

Components	Functions & benefits
<b>Protein</b>	Is highly essential for the growth and maintenance of body tissues, protects the immune system and makes enzymes and hormones
<b>Fat</b>	Provides concentrated source of energy
<b>Carbohydrate</b>	Provides a readily available energy source
<b>Calcium</b>	Helps the growth and maintenance of bones and teeth and prevents osteoporosis
<b>Vitamins</b>	Makes possible the processes by which other nutrients are digested, absorbed and metabolized

## OVERVIEW

The Group was able to sustain an upward trend of sales growth in spite of the challenges it had to face in some markets. By continuing with our strategy of market and product diversification, we were able to maintain good growth in our traditional markets while steadily making headway in new markets and new product segments. Our marketing efforts, as always, played a key role in further enhancing our market leader's position and in ensuring public support for our newly launched products. Furthermore, the health benefits of soy continued to attract media attention and mass acceptance. This was conducive to the growth of the global market for soy products in general.

The Group continued with its strategy of maintaining stable prices and introducing new products and new packaging to stimulate demand. This enabled us to achieve a steady growth in sales, notwithstanding the adverse market conditions in Hong Kong. This increase in sales, plus a general improvement in productivity, accounted for the Group's strong profit growth in this market. At the same time, our supply chain management system also contributed to the improvement in profit by streamlining the purchasing of raw materials and packaging cost in addition to maintaining costs at stable levels.

Eight new drinks were launched during the year under review, of which PET plastic bottled VITA 430ml Distilled Water, aseptic paper-packed VITA

## MARKETS

### HONG KONG

Our Hong Kong operation achieved a strong profit growth and a sales growth of 8%.

Overall speaking, the Hong Kong market was still highly competitive with the entry of several major overseas brands. The local retail sector on the whole remained somewhat sluggish. As a result, most soft drink brands were heavily discounted.





# Management Discussion & Analysis

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soy  
bean  
healthy  
diet







125ml Calcium-enriched Chocolate Milk Drink and VITA 250ml Lychee Juice Drink performed particularly well in terms of sales. Glass-bottled VITASOY Soymilk was re-launched with a new voluntary return scheme whereby consumers could return empty bottles to specified retail outlets that acted as collection centres, and claim a rebate of 50 cents per bottle.

The other products launched included, VITA Jasmine Tea, VITA Oolong Tea, VITASOY Coconut Soymilk and VITASOY SAN SUI Fresh Soymilk. Recently, we introduced the new VITA range of green tea drinks, including Green Tea, Apple Green Tea and Guava Green Tea, as well as other new drink products such as VITA Yoghurt Flavoured Drink and VITA Supreme Coffee. Among these products, VITA Green Tea and Jasmine Tea are in aseptic paper pack and PET plastic bottles. In addition to these, BALANZ

Isotonic Drink was relaunched in PET plastic bottles.

The re-launch of Glass-bottled VITASOY Soymilk was supported by a new television advertising execution in December 2000 and January 2001, which was part of the “tutorial” advertising campaign. The “tutorial” advert was subsequently voted by viewers as one of the top ten favourite TV commercials. In early 2001, VITASOY was named by the Chinese Manufacturers’ Association of Hong Kong as one of the top ten local brands.

We look forward to the future with optimism as we continue to launch new ranges of VITASOY and VITA products in this market. We are confident that the introduction of new brands, new tastes and new product categories will help





us sustain our growth momentum in Hong Kong. The Group's school tuckshop business, operated by wholly owned subsidiary, Vitaland Services Limited, continued to expand with the number of tuckshops growing from 114 to 144. Both business turnover and net profit had seen substantial growth compared to the previous year.

