

Tsit Wing International Holdings Limited

First Quarter Financial Statement And Dividend Announcement for the Period Ended 31/03/2004

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> | | |
|--|--|--|--------------------------|
| | 3 months ended <u>31/03/2004</u> | 3 months ended <u>31/03/2003</u> | Increase / (decrease) |
| | HK\$'000 | HK\$'000 | % |
| Revenue | 69,249 | 65,171 | 6.3 |
| Cost of sales | (35,977) | (32,816) | 9.6 |
| Gross profit | <u>33,272</u> | <u>32,355</u> | 2.8 |
| Other operating income | 723 | 312 | 131.7 |
| Operating expenses | | | |
| Sales & marketing | (10,866) | (11,575) | (6.1) |
| General & administration | (12,227) | (10,288) | 18.8 |
| Profit from operations | <u>10,902</u> | <u>10,804</u> | 0.9 |
| Finance cost | (52) | (49) | 6.1 |
| Profit before income tax | <u>10,850</u> | <u>10,755</u> | 0.9 |
| Income tax | (1,982) | (1,816) | 9.1 |
| Profit after income tax | <u>8,868</u> | <u>8,939</u> | (0.8) |
| Minority interests | <u>273</u> | <u>100</u> | 173.0 |
| Profit attributable to shareholders | <u><u>9,141</u></u> | <u><u>9,039</u></u> | 1.1 |

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

| | Group | |
|--|--|--|
| | 3 months ended <u>31/03/2004</u> HK\$'000 | 3 months ended <u>31/03/2003</u> HK\$'000 |
| Interest income from non-related companies | (723) | (312) |
| Interest expense to non-related companies | 52 | 49 |
| Foreign exchange loss (gain) | 129 | (59) |
| Loss on disposal of property, plant & equipment | 11 | - |
| Depreciation expense | 1,795 | 1,562 |
| Allowance for doubtful trade receivables | 195 | 397 |
| Allowance (written back) for inventories | 29 | (68) |

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

| | Group | | Company | |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | <u>31/03/2004</u> HK\$'000 | <u>31/12/2003</u> HK\$'000 | <u>31/03/2004</u> HK\$'000 | <u>31/12/2003</u> HK\$'000 |
| <u>ASSETS</u> | | | | |
| Current assets: | | | | |
| Cash | 36,190 | 71,792 | 8,172 | 13,528 |
| Other Investments (note a) | 10,817 | 2,639 | - | - |
| Trade receivables | 35,646 | 37,364 | - | - |
| Other receivables and prepayments | 6,234 | 6,047 | 776 | 2,773 |
| Inventories | 34,084 | 33,469 | - | - |
| Total current assets | <u>122,971</u> | <u>151,311</u> | <u>8,948</u> | <u>16,301</u> |
| Non-current assets: | | | | |
| Subsidiaries | - | - | 127,051 | 123,002 |
| Property, plant and equipment | 38,049 | 36,610 | - | - |
| Deposits paid for acquisition of property, plant and equipment | 1,288 | 835 | - | - |
| Other Investments (note a) | 69,399 | 37,563 | 5,000 | - |
| Deferred tax assets | 115 | 115 | - | - |
| Total non-current assets | <u>108,851</u> | <u>75,123</u> | <u>132,051</u> | <u>123,002</u> |
| Total assets | <u><u>231,822</u></u> | <u><u>226,434</u></u> | <u><u>140,999</u></u> | <u><u>139,303</u></u> |

Note (a): Other investments represent certificate of deposits, notes and other deposits placed with licensed banks and other financial institutions. These investments are principal-guaranteed and interest bearing and are intended to be held to maturity ranging from 1 to 5 years.

