Management Discussion & Analysis

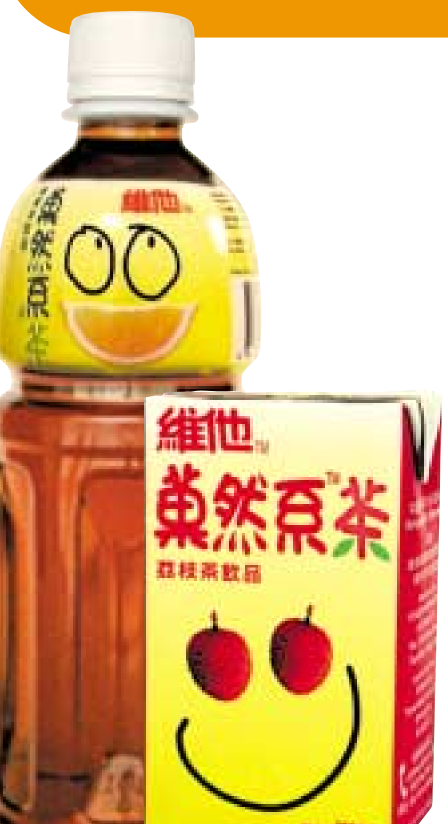
Summer in the 8th month of the year

Temperature 32°C

3 different characters

A friendship that 1 will never forget

5 flavours of **VITA GOR YIN HAI** Tea

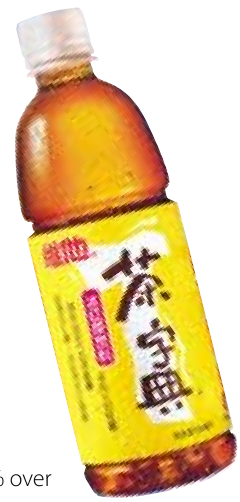


TURNOVER

Total turnover for the fiscal year ended 31st March, 2002 was HK$2,192 million, up 8.9% from the HK$2,012 million registered in our last fiscal year.

Representing 40.0% and 24.0% of the Group's total turnover, sales of Soymilk and Tea products grew 8.0% and 17.0% respectively over the previous year. It was primarily attributable to our strategy on market and product diversification.

We will continue to focus on introducing new products with new tastes and high value added so that we can continue to grow our market share. We will adhere to this strategy in all our major markets, Hong Kong, North America, the Mainland, Australia and New Zealand.



GROSS PROFIT

Gross Profit totalled HK$1,208 million (2001: HK$1,112 million), an increase of 8.6% over the previous year. Gross margin was 55.1%, close to the 55.3% achieved in our last fiscal year.

Despite an increase in the costs of some key raw materials, we managed to maintain the overall manufacturing cost 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 costs. The teething troubles associated with the commissioning of the Wodonga plant in Australia had only minimal impact on the Group's gross profit.

To improve our profitability, we are highly alert to cost-effectiveness. We continue to benefit from improvement in our supply chain management and outsourcing PET plastic bottled drink products. These will minimise lead time and capital investment by the Group.

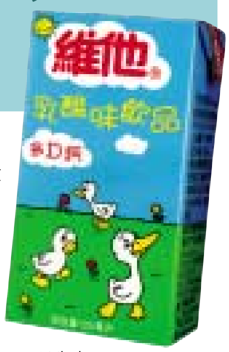

維他


香港美食
Hong Kong Gourmet
維他天地
VITALAND

DISTRIBUTION, ADMINISTRATION AND OTHER OPERATING EXPENSES

Marketing, selling and distribution expense was HK$807 million (2001: HK$718 million), an increase of 12.4% over the previous year. Administration expenses amounted to HK$162 million, representing a 7.3% increase from 2001's HK$151 million. Other operating expense was HK$114 million (2001:HK$98 million), an increase of 16.3% over the last fiscal year. Higher rebate and discount were incurred during the year as the Group increased the frequency of price promotions to counter intensifying competition in our major market, Hong Kong.