To cater to the needs of younger customers, the [www.vitaland.com.hk](http://www.vitaland.com.hk) website was launched in August 2000. Rich in health-related information, interactive games and shopping privileges, this website creates an effective

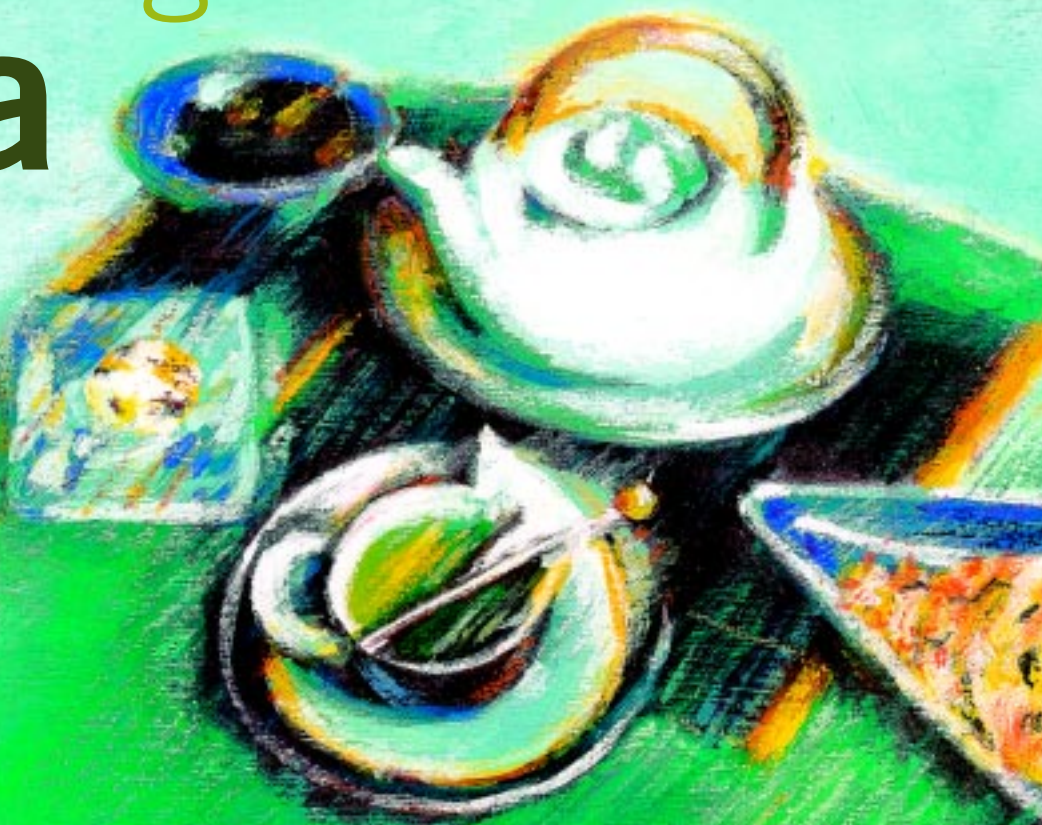


communication channel between the student population and Vitaland Services Limited.

We are glad to report that Vitaland Services Limited became the first Hong Kong organization to have successfully obtained the Hazard Analysis Critical Control Point (HACCP) certificate in March 2001. This is a globally recognised certificate given by RVA, an international accreditation body, to companies who demonstrate an effective food safety management system. It speaks for the commitment and effort of the Group as a whole in ensuring the best quality for our customers.

refreshing  
tea  
drinks

rising  
popularity



In May 2001, Hong Kong Gourmet Limited, a new kitchen unit, was set up for the production of lunch boxes under a centralized and hygienic environment. This move was taken in order to take a step ahead in serving increasingly demanding customers.

The Group's tuckshop business under Vitaland Services Limited will continue to expand. To enhance this development, several improvements are being made, including the installation of modern catering equipment, computerized point-of-sale equipment and Octopus terminals. Vitaland Services Limited will continue to broaden its product and service range in order to provide a one-stop shop for customers. Photo-finishing is one of the new services introduced recently.

### **NORTH AMERICA**

Competition continued to escalate in the market for soy-based products. Growth and consolidation again marked fiscal 2000/2001. Since the approval of the heart health claim by the US Food and Drug Administration in 1999, many major food companies have carved out a position in soy products through acquisition or strategic alliance. A.C. Nielsen's data indicated that aseptic soymilk in mainstream supermarkets had grown by 25% in dollar sales in 2000 while refrigerated soymilk had experienced an exponential increase of 467% over 1999. According to Soyatech's research data, total soymilk retail sales in the US reached approximately US\$432 million, with refrigerated soymilk accounting for 29%. Soymilk retail sales are projected to reach US\$1 billion by 2005.

