



## MANGEMENT DISCUSSION AND ANALYSIS

### Instant Noodle Business

Turnover for the Group's core instant noodle business increased by 9.31% from a year ago. Turnover of bowl noodle increased by 22.3%, mainly because of the sales growth from Mr. Kon's bucket noodles. Market share for the low-end noodle was 70% of total PRC instant noodle market. Through the successful marketing for "Super Good Taste Series", turnover for the Group's low-end instant noodle rose by 26.12%. Following the blooming launch for "Fu Moon Du", "Good Taste Series" has been another popular brand in low-end instant noodle market. During the period, the Group launched some new products: to re-launch a youthfully packaged "Jumbo 120" and repackaged "Luxury bowl Series" in a valued big bowl style. In May 2001, the Group launched "Super Shanghai Noodle" (suitable to cook) and won acceptance as soon as they were introduced to the market. Those new products will help the increase for the Group's sales in the second half of the year. During the period, the gross margin of instant noodles increased by 0.96pp to 30.10%, mainly because of the effective cost control.

### Bakery Business

Turnover for bakery business increased by 19.18% from a year ago, mainly due to the increase in sales of savory and sweet crisp sandwich biscuits and Muffin. Although the sales volume of the Group's rice crackers decreased, the turnover for rice crackers for the export market increased significantly and mitigated the impact for the decrease in sales of rice crackers in the PRC market. Moreover, the success for the market testing in overseas market will help to increase the turnover of the Group's bakery business in the second half of the year. During the period, the gross margin for bakery products was 33.50%, fell by 4.32 pp and gross profit increased by 5.56% when compared to a year ago. The decrease in gross margin was mainly because of the lower margin for export market and the fact that the Guangzhou Tingyuan Food Co., Ltd. has not achieved the economies of scale since its recovery.

### Beverage Business

The Group improved brand image through celebrity and music marketing together with media network and road show. At the same time, the success in the "Better Access, Broader Reach" strategy further extended the Group's sales network and helped the Group achieve a new record in beverage turnover. Since the Group's PET beverage continued to experience a supply shortage, it benefited the sales for Tetra-Pak and canned beverages of the same taste. During the first half of 2001, turnover for beverage increased by 103.52% from the corresponding period of the pervious 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 8.47 pp to 40.54% from the corresponding period in 2000 owing to changes in the product mix and better productivity.

### Financing

As of 30th June 2001 the Group's total liabilities amounted to US\$558 million, representing an increase of US\$34.592 million from the previous year's US\$523 million. Total assets amounted to US\$1,083 million. The leverage ratio (total liabilities to total assets) increased by 2.04 pp to 51.54% as compared to the year ended 31st December 2000. The consolidated balance sheet is extracted from the Company's 2000 annual report and has been restated to reflect the change in accounting policy as shown in note 1 to the interim financial statements.

During the first half of the year 2001, the Group increased long-term and short-term loans by US\$20.42 million, due to renewal of production equipment and investment in new production lines for beverage division. Those investments significantly enhanced the Group's productivity.



**Financial Ratio**

	As at 30th June 2001	As at 31st December 2000
Finished goods turnover	15.44 Days	16.47 Days
Accounts receivable turnover	15.51 Days	17.50 Days
Current ratio	0.82 Times	0.69 Times
Leverage ratio	51.54%	49.50%

**Liquidity and foreign exchange risk management**

The Directors have also taken steps to improve the Group's liquidity. The repayment terms of its debt portfolio has been extended to improve the Group's ability to meet repayments and so relieve repayment pressures. During the first half of 2001, short-term borrowings of US\$69 million have been transferred to long-term borrowings denominated in renminbi. The increase in loans denominated in renminbi and the reduction in loans denominated in foreign currency will reduce the Group's exposure to foreign exchange risk and costs. Following four years of effort, as at the end of June 2001, the Group's U.S. dollar debts have been reduced from 93% at the end of 1997 to 38% of total debt.

**Production Scale**

The Group's instant noodle division has established 10 production centres in Harbin, Shenyang, Tianjin, Qingdao, Hangzhou, Wuhan, Chongqing, Xi'an, Fuzhou and Guangzhou in the PRC. Apart from those in Fuzhou and Qingdao, all production lines have been put into production to meet demand from different market segments and to provide products for export to Europe and the U.S.A..

The beverage division has nine production facilities in Shenyang, Tianjin, Qingdao, Hangzhou, Wuhan, Chongqing, Xi'an, Fuzhou and Guangzhou to meet the increasing market for PET drinks. During the period, the Group invested US\$15 million in acquiring more equipment so that the Group can produce a variety of products nation-wide and help consolidate the Group's leading position in the beverage market.

The bakery division owns three production facilities in Tianjin, Hangzhou and Guangzhou, which have first-rate equipment and offer great potential for expansion. The Group made full use of its unutilised equipment to increase sales to overseas market, which helped boost overseas sales. There was significant growth in overseas sales as compared with previous period. It is estimated that there will be faster growth in the second half of the year.

**Sales Network**

As the "Better Access, Broader Reach" strategy began achieving results, the time required for the launch of new products into the market was in particular shortened. 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. During the period, the Group also developed Hong Kong market through the launch of beverage products. Due to the success in developing overseas market, sales orders for bakery products to overseas market increased significantly. In the PRC, the Group's logistics system in major cities have been integrated by the Group's subsidiary Shanghai Tingtong Logistics Co., Ltd. The integration will benefit the Group's business in the second half of the year and in the future through reducing cost and boosting sales.





## Prospects

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

1. Introduce strategic partners to strengthen beverage, bakery and confectionery businesses;
2. Fully develop the Group's 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.