38 mathematical questions
16 English words of vocabulary
1 Chinese essay
100 percent hard work
Vitaland is the **1** place for you



The start-up cost in the Wodonga plant in Australia and the costs associated with the launch of new products in North America, Australia and New Zealand also contributed to the increase. While these costs have had a negative impact on the Group's performance in the short term, we strongly believe that the strategy on market and product diversification is conducive to the Group's long-term growth in terms of a broadened revenue base and profitability.

RESTRUCTURING COST AND COMPENSATION FOR TRAFFIC ACCIDENT

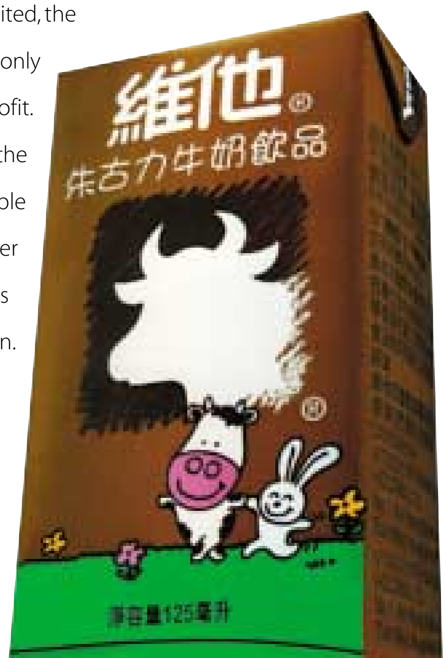
The restructuring cost and uninsured portion of compensation for traffic accident in the US amounted to HK$13 million and HK$3 million respectively. The businesses in the East Coast and West Coast were integrated into one company under Vitasoy USA Inc.. The San Francisco office was closed and its general and administrative functions have been consolidated into one office in Ayer, Massachusetts. Management is confident that going forward, operating efficiency will improve which will in turn result in long-term savings for the Group.

EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTIZATION EXPENSES (EBITDA)

Excluding the US restructuring cost and compensation for traffic accident, EBITDA for the year amounted to HK$238 million, slightly lower than the HK$244 million reported a year earlier. We are pleased with the sales growth virtually in all markets despite the sluggish retail environment. The decline in operating profit was largely due to the costs associated with our focus on deepening our penetration into markets with high growth potential. In the US, we have been opening up the mainstream refrigerated channel. In Australia, the commencement of our joint-venture manufacturing plant will help us tap the growing soymilk market.

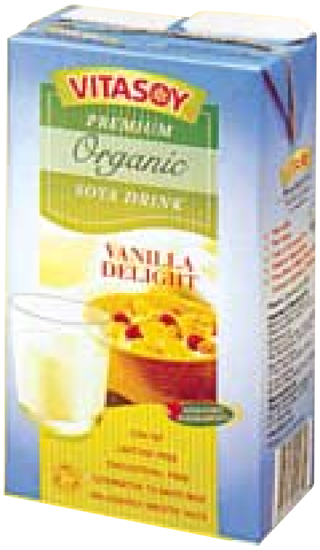
ASSOCIATES

Owing to the persistent economic slowdown and the implementation of the Mandatory Provident Fund scheme, Sodexho (Hong Kong) Limited, the Group's principal associate, only made a small operating profit. After taking into account the write-off of certain intangible assets during the year under review, our share of net loss amounted to HK$3.3 million.



PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders was HK$87 million for the year under review (2001: HK$128 million), representing a 32.0% decrease from the previous year. Excluding the restructuring cost and compensation for traffic accident, the result was HK$103 million, 19.5% below that of the previous fiscal year. This decline in profit was attributable primarily to the start-up cost of the new plant in Australia and the costs associated with the launch of Refrigerated Soymilk and Seasoned Tofu products in the North American market.



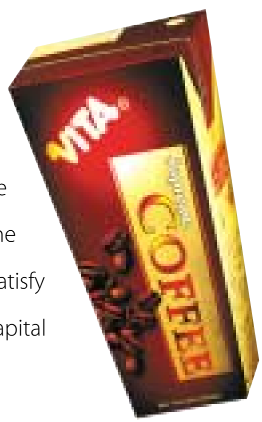
LIQUIDITY & FINANCIAL RESOURCES

At 31st March, 2002, the Group was in a healthy net cash position of HK$132 million (31st March, 2001: HK$159 million). Undrawn facilities available to the Group amounted to HK$281 million.