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>31/03/2004</u> | <u>31/12/2003</u> | <u>31/03/2004</u> | <u>31/12/2003</u> |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| <u>LIABILITIES AND EQUITY</u> | | | | |
| Current liabilities: | | | | |
| Trust receipt loans | 10,176 | 6,480 | - | - |
| Trade payables | 15,455 | 20,828 | - | - |
| Other payables | 8,260 | 10,030 | 768 | 2,888 |
| Income tax payable | 3,025 | 3,140 | 223 | 239 |
| Total current liabilities | <u>36,916</u> | <u>40,478</u> | <u>991</u> | <u>3,127</u> |
| Non-current liabilities: | | | | |
| Deferred income tax | <u>2,304</u> | <u>2,191</u> | <u>-</u> | <u>-</u> |
| Minority interests | | | | |
| | <u>6,714</u> | <u>6,987</u> | <u>-</u> | <u>-</u> |
| Capital and reserves: | | | | |
| 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 | (564) | (533) | - | - |
| Accumulated profits | 69,664 | 60,523 | 23,220 | 19,388 |
| Total equity | <u>185,888</u> | <u>176,778</u> | <u>140,008</u> | <u>136,176</u> |
| Total liabilities and equity | <u>231,822</u> | <u>226,434</u> | <u>140,999</u> | <u>139,303</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 31 March 2004 | | As at 31 December 2003 | |
|---------------------|------------|------------------------|-----------|
| Secured | Unsecured | Secured | Unsecured |
| HK\$ | HK\$ | HK\$ | HK\$ |
| - | 10,176,390 | - | 6,480,444 |

Amount repayable after one year

| As at 31 March 2004 | | As at 31 December 2003 | |
|---------------------|-----------|------------------------|-----------|
| 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

| | Group | |
|--|---|---|
| | 3 months ended 31/03/2004 HK\$'000 | 3 months ended 31/03/2003 HK\$'000 |
| Cash flows from operating activities: | | |
| Profit before income tax | 10,850 | 10,755 |
| Adjustments for: | | |
| Depreciation | 1,795 | 1,562 |
| Interest expense | 52 | 49 |
| Allowance for inventories | 29 | (68) |
| Allowance for doubtful trade receivables | 195 | 397 |
| Loss on disposal of plant and equipment | 11 | - |
| Interest income | (723) | (312) |
| Operating profit before working capital changes | 12,209 | 12,383 |
| Decrease (Increase) in | | |
| - trade receivables | 1,523 | 914 |
| - other receivables & prepayments | (187) | (701) |
| - inventories | (409) | 1,751 |
| (Decrease) Increase in | | |
| - trade payables | (5,373) | (6,388) |
| - other payables | (1,770) | 489 |
| Cash generated from operations | 5,993 | 8,448 |
| Interest paid | (52) | (49) |
| Interest received | 723 | 312 |
| Income tax paid | (1,983) | (1,923) |
| Net cash from operating activities | 4,681 | 6,788 |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (3,501) | (1,583) |
| Deposits paid for acquisition of property, plant & equipment | (453) | (48) |
| Proceeds from disposal of property, plant & equipment | 23 | 6 |
| Other Investments | (40,014) | - |
| Net cash used in investing activities | (43,945) | (1,625) |
| Cash flows from financing activities: | | |
| Trust receipt loans | | |
| Proceeds | 13,431 | 12,504 |
| Repayment | (9,735) | (9,656) |
| Net cash from financing activities | 3,696 | 2,848 |
| Net effect of exchange rate changes in consolidating subsidiaries | (34) | 187 |
| Net (decrease) increase in cash | (35,602) | 8,198 |
| Cash at beginning of the period | 71,792 | 88,965 |
| Cash at end of the period | 36,190 | 97,163 |

