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distilled
water...

driver
for growth



Winston Yau-lai LO
Executive Chairman



Chairman's Statement

We were able to sustain good profit growth in our core market – Hong Kong – while forging ahead in developing new channels and new products.We are highly confident that the Group as a whole will sustain a steady pace of growth and development.

PERFORMANCE

Your Directors are pleased to report that for the year ended 31st March, 2001, the Group achieved a consolidated turnover of HK\$2,012,372,000 showing 6.7% increase over the previous year.

Profit attributable to the shareholders stood at HK\$128,146,000 registering a 1.6% increase over the previous year.

Earnings per share were HK13.2 cents (2000: HK12.9 cents per share, adjusted for the bonus issue in September 2000).

DIVIDEND

Your Directors will recommend a final dividend of HK5.1 cents per share (2000: HK4.5 cents per share, adjusted for the bonus issue in September 2000) at the forthcoming Annual General Meeting. This, together with the interim dividend of HK2.8 cents per share (2000: HK2.5 cents per share, adjusted for the bonus issue in September

2000), makes a total dividend of HK7.9 cents per share for the year (2000: HK7.0 cents per share, adjusted for the bonus issue in September 2000).

GENERAL REVIEW

The year under review was one of mixed results. In general, we were able to sustain good profit growth in our core market – Hong Kong – while forging ahead in developing new channels and new products.

The world market for soy products has continued to grow, spurred by increasing consumer awareness of the health benefits of soy that are well documented and widely reported in the media.

Refrigerated VITASOY Natural Soymilk was launched in approximately 4,500 stores in major coastal cities in the US with encouraging response from customers. The launch was supported by a significant increase in marketing expenses, which affected the profitability of the

US operation for the year under review. However, to enlarge and ensure our market share in the US, it is necessary to continue expanding into the mainstream channels and investing in marketing.

We are glad to report that the construction of the soymilk plant in Australia was completed and that commercial production began in July 2001. The Refrigerated VITASOY Natural Soymilk line will be launched through the extensive sales and distribution network of our Australian partner, National Foods Limited. The launch will be supported with an aggressive marketing campaign, which is expected to boost demand as well as market share.

The beverage market in the Mainland has begun to show signs of recovery following an extended period of contraction. The growth momentum of VITASOY and VITA drinks in returnable glass bottles since their re-launch in Guangdong in the middle of 1999 has been sustained. As a result, the bottling capacity of our Shenzhen plant has been fully utilized. The line was upgraded in the middle of 2000 to increase its capacity, which will provide the basis for us to continue developing and deepening our distribution network in the Pearl River Delta.

The sales in Shanghai and the surrounding cities have been less satisfactory. We shall streamline the manufacturing operations there and pursue a new strategy of diversifying into alternative

packaging and new products through outsourcing production. At the same time, we shall take on contract packing in the aseptic paper pack format for other complimentary brands, i.e. brands that do not compete directly with us in terms of pricing, distribution channel and customer base. This trend of co-packing and capacity rationalization is becoming more common in the beverage market in Eastern China. On the other hand, consumer preference is becoming more diversified as people become wealthier and as there are now more choices on offer in the market.

The performance of our home market Hong Kong has been positive and encouraging. Our continuous effort in streamlining procedures has greatly improved efficiency and supply chain management. The result has been an

improvement in profitability. The strategy to outsource manufacturing of, primarily, PET

plastic bottled drink products, helped minimize both reaction time and capital investment. We will continue to pursue this pattern of flexible resource deployment and rapid market response in order to further expand our market share in Hong Kong.



To further capture and secure the loyalty of young customers, the Group has successfully grown its tuckshop business under Vitaland Services Limited in Hong Kong. The feedback from school principals and students has been very positive so far. The number of tuckshops grew to 144 at the

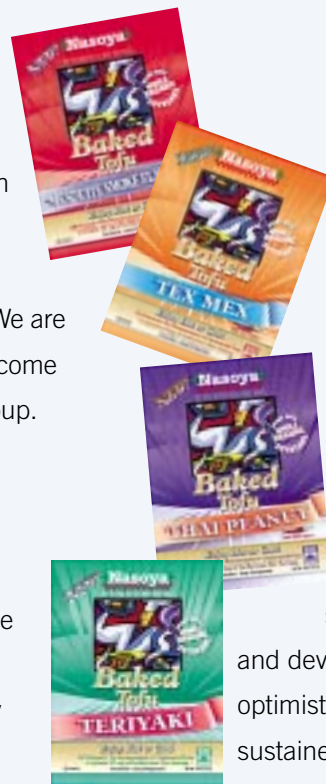
year end. In order to cater to the increased volume and to ensure the quality of the lunch boxes supplied to the increased number of outlets, Vitaland Services Limited acquired a central kitchen specifically for the purpose. We are optimistic that the tuckshop business will become a significant contributor to growth for the Group.

OUTLOOK

Looking ahead, the Group will continue to safeguard and maximize long-term shareholder value. The coming years will see the Group further its efforts in the development of the US market by prudently opening up the mainstream refrigerated channel in a sustainable manner. At the same time, more ready-to-serve tofu items in the seasoned and pre-baked formats will be introduced to capture the fast growing mainstream demand.

In Australia, the Refrigerated VITASOY Natural Soymilk line will, upon its launch, find its way to the dairy case that will give it the second brand position, following VITASOY in the aseptic paper pack format. We are optimistic about the future of our new joint venture company, Vitasoy Australia Products Pty. Limited, in view of the steady growth of the demand for soy products in the Australian market.

In Hong Kong and the Mainland, we will continue to launch more new brands and new tastes in the coming year. Our strategy of maximizing the effectiveness of out-sourcing and deployment of resources will enable us to maintain steady pricing and profit margin in Hong Kong while at the same time strengthening our leadership position.



In the Mainland, we will continue to forge ahead in Guangdong with enlarged capacity in bottling, whereas in Shanghai there will be rationalization and re-grouping of product lines and distribution channels.

We are highly confident that the Group as a whole will sustain a steady pace of growth and development. We are also optimistic that our profitability can be sustained through market and product diversification.

VOTE OF THANKS

I wish to express my appreciation for the Board of Directors of their sound advice and active support in the past year. I will certainly continue to count on their guidance.

Ms. Yvonne Mo-ling LO resigned as the President and Chief Executive Officer of Vitasoy USA Group with effect from 1st July, 2001 but remains as a Non-executive Director of the Group. I take this opportunity to thank her for building and growing the US business in the past 21 years.

I also wish to thank our staff all over the world for their loyalty and hard work.

Last but not least, I would like to thank our customers, business partners and shareholders for their trust and support.

Winston Yau-lai LO
Executive Chairman