At 31st March, 2002, the Group's borrowings amounted to HK$305 million, an increase of HK$64 million from the amount outstanding at the end of the last financial year. This was primarily due to the additional finance required for funding the operating losses in North America and the new production facilities in Australia.

The Group continued to maintain a low gearing ratio of 0.26 (31st March, 2001: 0.21) at the year-end date, calculated on the basis of the Group's borrowings over shareholders' funds.

With our strong cash position at the year-end date as well as available banking facilities, the Group's liquidity position remains healthy. All borrowings are repayable within one year and the Group has sufficient liquidity to satisfy its commitments and working capital requirements.



CAPITAL EXPENDITURE

During the year, the Group incurred capital expenditure totaling HK$111 million. (2001: HK$168 million).
This expenditure was mainly incurred for the installation of an Okara dryer and an additional Tofu line in North America, acquisition of sales equipment and the expansion of our tuck shop business in Hong Kong as well as balance payment for the construction of a manufacturing plant in Australia.

200 metres above sea level

Wind speed at **22** knots per hour

100 percent enthusiasm at work

1 fearless soul

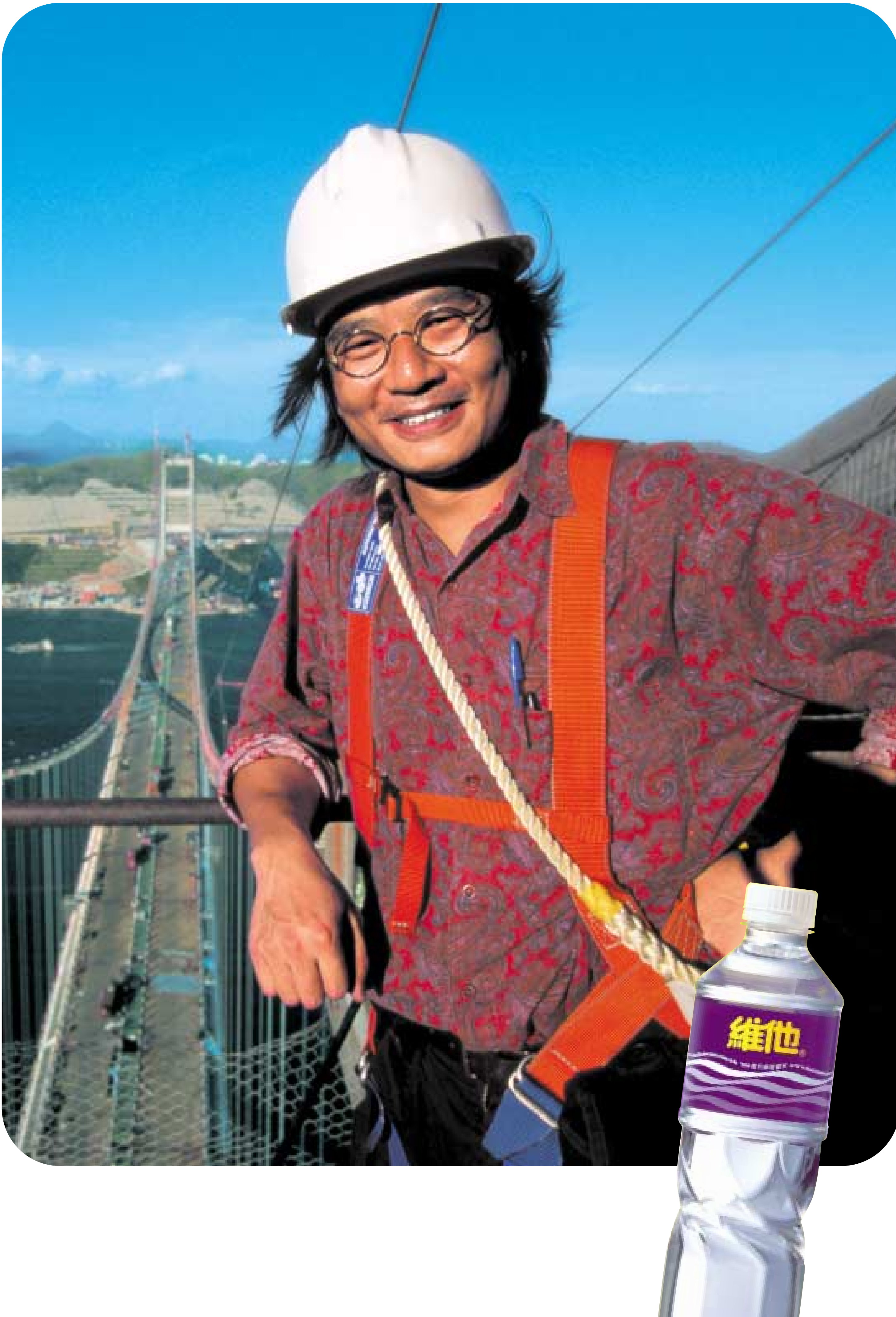
3 bottles of **VITA** Pure Distilled water

