



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### Instant Noodle Business

Accumulative in turnover for the Group's core instant noodle business increased by 11.27% from a year ago. The growth in sales was mainly because of the product modifications: re-launched a youthfully packaged "Jumbo 120", increased the size of "Luxury Series" and launched "Jin La Mian" (suitable to cook). Turnover of bowl noodle increased by 21.27% mainly because of the growth in sales of bucket noodles. Market share for the low-end noodle was 70% of the total PRC instant noodle market and turnover for the Group's low-end instant noodle rose by 35.35%.

During the period, the accumulative gross margin of instant noodles was 30.52%, same as a year ago.

#### Bakery Business

Accumulative turnover for bakery business increased by 33.80% 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.

During the period, the accumulative gross margin for bakery products was 34.80%, fell by 1.7 pp and gross profit increased 27.56% 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 Guangzhou Tingyuan Food Co., Ltd has not achieved the economies of scale since its re-commencement of production in the second quarter.

#### Beverage Business

Accumulative turnover for beverage business increased by 105.67% from a year ago, mainly due to the improvement of brand image through celebrity and music marketing together with media network and road show during the pass four quarters. 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. Among the Group's tea drinks, "Mr. Kon" is the leading brand in the PRC packaged tea market.

During the period, the accumulative gross margin of the beverage business rose by 7.31 pp to 42.16% from the corresponding period in 2000 owing to changes in the product mix and better productivity.

#### Financing

As of 30th September 2001, the Group's total liabilities amounted to US\$609 million, representing an increase of US\$86.090 million from the previous year's US\$523 million. Total assets amounted to US\$1,160 million. The leverage ratio (total liabilities to total assets) increased by 3.05 pp to 52.55% as compared to 31st December 2000.

As of 30th September 2001, the Group increased long-term and short-term loans by US\$8.038 million as compared to 31st December 2000.





## Financial Ratio

	As at 30th September 2001	As at 31st December 2000
Finished goods turnover	15.81 Days	16.47 Days
Accounts receivable turnover	16.13 Days	17.50 Days
Current ratio	0.82 Times	0.69 Times
Leverage ratio	52.55%	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 third quarter of 2001, short-term borrowings of US\$102 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 September 2001, the Group's U.S. dollar debts have been reduced from 93% at the end of 1997 to 43% 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 drinks. Although the Group can produce a variety of products nationwide and help consolidate the Group's leading position in the beverage market, PET drinks continued to meet a supply shortage.

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.

## 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

Continuing to make use of the Group's advantage and keep high sensibility of marketing, the Group's strategies 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.