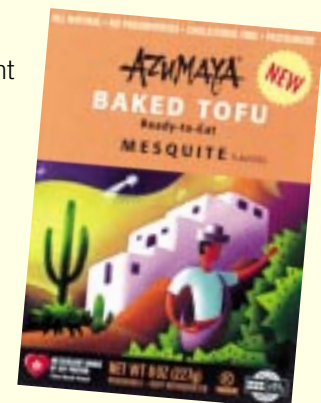
The US tofu market experienced healthy compounded annual growth by an average of 12% per year from 1992 to 2000. Tofu sales are concentrated among six large producers that collectively account for about 75%. In 2000, Vitasoy USA Group held about 50% market share of unseasoned tofu in supermarkets. However, the sales of unseasoned tofu were flat in 2000 whereas seasoned tofu, which represented only 4% of the whole tofu market, experienced a 19% increase compared to 1999. For Vitasoy USA

Group, the US tofu market as a whole grew by about 1% in the year under review.



VITASOY Natural Soymilk grew by 13.3% in the year. This moderate growth was attributable to the slower growth of the natural food sales channel with new store growth dropping to single digit and also to the higher tendency of natural food shoppers to buy from supermarkets that were replenished with more natural food items.

Refrigerated VITASOY Natural Soymilk was successfully launched in the year, supported by a significant increase in advertising, promotion and slotting fees. It now ranks third in the refrigerated category. Refrigerated VITASOY Natural Soymilk has gained





distribution in about 4,500 stores in the supermarket channel. The degree of market penetration varies by region and is strongest in Philadelphia, New York, Hartford, Boston, Los Angeles and San Francisco.



Tofu sales experienced a setback as a result of direct competition from ready-to-serve soy-based products that are sold in the Produce Case and welcomed by trial users as value-added products. NASOYA tofu experienced negative growth while VITASOY tofu achieved a healthy double-digit increase. The sales of AZUMAYA tofu remained flat. The lacklustre performance of tofu in supermarkets was consistent with the sluggish unseasoned tofu market.

In terms of profitability, the Vitasoy USA Group experienced erosion due to strong competition that barred us from increasing our prices to offset higher labor, distribution and utility costs. Furthermore, to support the launch of Refrigerated VITASOY Natural Soymilk, significant expenses were incurred for advertising, trade discount and slotting in targeted supermarket chains. As a result, the Vitasoy USA Group experienced an operating loss in the year under review, compared to an operating profit growth in the previous year.

Despite a slowing economy, the US operation is expected to achieve strong growth in terms of sales in the coming year in view of the projected growth trend of soymilk consumption by mainstream

American consumers. The continued success of Refrigerated VITASOY Natural Soymilk would be key to the rapid expansion of Vitasoy USA Group's consumer base and market share in the mainstream

channel. The introduction of the Baked and Smoked Tofu line would also contribute to the growth of tofu sales. These would entail considerable advertising, promotional and slotting expenses, which should be taken as well justified investments to secure a significant market share in the fast growing US market.

#### **THE MAINLAND**

Signs of recovery began to appear in the beverage market of the Mainland during the year under review. The Group's operations were able to achieve a sales growth of 22%. Ready-to-drink tea, water and liquid milk were some of the more popular products, though the demand for carbonated drink and soymilk remained soft with a year-on-year growth of less than 5%.

Growth in this market was attributable mainly to booming sales in Guangdong. The re-launch of VITASOY Soymilk in returnable glass bottles was especially successful in the Guangdong market, registering a growth in sales of over 100%. In fact the Group has already established an economically viable business template in the Pearl River Delta and is now ready to roll it out to other parts of the province.

In anticipation of further growth in demand, we have already expanded our production capacity for



Glass-bottled VITASOY Soymilk. We are prepared to roll out a wider range of flavours for VITASOY soymilk products with new package designs, which will be supported by aggressive advertising and promotion. The newly developed tea and sport drinks in PET plastic bottle package will be test-launched in southern China in the summer of 2001.