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

| | Issued Capital HK\$'000 | Share Premium HK\$'000 | Contributed Surplus HK\$'000 | Translation Reserve HK\$'000 | Accumulated Profits HK\$'000 | Total HK\$'000 |
|-------------------------------------|-------------------------------|------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------------|
| Group | | | | | | |
| Balance at 1 Jan 2003 | 40,000 | 28,225 | 48,563 | 42 | 36,328 | 153,158 |
| Currency translation Differences | - | - | - | (575) | - | (575) |
| Net profit for the year | - | - | - | - | 38,595 | 38,595 |
| Dividend paid | - | - | - | - | (14,400) | (14,400) |
| Balance at 31 Dec 2003 | 40,000 | 28,225 | 48,563 | (533) | 60,523 | 176,778 |
| Currency translation Differences | - | - | - | (31) | - | (31) |
| Net profit for the period | - | - | - | - | 9,141 | 9,141 |
| Balance at 31 Mar 2004 | 40,000 | 28,225 | 48,563 | (564) | 69,664 | 185,888 |

| | Issued Capital HK\$'000 | Share Premium HK\$'000 | Contributed Surplus HK\$'000 | Accumulated Profits HK\$'000 | Total HK\$'000 |
|---------------------------|-------------------------------|------------------------------|------------------------------------|------------------------------------|-------------------|
| Company | | | | | |
| Balance at 1 Jan 2003 | 40,000 | 28,225 | 48,563 | 14,476 | 131,264 |
| Net profit for the year | - | - | - | 19,312 | 19,312 |
| Dividend paid | - | - | - | (14,400) | (14,400) |
| Balance at 31 Dec 2003 | 40,000 | 28,225 | 48,563 | 19,388 | 136,176 |
| Net profit for the period | - | - | - | 3,832 | 3,832 |
| Balance at 31 Mar 2004 | 40,000 | 28,225 | 48,563 | 23,220 | 140,008 |

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 financial year of 2003 and the first quarter of year 2004.

During the period, there was no new option granted under the Tsit Wing Employees' Share Option Scheme 2001. As at 31 March 2004, the number of share options outstanding was 1,220,000 (31 March 2003: 360,000).

2 Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

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 a 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, 2003.

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-

Not applicable.

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

| | 3 months ended 31/03/2004 | 3 months ended 31/03/2003 |
|--|------------------------------|------------------------------|
| Based on the weighted average number of ordinary shares in issue, and on a fully diluted basis | 5.71 HK cents | 5.65 HK cents |
| | 5.71 HK cents | 5.65 HK cents |

Notes:

The basic earnings per share for the first quarter of financial years 2003 and 2004 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 quarter of financial years 2003 and 2004 are based on the profit attributable to shareholders divided by the adjusted number of ordinary shares of 160,024,000 and 160,120,000 respectively in issue during the period.

- 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 financial period reported on; and
(b) immediately preceding financial year.

| | Group | | Company | |
|---|----------------|----------------|---------------|---------------|
| | 31/03/2004 | 31/12/2003 | 31/03/2004 | 31/12/2003 |
| Net asset backing per ordinary share based on issued share capital at the end of the period reported on | 116.2 HK cents | 110.5 HK cents | 87.5 HK cents | 85.1 HK cents |

Notes

The net asset backing per ordinary share as at 31 March 2004 and 31 December 2003 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. It must include a discussion of the following: -**
(a) 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; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

The first quarter of FY2004 proved again our Group's strong fundamentals through the accomplishment of quarterly increases of 6.3% and 1.1% respectively in the top line and the bottom line.

Our total turnover for the first quarter was HK\$69.2 million. In comparison with the HK\$65.2 million of same period last year, there was an increase of 6.3%. This increase was mainly attributable to the catering supply business, in which we saw it grow by 9.9% in aggregate for all our three geographical markets, namely HK, PRC and Canada. In terms of products, the sales of coffee and tea continued to grow whilst our grocery sales recorded a remarkable increase of 28.3% mainly driven by the sales of evaporated milk under our in house brand names.

On the contrary, our FMCG turnover reduced by 23.3% to HK\$3.6 million. Last year, we offered deep price-cut to stimulate sales so as to expand our market share in this extremely competitive market and the strategy was proved successful with the growth of our 3 in 1 products outperformed the coffee and tea mix market. This year, we tried to reap benefit from this solid foundation and shifted our marketing strategies to the conduction of more non-price driven promotions such as offering premium packs and minimize the discount offered to customers. Thus, turnover declined but in return for higher gross profit margins and better product positioning. In addition, we decided to let some unsatisfactorily performed products to fade out; therefore, the sales of our ready-to-drink series decreased by 31.2%.

