

Chairman's Statement



PERFORMANCE

The Board of Directors would like to report that, for the year ended 31st March, 2002, the Group achieved a consolidated turnover of HK\$2,192 million, a growth of 8.9% over the previous year.

Profit attributable to shareholders was HK\$87 million, compared with HK\$128 million a year earlier.

Earnings per share were HK8.9 cents (2001: HK13.2 cents per share).

DIVIDEND

The Board of Directors is recommending a final dividend of HK5.1 cents per share (2001 final dividend: HK5.1 cents per share) at the forthcoming Annual General Meeting. This, together with the interim dividend of HK2.8 cents per share (2001 interim dividend: HK2.8 cents per share), makes a total dividend of HK7.9 cents per share for the whole year (2001 total dividend: HK7.9 cents per share).

GENERAL REVIEW

With a brand that is well-established in Hong Kong and gaining in popularity overseas, the Group has been actively seeking to grow its revenue base through continued investment in production facilities as well as product innovation. As a result, we were able to achieve healthy growth in revenue in most of our major markets, notably Hong Kong and North America.

However, it should also be noted that the world economy basically had been going through a slowdown and the 911 incident had a sudden, though short-lived, impact on consumer



confidence. Generally speaking, the operating environment in the Group's various markets was beset by uncertainty to various extents during the year under review, which has had some impact on our margins.

During the year, the Hong Kong economy was still experiencing deflation, rising unemployment and a sagging retail market. Under the circumstances, we found it important to ensure the presence of a value-added element in our products and services. Operating under that philosophy, we experienced great success with the introduction of new products, notably the VITA GOR YIN HAI range of Fruity Drinks as well as VITA range of Green Tea and Milk. Competition remained fierce in the local market that has been flooded with low-priced products but we were able to achieve healthy growth in sales and profit through aggressive marketing and promotion. We continued to expand our school tuck shop business in Hong Kong through the establishment of Hong Kong Gourmet Limited during the year; this company supplies hygienic, nutritious and tasty school meals. Growth in terms of both business volume and the number of tuck shops was significant for fiscal 2001/02. Exports from our Hong Kong operation have also been growing steadily, especially in Europe, as we continued to expand our global export network and launch new products in various markets.

Notwithstanding the slowdown of the US economy, that suffered a further blow from the 9/11 incident, the Group's North American operation sustained double-digit growth in sales volume as we continued to expand into the mainstream supermarket channel. The sales of Refrigerated VITASOY Natural Soymilk more than doubled during the year whereas, by

comparison, the growth of Aseptic Soymilk and Tofu was quite modest. The growth of Aseptic Soymilk was affected by increased preference among mainstream US consumers to go to the familiar dairy case for beverage purchases whereas the sales of Tofu slowed down as consumers were attracted to products that could be more readily served. In North America, we incurred an operating loss during the year under review due mainly to the high costs associated with the launching of Refrigerated VITASOY Natural Soymilk, which, as mentioned above, met with encouraging success. This expenditure should be viewed as market development investment and our commitment to the growth of this product. Administrative costs were also incurred in various integration and restructuring initiatives that are intended to reduce the level of administrative costs at the North American operation and to ensure higher productivity and profitability in the long term.

In the vast market of the Mainland, our operation continued to improve its overall performance but results were mixed in terms of sales during the year. While southern China reported healthy growth, there was a significant decline in sales in eastern and northern China. The Group's ready-to-drink tea, juice drinks and soft drinks were growing in popularity among Mainland consumers while the growth of soymilk remained stable. The encouraging results in southern China were due mainly to the successful marketing and promotion that was associated with the introduction of new flavours and packaging designs. The better overall performance for the year under review was largely the result of measures to streamline unprofitable items and improve operational efficiency in Shanghai.



The Australian and New Zealand market continued to demonstrate good potential for development during the year as we commissioned our first production plant in Wodonga, Victoria. This new plant is intended to ensure a strong revenue base for the Group in Australia and New Zealand – an increasingly important market that is becoming more tuned in to the health benefits of soy. During the year, strong sales growth was reported in the newly launched Refrigerated Soymilk that has also been gaining in market share. The performance of Aseptic Soymilk was affected by initial problems that occurred with the commissioning of the Wodonga plant. On the whole, competition was keen in Australia and New Zealand but VITASOY is already an established brand in the soymilk market.

PROSPECTS

Looking ahead, we are hopeful that the operating environment in the Group's major markets would gradually improve in one way or another.

Hong Kong

In Hong Kong, while a speedy economic rebound seems unlikely as deflation and high unemployment continues, signs of recovery in the US economy that have begun to emerge might have a positive effect on the Hong Kong economy. We believe the pragmatic approach to take now is to continue with value pricing and product diversification. We have recently become the first company to launch the great-tasting "Fresh Green Tea" in Hong Kong. We have plans to launch more value-priced new PET plastic bottled drinks and re-launch the VITA Distilled Water brand. We will also maintain the competitiveness of our core products – VITASOY Soymilk and VITA Lemon Tea. All these strategies and measures would serve to further improve our sales volume and total market share.