CHARGES ON GROUP ASSETS

As at 31st March, 2002, certain assets of the Group with an aggregate carrying value of HK$331 million (31st March, 2001: HK$330 million) were pledged to secure loan facilities utilised by subsidiaries.

FINANCIAL RISK MANAGEMENT

The Group's overall treasury and funding policy focuses on controlled management of risk, with transactions being directly related to the underlying businesses of the Group. For synergy, efficiency and control, the Group operates a central cash and treasury management system for all its subsidiaries. Bank arrangements and long-term borrowing requirements for subsidiaries are monitored and approved at the corporate management level. The Group endeavors to hedge its non-HK Dollar and non-US Dollar denominated assets and investments located in overseas countries with appropriate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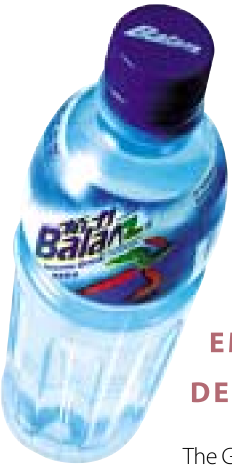


level of borrowings in the currencies of those countries. Forward foreign exchange contracts are utilised when considered appropriate to hedge against major non-HK and non-US Dollar exposures. At the year-end, the Group had no significant exposure under foreign exchange contracts or financial derivatives.

EMPLOYMENT, TRAINING & DEVELOPMENT

The Group continues to adopt a prudent approach with regard to manpower. As at 31st March, 2002, the number of full-time employees was 2,245, decreasing by 3.5% from a year earlier.

The Group recognises the importance of, and remains committed to, staff development, particularly in the current keenly competitive environment. A wide range of skills training and staff development programs were launched in Hong Kong, the Mainland and North America with a view to improving job-related competencies and efficiency. In our Hong Kong operation, 128 training programs were provided to 1,606 staff participants at all levels during the year, covering topics on management, quality and technical aspects. In the Mainland, over 100 training programs were held on various topics. Besides providing in-house training, the Group also sponsored employees' participation in external training and education programs, including MBA and other degree courses.

The Group's remuneration policies and packages remain unchanged. Discretionary bonuses and other merit payments are based on the Group's and individual performance, and reflect value creation.

COMMUNITY SUPPORT

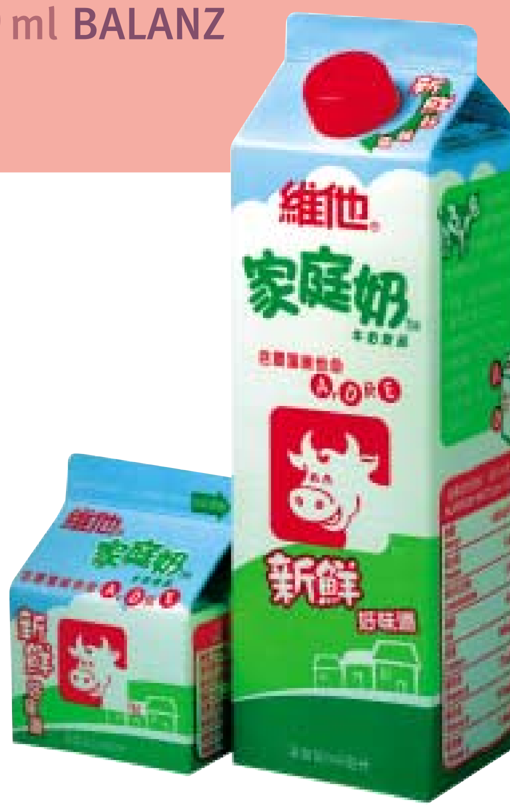
The Group continued to support various community activities and programs organised by the Government, professional bodies and charitable organisations during the year.