There was a turnover drop of 47.5% in our cafe business mainly because we closed our restaurant in Tsimshatsui, Hong Kong which was in operation until mid-February 2003 and which contributed 61.9% to the total café turnover of Q1 2003. Although the second Sallsa café was opened in Shanghai in January and another in Hong Kong in

mid-March this year, these new cafes of smaller shop size generated comparatively lower turnover than the closed restaurant. If we compared the performance of the two TW Cafes which were in operation throughout the first quarter of both the years of 2003 and 2004, their quarterly sales increased by 15.9%.

Our overall gross profit margin declined by 1.6 percentage points because the expanding grocery sales generated much lower margins than our coffee and tea products, hence, dragged down the overall percentage. In addition, the cost of green beans has increased progressively since the second half of 2003 leading to higher cost of our coffee products and lower gross profit margin in this product category.

Our total operating expenses increased by 5.6%, in which sales and marketing expenses reduced by 6.1% while the general and administration expenses surged by 18.8%. Due to the change of marketing strategies, our advertising and promotion expenses decreased by 6.2%, which was partly offset with the greater distribution and storage expenses resulting from the increase in sales. To ensure the healthy development of our business, we recruited higher caliber staff such as general managers to look after the regional operations and established an internal audit team to help improve our internal controls and corporate governance, thus, resulting in higher staff cost over the quarter.

Although our turnover grew by 6.3%, our profit before tax only increased by 0.9%. In spite of our catering supply business improving its profitability by 11.6% and our café business in HK turning from a loss of HK\$0.3 million of same period last year to a small profit of almost HK\$12,000, our FMCG business recorded a quarterly loss of HK\$0.2 million (FY2003-1Q: profit of HK\$7,000) and our new café business in the PRC incurred an operating loss of HK\$1.3 million. This was in line with our corporate strategy to invest part of the profit we generated from the core business in new business development so as to exchange for the long-term benefit of the Group and the shareholders.

Geographical Market

Hong Kong market remained dominant in our Group and we are happy to report that this market continued to grow. Our Canadian operation improved its profitability by 35.6% partly due to the strong Canadian dollar, which helped the exchange translation. In the PRC, our manufacturing and wholesaling business generated a quarterly turnover of HK\$5.1 million representing an increase of 16.3% but recorded a quarterly loss of HK\$0.6 million due to higher operating expenses incurred after the progressive change from selling through distributors to direct sales to end-customers. We shall continue to put great effort in the improvement of the operating efficiency of this business unit in the near future.

Financial Position

The financial position of the Group remained strong because our continuous profitability has brought in cash flow progressively. At present, we are not aware of any material factors that will significantly affect our Group's cash flow and working capital.

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 significant trends and 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 first quarter of FY 2004 commenced with a gradual economic recovery in Hong Kong. Riding on the strong growth momentum of the US economy supported by low interest rate, strong consumer spending and better corporate profitability; and the continuous strong Mainland economic growth, Hong Kong's GDP is forecasted to pick up notably by 6% in 2004 VS a 3.3% growth in 2003. With improving consumer confidence and spending power, the Hong Kong total retail sales value surged 8.4% in Q1 of FY 2004 versus same period of last year. Our Group benefited from the recent economic rebound in Hong Kong that we achieved positive result in terms of sales turnover and profit before tax in the 1st quarter.

Our sales in the catering segment were encouraging with strong double-digit growth. While our coffee and tea sales recorded a healthy growth, our grocery sales scored a significant uplift, especially in our own brand evaporated milk, which had a sharp increase of sales versus same period of last year. Such good business performance was attributable to the Closer Economic Partnership Arrangement (CEPA), the influx of Mainlanders as individual tourists as well as our dedicated strategies in product enhancement and diversification.