To further improve operational efficiency, the Group has re-visited its strategies in the Mainland and has adopted positive measures to control production and administration costs, to phase out unprofitable products and distribution channels, and to introduce new products that are profitable.

#### **AUSTRALIA AND NEW ZEALAND**

Export sales to Australia and New Zealand experienced some decline due to the excessive stock accumulated by our pre-fiscal 2000/2001 distributor and also the disruption resulting from the transfer of distribution right in November 2000 to our new joint venture company,



Vitasoy Australia Products Pty. Limited in Wodonga, Victoria, Australia





Vitasoy Australia Products Pty. Limited. However, according to A.C. Nielsen's scan data, domestic sales in Australia have remained solid and sales performance is improving.

The construction of the new plant in Wodonga, Victoria was completed on schedule and commercial production was first commissioned in July 2001. The total cost of investment, estimated at HK\$103 million, was also within budget. We are excited about the future prospects of this new joint venture as the demand for soymilk products continues to be strong in the Australian market.

#### **OTHER MARKETS**

Sales performance in Macau was affected by the lifting of import duty in early 2000 that led to an influx of low-priced products from the Mainland.



To cope with this situation, the Group kept the prices stable while rolling out new products and was, therefore, able to contain the decline in sales and achieve some growth in profit.



We mentioned in our Interim Report that we would continue to expand into the European market. Throughout the year under review, the Group continued to grow its sales in the UK market and, at the same time, expanded the distribution of VITASOY soymilk drinks to Germany and Spain. We believe that as the

Europeans become more aware of the health benefits of Soy Protein, we would be able to further expand our distribution in the mainstream market rather than just focus on the ethnic Chinese market.

always  
good  
for you

– VITASOY



During the year under review, sales in other smaller export markets and new markets, such as the Philippines, Trinidad and Israel, also showed promising growth.

### ASSOCIATE

Despite the challenging market environment, the core business of the Group's associate, Sodexho (Hong Kong) Limited actually improved over the previous year and generated higher profit. The apparent drop in profit in fiscal 2000/2001 was only due to the one-off gain from the disposal of the catering investment in the Mainland as reflected in the accounts for fiscal 1999/2000.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group aims to finance its businesses in the different geographical markets locally as far as practicable. Financing and cash management activities of the Group are coordinated at the corporate level.

At 31st March, 2001, the Group's bank deposits (net of borrowings of HK\$241 million) amounted to HK\$159 million (31st March, 2000: HK\$204 million). Undrawn facilities available to the Group totaled HK\$311 million.

At 31st March, 2001, the Group's total borrowings amounted to HK\$241 million (31st March, 2000: HK\$152 million), out of which, HK\$185 million and HK\$54 million are repayable in the first and the second years following the year under review. The remaining balance of HK\$2 million will be due in the third to fifth years following the year under review. The amounts of borrowings denominated in US dollar, Renminbi,

Australian dollar and Hong Kong dollar were HK\$86 million, HK\$68 million, HK\$72 million and HK\$15 million respectively.

The Group's gearing ratio at the year end was 0.21 (31st March, 2000: 0.14), which was based on the total borrowings of HK\$241 million (31st March, 2000: HK\$152 million) and shareholders' funds of HK\$1,128 million (31st March, 2000: HK\$1,118 million).

The Group's interest cover for fiscal 2000/2001 was 14 (1999/2000: 13), which was based on the total earnings before interest expenses and taxation of HK\$178 million (1999/2000: HK\$172 million) and interest expenses of HK\$13 million (1999/2000: HK\$13 million).

### CAPITAL EXPENDITURE

Capital investment increased to HK\$168 million from last year's HK\$110 million mainly due to the establishment of a new soymilk manufacturing plant in Australia and the installation of a new tofu line in the US.

At 31st March, 2001, capital commitments amounted to HK\$119 million. These future capital investments will be funded primarily by internal resources, and by bank borrowings, where appropriate.

### CHARGES ON GROUP ASSETS

At 31st March, 2001, the amount of the Group's assets pledged as security for liabilities was HK\$330 million (31st March, 2000: HK\$245 million).