In the area of health promotion, we supported an initiative by the Haven of Hope Christian Services to promote the benefit of healthy eating habits among primary school students and raise their awareness of the importance of a balanced diet. We also gave our support to a program of the Hospital Authority of the Hong Kong Government to promote the importance of a balanced diet and regular exercise to health.

Other events supported by the Group included an exhibition on the prevention of osteoporosis organised by the United Christian Nethersole Community Health Service, charity walks of the Children's Heart Foundation and Care for Your Heart, and the World Heart Day of the Hong Kong College of Cardiology and Tung Wah Group of Hospitals.

In other charitable activities, we continued to support the Famine Camp of World Vision Hong Kong to raise funds for the needy in developing countries. We also donated to Project HOPE to support indigent children treatment in Shanghai Children's Medical Center. The Group's employees also continued to participate actively in the programs of the Community Chest and the Red Cross of Hong Kong.

7 o'clock in the morning
1000 metres
Perseverance that 1 admires
The burning of 220 calories
500 ml BALANZ



HONG KONG

Production Efficiency

By Location of Assets (Production Plants)	2002	2001	Movement
Revenue	1,168 million	1,055 million	10.7%
Segment Result	183 million	175 million	4.6%
Segment Net Operating Assets	469 million	487 million	(3.7%)

The Group's production plant in Tuen Mun supports both domestic sales and the Group's export markets in Europe, Macau, Southeast Asia and America. For the year ended 31st March, 2002, the revenue generated by the plant and the tuck shop business totalled HK$1,168 million, an increase of 10.7% over the previous year. The segment result for the same period was HK$183 million, up by 4.6%.

Market Performance

By Location of Customers	2002	2001	Movement
Revenue – Hong Kong Domestic Market	1,350 million	1,261 million	7.1%
Revenue – Export Markets	64 million	57 million	12.3%

Turnover generated from the domestic market was HK$1,350 million, increasing by 7.1% over the previous fiscal year, whereas turnover derived from export markets was HK$64 million, up by 12.3%.

(1) Domestic Market

The local market saw a higher degree of competition during the year as a result of the entry of a larger quantity of low-priced PET plastic bottled products from the Mainland and the persistently sluggish retail market.

However, the Group was able to achieve a healthy sales growth of 7.1% for two main reasons. Firstly, we continued to invest in product development and came up with a broader range of products that appealed to a wider spectrum of consumers. During the year under review, we achieved considerable success with the launching of VITA Green Tea, VITA GOR YIN HAI Fruity Tea and Refrigerated VITA Family Milk as well as the re-launching of Refrigerated VITASOY SAN SUI Soymilk. Secondly, by stepping up promotion, especially in the second half of the year, we were able to further strengthen the market position of the Group's products.

The increase in sales was also partly attributable to the expansion of our "Full Service Vending" operation that has now incorporated the Octopus System into many vending machines. We are pleased to report that during the year the Group has secured full service vending contracts with a number of government departments.

The tuck shop business grew by a significant 21.8% with the number of tuck shops increasing to 169 from 144 a year earlier. To cope with market demand and to implement our "one stop" strategy, we set up Hong Kong Gourmet Limited in May 2001. It is essentially a modern kitchen facility that supplies healthy and nutritious lunch boxes to schools. The first organisation in Hong Kong to fully implement the Hazard Analysis Critical Control Point (HACCP) standards of the Dutch Council for Accreditation (RVA), a globally accredited body, Hong Kong Gourmet Limited gives an edge to the Group's tuck shop business by operating under a strict and effective food safety management system.