Despite the recent drastic fluctuation of coffee and tea commodity price, we managed to keep our raw material costs under reasonably good control due to our good relationship with various raw coffee bean and bulk tea suppliers which has enabled us to hedge our supply in 2004 so that our raw material costs are only marginally affected. In view of our dominance in the Hong Kong coffee market, the recent upsurge in coffee commodity price in fact has given us competitive advantage over our competitors, who heavily rely on short term supply. Since we have planned to ride on this coffee price fluctuation to further solidify our market coverage and leadership, we decide to keep our price unchanged at this moment. However, we still have the right to increase our price in the near future and it is a general practice for us to give one month's notice to our customers except a few key accounts who are protected under annual contracts.

To achieve a long-term business growth and to reinforce our leading position as a one-stop catering service provider, we have strategically expanded our product portfolio beyond our core coffee and tea business by providing a more diverse range of grocery offerings of own branded products as well as agency products. We shall launch a series of pasta under the brand Salva in Q2 and take up worldwide renowned agency lines such as the U.S. Heinz sauce and condiments and the French Monin flavoured syrup.

In FMCG sector, we focused on the execution of our sales and marketing strategies that our "3 in 1" coffee mix and milk tea mix continued to perform well. In the 1st quarter, we launched several advertising programmes and received favourable response from

our end-users. In view of high acceptance of health conscious products in the market, we have developed a new light series of “3 in 1” coffee mix and milk tea mix to capture the health segment, and this range is expected to be launched in 2nd quarter. As for the Ready-to-drink (RTD) segment, we have already developed a series of Barley Tea drinks under the brand name of Tropigo! which will be launched in June.

We opened 2 more Salsa Cafés in Shanghai and 1 in Hong Kong in Q1, 2004 following the opening of our first shop in Shanghai last year. We expect that our café chain’s new “Latin American” theme as an “authentic coffee experience” will be enhanced through further investment in outlet expansion and branding.

Although our PRC business had sales improvement, we still recorded a loss in the 1st quarter. This was the result of the progressive change in our sales and marketing strategies as well as the ongoing restructuring of our distribution and operation systems carried out in the 1st quarter.

To support our new business development, we are now conducting a Corporate Strategic Development Project to review and define the Group’s long term business direction and vision, and to identify key strategies for the Group so as to sustain our long term profit and business growth.

Though 1st quarter of FY 2004 finished with a steady business result, we will maintain our prudent business approach throughout 2004 as the geo-political volatility and terrorist activities will continue to cast a shadow on the global climate. The political tension between Mainland China and Taiwan after the Taiwan election, the recent Chinese government’s macro-economic control measures, the fluctuation of US dollar, the unstable oil & major commodity prices, and the foreseeable rise in interest rates are all affecting the global financial and economic scene. In Hong Kong, the continuous price deflation (CPI declined to 91.7 in March 2004) will continue to exert pressure on the market players to hold their prices, and a quick rebound of the FMCG retail sector would be quite unlikely. Nevertheless, we are confident that our 2004 business strategies and initiatives will enable us to accomplish our planned objectives and deliver results to our shareholders.

11 Dividend

(a) Current Financial Period Reported On

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

(b) Corresponding Period of the Immediately Preceding Financial Year

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

(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 | | |
| Preference | | |
| Total | | |

Note to Para 11(a) – While there was no interim dividend declared for the current reporting period, the Company has proposed a bonus issue (the “Bonus Issue”) of one (1) new bonus share (the “Bonus Shares”) for every five (5) existing ordinary shares of par value HK\$0.25 each held by the shareholders of the Company as at 11 May 2004 on which the Register of Members and the Transfer Books of the Company will be closed for the purpose of determining shareholders’ entitlements to the Bonus Shares under the Bonus Issue.

BY ORDER OF THE BOARD

Wong Tat Tong
Chairman and Managing Director
【14 May 2004】