



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

#### **Instant Noodle Business**

The accumulated turnover of the Group's core instant noodle segment increased by 8.58% to US\$468 million as compared to the same period last year and amounted to 54% of the Group's turnover. The growth was mainly because of the success in product positioning, strengthening the active reform of distribution network and carrying out different promotion activities in good timing. Those factors benefited the growth in sales of all instant noodle products. According to AC Nielsen SCAN TRACK EXPRESS, based on sales, for the August-September period, the market share of Mr. Kon's instant noodle was 41.2%, an increase of 1.2pp when compared to the April-May period.

During the period, the accumulated gross margin for instant noodle was 27.51%, a drop by 0.83pp as compared to the corresponding period last year. The decline was mainly due to (1) the change of product mix so that the sales growth from low-end noodle was greater than high-end noodle; and (2) higher packaging costs for container noodle to meet the government's environmental regulations.

#### **Beverage Business**

The accumulated turnover for the Group's second core business, beverage segment surged by 69.57% to US\$327 million as compared to the same period last year and amounted to 38% of the Group's turnover. At the end of third quarter, after most of the new product lines commenced operation, the Group solved the problem of excess demand over supply of PET drinks. During the period, other than hot sales for Ice-tea and Ready-to-drink (RTD) tea series, the performance of the unrefrigerated, diluted juice "Fresh Daily C" and "Mr. Kon" juices series was satisfactory. According to the AC Nielsen SCAN TRACK EXPRESS, for the August-September period, the market share of the Group's RTD tea was 50.5%, leader of the China RTD tea market. In the same period, the market share of the Group's juice series was 15.6% in the China fast growing unrefrigerated juice market. During the quarter, the Group launched "Mr. Kon" white grape juice and have gained the appreciation of consumers.

During the period, the accumulated gross margin for beverage segment was 47.02%, increased by 4.38pp when compared to the same period in 2001. This was mainly due to the high utilization rate for PET production lines and increase in the proportion of high gross margin PET drinks.

#### **Bakery Business**

The accumulated turnover for bakery segment decreased by 6.17% to US\$63.302 million as compared to the same period last year and amounted to 7% of the Group's turnover. According to the AC Nielsen SCAN TRACK EXPRESS, for the August-September period, the market share of Mr. Kon's cracker was 10.2% in China cracker market. Meanwhile, the market share of Mr. Kon's sandwich cracker was 29.9%, the leader in China sandwich cracker sector. Even though the sales for the savoury and sweet sandwich crackers and Muffin were good, the market competition of low prices and the poor sales of another core product rice cracker, affected the results of bakery segment.

To improve the operation of bakery business, the Group adjusted product structure, package and favour and promotion method. The Group continues to link with famous food company as its strategic partner. For example, in the early of the quarter, the Group linked with Taiwan Hunya Foods Co., Ltd by using Mr. Kon's brand to sell Hunya's high-end sandwich wafer. This product will be launched in November. Those famous food companies will help to increase the number of the categories in the Group's bakery product and improve the performance of the business. During the period, the Group launched "Crisp Sandwich" and Egg Rolls with seaweed favour.

During the period, the accumulated gross margin for bakery segment was 31.66%, fell by 2.49pp when compared to the same period in 2001 mainly due to the low utilization rate for production line and lower margin for export product.



### **Financing**

The Group has repaid in July 2002 an amount of US\$128.541 million, representing the remaining principal amount of the Group's 1997 convertible bonds together with a redemption premium and accrued interest. As of 30th September 2002, the Group's total liabilities amounted to US\$632 million, representing an increase of US\$52.014 million from US\$580 million as at 31st December 2001. Total assets amounted to US\$1,220 million. The leverage ratio (total liabilities to total assets) increased by 1.03pp to 51.75% as compared to 31st December 2001. The Group reduced long-term and short-term loans by US\$19.673 million to US\$368.987 million as compared to 31st December 2001.

### **Financial Ratio**

	<b>As at 30th September 2002</b>	<b>As at 31st December 2001</b>
Finished goods turnover	12.86 Days	13.32 Days
Accounts receivable turnover	13.23 Days	14.45 Days
Current ratio	1.15 Times	0.88 Times
Leverage ratio	51.75%	50.72%
Gearing ratio	0.32 Times	0.40 Times

### **Production Scale**

During the period, out of the 16 new PET production lines, 14 lines have been put in operation. The rest of the 2 lines will commence production before the end of this year. During the first half and early of the third quarter, the Group produced PET drinks by using OEM and outsourcing PET bottles to solve the pressure of excess demand. According to the economy development in the PRC and with the aim of meeting the market needs, after careful and deeply discussion, during the latest extraordinary board meeting, the board of directors has approved the further purchase of another 9 new PET beverage lines and supporting facilities to improve the production process and solve the bottle-neck problem of PET drinks production. To cope with the growth from beverage and instant noodle market, the Group has built two synthetic factories in ShihHeJi, Xinjiang and Kunming in Yunnan. The Group believes that those expansion will strengthen the market competitiveness of the Group and benefit the growth of the Group's sales in the future.

### **Sales Network**

The result of "Better Access, Broader Reach" of the Group was significantly well in launching new product into market as the access to our customers was improved. Better network control enhanced our goods scheduling. 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 continuous development of overseas market, coupled with the integration of the Group's logistics system in major cities in the PRC, would help in reducing the cost and increasing the business turnover for the coming seasons of the year.



## **Prospect**

Along with the growth of the PRC's economy, the increase in income of consumers and their new consumption pattern, the development of PRC's 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 systems in the PRC;
2. Actively expand refrigerated drinks market share in the eastern part of the PRC to establish the refrigerated product network:
  - (1) Plan to produce "Wei Chuan Daily C" 100% refrigerated juice drinks in Tianjin and Guangzhou beverage factories;
  - (2) To enrich the category of the Group's refrigerated product by establishing small size model farm in Anji, Zhejiang to enter the dairy industry and give technical support to surrounding dairy farmers;
3. Strengthen and establish the Group's logistics system to enhance the quality and cost of 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 localization of human resources;  
and
8. Carry out full installation of the SAP computer management and establish the computerization for the logistics system in the major cities in the PRC.