(2) Export Markets

The Group has been actively building its export business by introducing new products to existing distributors and expanding into new countries. Newcomers to our global market network include Germany, Spain, Croatia and Peru.

Our newly launched VITA Green Tea and VITA GOR YIN HAI Fruity Tea met with encouraging success in many of our overseas markets. As a result, we saw a strong sales growth in markets such as Singapore, Brunei, Malaysia and Macau. Sales growth in Europe as a whole was even stronger in percentage terms, achieving 24.9% during the year.

NORTH AMERICA

Production Efficiency

By Location of Assets (Production Plants)	2002	2001	Movement
Revenue	493 million	438 million	12.6%
Segment Result	(52 million)	(24 million)	(116.7%)
Segment Net Operating Assets	265 million	247 million	7.3%

The Group's production plants in Massachusetts and California support the North American market. During the year under review, these plants generated HK$493 million in revenue, an increase of 12.6%. Excluding the restructuring cost and compensation for traffic accident, the segment result was a loss of HK$52 million compared with a loss of HK$24 million a year earlier.

Market Performance

By Location of Customers	2002	2001	Movement
Revenue – North American Market	560 million	499 million	12.2%

Turnover generated from the North American market was HK$560 million, an increase of 12.2% over a year earlier.

The US soyfoods market continued to expand strongly in 2002, especially in the supermarket segment. Demand for soy-based products is expected to continue to increase, given demographics, increased concern about genetically modified organism (GMO) foods, and the growing awareness of soy's nutritional value. The top five categories of products – Meal Replacement Beverages and Powders; Energy Bars; Soymilk Products; Meat Alternatives and Tofu – account for more than 86% of the total soyfoods sales in the market. In 2002, national soymilk sales reached US$600 million and are projected to grow to over US$1 billion by 2005 (Source: Soyatech, Inc.). The growth in soymilk sales is led by the refrigerated category. On the other hand, the growth of aseptic soymilk and tofu slowed down as mainstream US consumers returned to the familiar dairy case for beverage purchases and were turning to convenient products like meat alternatives, soy-enhanced energy bars and other ready-to-consume products for soy protein.

Vitasoy USA Group continued to report strong growth in turnover in the year ended 31st March, 2002 despite strong market competition and the general economic downturn exacerbated by the 911 tragedy. Total turnover was up by 12.2%, driven largely by the 138.7% growth of Refrigerated VITASOY Natural Soymilk. Aseptic Soymilk and Tofu grew by 12.3% and 5.7% respectively. We are proud to report that Vitasoy USA Group was recently awarded the 2002 Gold Taste Award by the American Tasting Institute for VITASOY Soymilk and NASOYA Tofu. This was the fourth and fifth consecutive years respectively for VITASOY Soymilk and NASOYA Tofu to win this award.

The year under review was a period of change for Vitasoy USA Group with the appointment of a new management team. The businesses in the East Coast and West Coast were integrated into one company under Vitasoy USA Inc.. The South San Francisco office was closed and its general and administrative functions have been consolidated into one office in Ayer, Massachusetts. The sales team was restructured to ensure higher efficiency in servicing customers. The West Coast direct delivery service was sold to a local distributor to reduce costs and to ensure that the traditional market could continue to be serviced in a consistent manner. A new integrated information system came into force on 1st December, 2001.

All the above initiatives are intended to enhance the North American operation's overall efficiency and ensure strong performance in the long term. There were significant costs involved in these initiatives. These costs, coupled with the high costs associated with the launch of Refrigerated VITASOY Natural Soymilk in the dairy section of mainstream supermarket chains and the persistently competitive operating environment in the US, accounted for Vitasoy USA Group's operating loss in the year under review. Operationally, by grouping all administrative functions under the Ayer facility, we expect to achieve annual savings of approximately US$1.2 million in the future. As mentioned above, the businesses in the East Coast and West Coast now operate under Vitasoy USA Inc as one company. This will foster the "team-based, results-driven" company culture that is being instilled throughout Vitasoy USA Group.