We expect competition in the school tuck shop and lunch box business to become keener as new players enter the market. We will therefore continue with our drive to increase market share. A bar code system is being set up in some of our tuck shops to improve the efficiency of our retail services. The www.vitaland.com.hk website and the Vitaland newsletter are now effective communication channels between students and ourselves.

To further increase our export sales, especially in Europe, we will introduce the VITASOY Premium Organic Soymilk range to our existing Natural VITASOY range. It will come in four flavours that we anticipate will appeal to different consumers.

North America

North America remains one of the Group's key markets. By strengthening our marketing and distribution, we intend to further expand our customer base in the mainstream channel in the coming year. In terms of product category, Refrigerated Soymilk, which has been growing in importance, will remain a core product. After two years of continued market expansion for Refrigerated Soymilk, we will consolidate our marketing efforts by focusing on the Northeast region and selectively targeting distribution expansion.

Operationally, by grouping all administrative functions under the Ayer facility in Massachusetts, we aim to achieve significant annual savings. The divestment of the traditional distribution business in the West Coast of the US is expected to result in additional savings in operating costs. Furthermore, we are also actively seeking to reduce raw material and packaging costs through improved procurement practices. The completion of the Okara drying unit for soy residue will bring in income as well as reduce waste disposal cost.

The fast-growing North American soyfood market is fragmented and in need of consolidation. We will continue to actively explore business opportunities that arise from the consolidation and that can effectively improve both the top line and bottom line of our North American operation.

The Mainland

We believe opportunities will abound in the Mainland, given her entry into the World Trade Organisation and the fast growth of her retail sector. In the Mainland, our strategy is to continue focusing on solidifying our leadership in the soymilk markets in the south and east. We are also diversifying into other profitable ready-to-drink categories – Tea, Juice and Sport Drinks in PET plastic bottle formats. Meanwhile, we are doubling our efforts in introducing trendy, value-added and profitable new products and executing strategic sales and distribution initiatives in new channels and markets. At the same time, we are expanding into other key markets in the Mainland in the coming year, starting with Fujian and Hunan.



Bearing in mind that competition will remain fierce, we are optimistic about continued healthy growth in the southern part of China. We are also actively seeking new business opportunities that can improve the utilisation of the capacity of the Shanghai plant.

Given the anticipated growth in the beverage market in the Mainland, we will continue to take advantage of the opportunities that arise by means of a focused expansion and diversification strategy.

Australia and New Zealand

Now that we have a joint-venture production plant in Australia, our business strategy in this market is focused on boosting sales volume by launching new products and expanding distribution, thereby securing a larger and more stable consumer base.

With the growth of the soymilk market in Australia and New Zealand, we expect the Group's total sales of Soymilk to grow, with Refrigerated Soymilk growing at a faster pace than Aseptic Soymilk.

The reason for the optimistic forecast growth of Refrigerated Soymilk is twofold. First, we have plans to launch three new-flavoured products in September 2002, which will significantly increase our market share in Australia and New Zealand. Secondly, increased distribution at Woolworths, one of the biggest supermarket chains, will also boost sales considerably.

The Group

The Group's financial position continues to be strong with healthy recurrent cash flow from the core businesses and a low gearing ratio. This will ensure that we are in a good position to take up the challenges of the coming year and to take advantage of expansion opportunities.

Moving forward, product innovation will remain a crucial strategy for the Group. Recognising its importance, we have decentralised the function of product development to our

key markets all over the world so that we can quickly and accurately gauge and respond to changes in local consumers' needs and tastes.

We envisage the Group to remain in a strong net cash position and we believe we should maintain a stable dividend payout policy, particularly in view of the fact that a large proportion of Vitasoy's shareholders are long-term investors. For this reason, we have recommended a final dividend of HK\$5.1 cents per share, notwithstanding a drop in profit for fiscal 2001/02.

TRIBUTE

We were saddened by the death of Mr. Eoghan McMillan on 2nd October, 2001. Eoghan had served on the Board since 1993, providing a considerable contribution to the growth and development of the Group. He will be forever missed by the Vitasoy family.

APPOINTMENT

We would like to welcome Mr. Iain Bruce, who was appointed to the Board as an Independent Non-executive Director on 21st December, 2001.

VOTE OF THANKS

I would like to thank the Board of Directors for their valuable advice and guidance. I would also like to thank our shareholders and business partners for their continued support.

We have a strong and loyal customer base in many parts of the world. They belong to the Vitasoy family and I thank them for their loyalty.

Last but not least, let me extend my appreciation to our team of capable and industrious staff who remained dedicated during a highly challenging year.

Winston Yau-lai LO

Executive Chairman

10th July, 2002