## **FINANCIAL RISK MANAGEMENT**

In the normal course of business, the Group is exposed to fluctuations primarily in foreign currencies and in prices of key raw materials and packaging materials.

The Group's income and expenditure streams are mainly denominated in Hong Kong dollars, US dollars, Australian dollars and Renminbi. To manage currency risks, non-Hong Kong dollar assets are financed primarily by matching local currency debts as far as possible. Forward foreign exchange contracts are also used to cover future currency risks associated with major committed capital expenditure programs.

The cost of raw materials and packaging materials remained soft during the year under review. The strategy of making the Mainland our chief source of materials while continuing to explore alternative sources in other parts of the world was effective in containing cost. The Group's consistent policy of covering forward purchases of key commodities, based on production plans, accounted for the stable cost of sugar in particular throughout fiscal 2000/2001.

Payment terms with customers are largely on credit. In order to minimise the credit risks associated with trade receivables, credit evaluations of debtors are performed periodically and in some instances, where appropriate, security is obtained. Bad debts have been insignificant.

## **INVESTOR RELATIONS**

Since a large proportion of the shares in the public domain is held by institutional investors, the Group considers it highly important to foster good investor relations. We conduct regular briefing sessions with fund managers and analysts on our latest developments and initiatives with a view to demonstrating the Group's strengths and prospects. After the short-lived New Economy euphoria, there has been renewed interest among investors in Vitasoy stocks. As a result, more briefings and presentations were held with fund managers, analysts and potential investors in Hong Kong, the US and Europe respectively during the year under review.

## **EMPLOYMENT, TRAINING AND DEVELOPMENT**

The Group is fully aware of the need to make the best use of its manpower resources to maximize productivity and, therefore, adopts a prudent approach with regard to manpower. In view of additional workload, the Group's workforce increased by 5% during fiscal 2000/2001. This was a well-justified increase, given the expansion of the Group's businesses in full vending, Glass-bottled VITASOY Soymilk and Baked Tofu, the setting up of a new plant in Australia as well as the opening of new tuckshops in Hong Kong. As of 31st March, 2001, the number of full-time employees was 2,327.

In terms of staff development, the Group continued to support a wide range of skill training and staff development programmes in Hong Kong, the Mainland and the US respectively with





a view to improving job-related competencies and efficiency.

The Group's remuneration policy and package are reviewed and approved by a Compensation Committee consisting of the Executive Chairman and all the Non-Executive Directors of the Company. This Committee meets twice a year to consider and approve the Group's overall remuneration policy, the remuneration packages of the Executive Directors and senior staff as well as the terms of discretionary bonus schemes. The remuneration packages are structured to take into account local conditions where the Group operates. Discretionary bonus and other merit payments are based on the Group's and individual performance and are reflective of value creation.

#### **COMMUNITY SUPPORT**

Promoting consumer wellbeing has always been the Group's first priority. We actively seek to educate the public about soy benefits. As a corporate citizen, the Group also participates in charity work for the community.

#### **SOY BENEFIT PROMOTION**

During the year under review, the Group supported various programmes organized by health groups to raise the public's awareness of the benefits of soybeans. These took the form of a menu competition, a CD, a web page, a school diet class or a leaflet. We also arranged for regular media write-ups on the health benefits of soy.

#### **COMMUNITY ACTIVITIES**

Charitable events supported by the Group included World Vision of Hong Kong's famine camps; UNICEF Hong Kong's Kosovo field visit; the Children's Heart Foundation's charity walk and exhibition; as well as health promotions held by the Hospital Authority, Social Welfare Department, hospitals, and universities respectively. The Group also supported events organized by the Government to celebrate the New Year and Mid-Autumn Festival.

The Group and its staff are active supporters of community events. During the year under review, we participated in the Community Chest of Hong Kong's Corporate and Employee Contribution Programme; made a donation to the Susan G. Komen Breast Centre for breast cancer research in the US and a sports function staged by the Chinese community in the UK. We also co-organized with Red Cross Hong Kong a company-wide Blood Donation Day and provided free drinks to various functions hosted by charitable organisations.

To carry out the Group's policy of giving back to the community, we will continue to supply quality and nutritious food and beverages, and to promote the superior quality of life.