003**