

BUSINESS REVIEW

Instant Food Business

Turnover for the Group's core instant noodle business increased 9.97% from the corresponding period of the previous year. The growth was mainly because of the success of "Better Access, Broader Reach" and other product strategies. During the Chinese New Year which was the high season for instant noodles, efficient promotion made the sales for "Bucket Noodle" and high-end "Splendid Noodle" increase sharply. Because of the suitable pricing, the low-end "Good Taste" and "Super Fu Moon Du" achieved general consumer acceptance and recognition. During the period, the gross margin on instant noodles rose by 1.62pp to 31.96% from the corresponding period in previous year owing to efficient sales management and sound cost control.

Bakery and Confectionery Business

Turnover for the bakery and confectionery business dropped 0.14% from the corresponding period of the previous year. In the fourth quarter of 2000, the Group launched a series of savory and sweet crisp sandwich biscuits which increased sales of biscuit items. Although the sales volume of the Group's rice crackers only fell marginally, affected by keen competition and lower prices, the turnover for rice crackers fell substantially. Nevertheless, the turnover for rice crackers for the export market increased 200% from the corresponding period in 2000. During the period, the Group launched "Milk Rice Crackers" and "Muffin" which have strong sales and the Directors expect these new products will benefit the Group in the future. The gross margin of the bakery and confectionery business was 35.08%, falling 2.43pp from the corresponding period in 2000.

Beverage Business

During the first month of 2001, the continuation of the "Better Access, Broader Reach" strategy, the popularity of tea drinks and the favourable feedback on the advertisements "Vote a Spokeman for Green Tea" and "Who is the Cooler Star" helped the Group achieve a new record in beverage turnover. These not only benefited sales of PET Green Tea, Wulong Tea and Refreshment series products, but sales for Tetra-Pak and canned products also improved. Turnover for the beverage business recorded a sharp increase of 118.55% from the corresponding period of the previous year. Among the Group's tea drinks, "Mr Kon" is the leading brand in the PRC packaged tea market.

During the period, the gross margin of the beverage business rose by 14.63pp to 34.85% from the corresponding period in 2000 owing to changes in the product mix towards high margin PET drinks.

Prospects

As the PRC's economy recovers, the income of PRC consumers increases and new consumption patterns emerge, there will be further development potential for the instant food market. The Group will continue to enhance the competitiveness through the following strategies:

1. Introduce strategic partners to strengthen beverage, bakery and confectionery businesses;
2. Fully develop our logistics and e-commerce system;
3. Actively expand market share and brand awareness;
4. Upgrade production technology;
5. Build a financially sound operational system;
6. Create a flatter structure, characterized by diligence, honesty and ability;
and
7. Establish a Group-wide ISO standard.