



## MANAGEMENT DISCUSSION AND ANALYSIS

### Instant Noodle Business

The Group's core instant noodle segment increased by 4.41% as compared to same period last year. The strong foundation in continuous expert management of sales networks and proper product policy contributed the success in the market. Various packet noodle with the launching of new products and new package, also with the hot season demand during the New Year Festival in the PRC, have a significant increase. Especially low-end noodle "Good Taste" and "Fu Man Do", with their suitable prices, have earned the appreciation of consumers. Also the launching of "Gan Chi Mian" and "Gan Bun Mian" has good performance.

The gross margin for instant noodle was 28.70%, a drop by 1.28pp as compared to corresponding period last year. The decrease was mainly due to the added size for noodle body and the sales growth from low-end noodle. As a result of the suitable control over distribution cost, profit for instant noodle segment was maintained at a satisfactory level.

### Beverage Business

In extension of "Better Access, Broader Reach" strategy and popularity of tea drinks the 'Ice Strength Frontier Band Contest' would continue to hold this year. With promotion of sales activities of "One More Can" since early this year, various activities were carried out to reach and communicate with consumers, leading their need for tea drink products. Other than hot sale for tea drinks, the original 'Mr. Kon' juices and newly launched 'Fresh C' also gained the appreciation of consumers. The business results reached a higher record. The turnover for beverage segment achieved a growth of 96.35%. The Group turned around the operating results from incurring loss to achieving profits, with the profit increased by US\$8.023 million. The development of tea drink series has established 'Mr. Kon' as the leading brand of packaged tea market in the PRC.

The gross margin was 42.03%, increased by 4.69pp as compared to the same period last year, mainly through adjustment in product mix and increase in the proportion of high gross margin PET drinks.

### Bakery Business

Turnover for bakery business increased by 11.84% as compared to the same period last year. The growth was mainly due to the launching of different favour of sandwich crackers which provided more choices to the consumers, and the obvious growth in turnover as a result of the sales of "Muffin". As rice cracker was affected by the competition of low prices, the turnover decreased. It is believed that the turnover would be better after promotion of new taste products and new products.

The gross margin for bakery products was 30.35%, fell by 4.16pp as compared to the same period last year mainly because the proportion of high gross margin product in the product mix was unsatisfactory and the gross margin of export product was low.

### Financing

As of 31st March 2002, the Group's total liabilities amounted to US\$632 million, representing an increase of US\$53.058 million from US\$580 million as at 31st December 2001. Total assets amounted to US\$1,202 million. The leverage ratio (total liabilities to total assets) increased by 1.9pp to 52.62% as compared to 31st December 2001.

As of 31st March 2002, the Group increased long-term and short-term loans by US\$14.809 million as compared to 31st December 2001.



**Financial Ratio**

	As at 31st March 2002	As at 31st December 2001
Finished goods turnover	11.46 Days	13.32 Days
Accounts receivable turnover	13.65 Days	14.45 Days
Current ratio	0.86 Times	0.88 Times
Leverage ratio	52.62%	50.72%
Gearing ratio	0.36 Times	0.40 Times

**Sales Network**

The effect of 'Better Access, Broader Reach' of the Group was significant. The effect on launching new products into market was most significant after the network was shortened. Better control on the order of network enhanced network control. Besides, the Group has strengthened the service towards wholesalers, and established the system of rewards and penalties so that the motivation of the wholesalers was strengthened effectively. On the other hand, the development of overseas market has achieved good results. The Group's logistics system in major cities in the PRC has been integrated. Such arrangement would help in reducing the cost and increasing the business turnover for the coming seasons of the year.

**Prospect**

Following the recovery of the PRC economy, the income of consumers continues to increase and there are changes in the consumption pattern. The development of the PRC instant food market will grow further. The Group will make effort to expand the established business market. The Group's strategies are as follows:

1. Introduce strategic partners to strengthen logistics system in the PRC;
2. Actively expand refrigerated drinks market share in the eastern part of the PRC to establish the refrigerated product network;
3. Strengthen and establish the Group's logistics system to enhance the quality and cost for distribution network;
4. Seek for strategic partners to handle the Group's supporting business and concentrate on food business;
5. Continue to upgrade production technology and develop basic research;
6. Actively establish a Group-wide ISO standard;
7. Adopt systematic development of manpower resources to strengthen the development and localisation of human resources; and
8. Carry out full installation of the SAP computer management and establish the computerization for the logistics system in 35 major cities in the PRC.