THE MAINLAND

Production Efficiency

By Location of Assets (Production Plants)	2002	2001	Movement
Revenue	488 million	519 million	(6.0%)
Segment Result	54 million	48 million	12.5%
Segment Net Operating Assets	279 million	307 million	(9.1%)

The Group's production plants in Shanghai and Shenzhen support the Mainland market. Some of their products are also sold in Hong Kong.

In the year under review, the Mainland plants contributed HK$488 million to the Group's total revenue, a reduction of 6.0% from a year earlier. Exports to Hong Kong declined by 10.4%, in line with our target to allocate more capacities for future domestic growth in the Mainland. However, there was a pleasing improvement in segment result, rising by 12.5% to HK$54 million.

Market Performance

By Location of Customers	2002	2001	Movement
Revenue – The Mainland Market	140 million	140 million	–

Turnover generated from the Mainland market was HK$140 million in 2002, basically unchanged from a year earlier.

The non-alcoholic beverage market in the Mainland saw positive growth during the year. Robust growth was witnessed most obviously in the ready-to-drink tea and juice segments. Dairy, water and carbonated drinks continued to grow but soymilk grew only modestly.

The Group's Mainland operations had mixed results in terms of sales during the year.

In southern China, sales growth was a stable 8.8% notwithstanding a fiercely competitive and price-sensitive market. This was attributable mainly to the strong performance of VITASOY Soymilk and VITA Tea and Soft Drinks in returnable bottles in Guangzhou, where sales grew by 20.3%, and to the introduction of new flavours and package designs supported by aggressive advertising as well as trade and consumer promotion campaigns.

Unfortunately the positive result in southern China was partially offset by the decline of 24.5% in sales in eastern/northern China. However, the Group successfully implemented some key measures to streamline unprofitable product lines, consolidate sales and distribution channels and further improve overall operational efficiency in Shanghai. The improved segment result thus achieved speaks for the effectiveness of these measures.

In order to capitalise on the huge potential of other ready-to-drink beverage segments, the Mainland operation successfully launched ready-to-drink Tea and Sport Drinks in PET plastic bottles in early 2002 in both southern and eastern China. In terms of distribution coverage and repeat orders, the initial results have been positive.

AUSTRALIA AND NEW ZEALAND

Production Efficiency

By Location of Assets (Production Plants)	2002	2001	Movement
Revenue	43 million	0 million	N/A
Segment Result	(10 million)	0 million	N/A
Segment Net Operating Assets	114 million	77 million	48.1%

The Group's joint-venture plant in Wodonga, Victoria was commissioned in July 2001 and supports the Australian and New Zealand market. The Wodonga plant consists of production lines for both Refrigerated and Aseptic Soymilk. This facility, considered as a part of our market diversification plan, is expected to further enhance the Group's long-term position in the soymilk market in Australia and New Zealand by leveraging on our joint venture partner's extensive distribution network.

During its first year of operation, the Wodonga plant generated HK$43 million in revenue. The segment result of the operation was a loss of HK$10 million.

Market Performance

By Location of Customers	2002	2001	Movement
Revenue – Australian and New Zealand Market	78 million	55 million	41.8%

Turnover derived from Australia and New Zealand was HK$78 million, increasing by 41.8% from a year earlier. The increase was largely due to the launch of Refrigerated Soymilk and higher selling prices derived from direct sales to retailers.

In the fiscal year, the total soymilk market in Australia declined 4.9% in volume, due partly to the deregulation of the dairy industry. This decline was more marked in the aseptic soymilk segment with a 5.6% drop, while refrigerated soymilk dropped by a modest 1.9%.

The Refrigerated VITASOY Soymilk has been performing well with steady growth in terms of market share by both volume and value since its first national launch in July 2001. By and large, the Group's refrigerated soymilk market share in the Australian and New Zealand market has been on the increase and we are optimistic that this trend will continue. The market share of Aseptic VITASOY Soymilk dropped slightly as a result of some teething troubles associated with the commissioning of the Wodonga plant. Prices in the Australian and New Zealand market have been fluctuating with competition in both the aseptic and refrigerated segments but the VITASOY brand continues to trade with a premium positioning.