維他奶國際集團有限公司
VITASOY INTERNATIONAL HOLDINGS LTD.

Interim Report 2002

INTERIM REPORT 2002

CONTENTS

Web-site Addresses :—

Vitasoy International Holdings Limited — www.vitasoy.com (English & Chinese)
Vitaland Services Limited — www.vitaland.com.hk (Chinese only)
Hong Kong Gourmet Limited — www.hkgourmet.com.hk (Chinese only)
Vitasoy USA Inc. — www.vitasoy-usa.com (English only)
Nasoya Foods Inc. — www.nasoya.com (English only)
Shenzhen Vitasoy (Guang Ming) Foods & Beverage Company Limited — www.vitasoy.com.cn (Chinese only)
Vitasoy Australia Products Pty. Limited — www.vitasoy.com.au (English only)

Key Dates :—

Closure of Register	:	**23rd December, 2002 (Monday) to 24th December, 2002 (Tuesday)**
Interim Dividend Payable	:	**31st December, 2002 (Tuesday)**

VITASOY INTERNATIONAL HOLDINGS LTD.

FINANCIAL HIGHLIGHTS

Results	Six months ended 30th September, 2002 (Unaudited)	2001 (Restated) (Unaudited)	Change %
Turnover (HK$ million)	**1,158**	1,104	+5
EBITDA (HK$ million)	**156**	112	+39
EBIT (HK$ million)	**102**	63	+62
Profit Attributable to Shareholders (HK$ million)	**80**	48	+67
Basic Earnings per Share (HK cents)	**8.2**	4.9	+67
Interim Dividend per Share (HK cents)	**2.8**	2.8	—

Financial Position	30th September, 2002 (Unaudited)	31st March, 2002 (Restated)	Change %
Net Cash Balance (HK$ million)	**212**	132	+61
Shareholders' Funds (HK$ million)	**1,211**	1,181	+3
Net Assets per Share (HK dollars)	**1.24**	1.21	+2

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS HIGHLIGHTS

- The Group's turnover for the first six months of fiscal 2002/2003 was HK$1,158 million, a rise of 4.9% over the same period last year (2001/2002 interim: HK$1,104 million). During this period, we continued to pursue growth by introducing new products with new tastes and value packaging that were welcomed by consumers. We are glad to report that we have been able to achieve steady overall growth by achieving higher productivity and operational efficiency, notwithstanding a slow global economy and tough competition. Positive growth was registered in most markets.

- The Group's profit attributable to shareholders for the period under review was HK$80 million, rising by 66.7% (2001/2002 interim: HK$48 million).

- In view of the increase in profit and strong cash flow, the Board of Directors has declared an interim dividend of HK2.8 cents per share (2001/2002 interim: HK2.8 cents per share), payable on 31st December, 2002.

- Cost management continued to receive close attention during the period, resulting in considerable savings in key areas. Marketing, selling and distribution expenses were HK$419 million, compared to HK$423 million for the same period in fiscal 2001/2002. Administrative expenses increased slightly to HK$78 million, up from HK$75 million the previous period. Other operating expenses were HK$59 million, compared to HK$57 million for the 2001/2002 interim period. Total operating expenses as a percentage of sales amounted to 48.0% (2001/2002 interim: 50.3%). This was basically the result of lower marketing expense during the interim period and cost synergy made possible by the consolidation of the Group's North American operation.

- The Group's gross profit grew 6.4% to HK$652 million (2001/2002 interim: HK$613 million). In addition to boosting sales through product innovation and diversification, we have been able to achieve improvement in raw material and packaging material costs through better supply chain management and operational efficiency. During the period under review, our gross profit margin increased to 56.3% of sales (2001/2002 interim: 55.5%).

- The Group's EBITDA for the first six months of fiscal 2002/2003 was HK$156 million, increasing by 39.3% from 2001/2002 interim's HK$112 million. This reflects our resilience in a highly challenging business environment and our success in implementing our focused expansion and diversification strategy.

- The equity interest in Sodexho (Hong Kong) Limited, our associate, was sold in August 2002 for a consideration of HK$14 million, yielding a gain on disposal of HK$2.5 million.

Hong Kong

Production Efficiency

By Location of Assets (Production Plants)	Six months ended 30th September, 2002	Six months ended 30th September, 2001	Movement
Revenue (HK$)	617 million	607 million	1.6%
Segment Result (HK$)	95 million	82 million	15.9%

In the period under review, our Tuen Mun plant and tuck shop business generated a total revenue of HK$617 million, a rise of 1.6% over the corresponding period last year. The healthy growth in domestic sales in Hong Kong was able to offset the decline in exports to Australia and New Zealand after the commissioning of the Group's plant in Wodonga, Victoria in July 2001.

Gross margin during the period improved as we continued to make improvements in operational efficiency and supply chain management and enforce tighter cost control. More frequent and aggressive tactical price promotions were carried out to ensure our competitiveness in the deflationary beverage sector. As a result, the performance of our Hong Kong market has been encouraging with segment profit for the interim period of fiscal 2002/2003 rising by 15.9% to HK$95 million (2001/2002 interim: HK$82 million).

Market Performance

By Location of Customers	Six months ended 30th September, 2002	Six months ended 30th September, 2001	Movement
Revenue (HK$) - Hong Kong Domestic Market	729 million	678 million	7.5%
Revenue (HK$) - Export Markets	35 million	35 million	—

(1) Hong Kong Domestic Market

The first six months of fiscal 2002/2003 continued to be under the impact of the persistent economic downturn. In order to maintain market share, various beverage brands were still taking an aggressive approach in marketing and promotion.

Our performance in the highly competitive Hong Kong market can be considered very satisfactory — in fact, better than most of our competitors — because we have sustained healthy growth in terms of domestic sales. Sales increased by 7.5% during the period under review, driven mainly by the strong performance of Tea and Water.

The successful re-launch of VITA Water and the launch of the new VITA Fresh Green Tea and VITA Cha T Din Iced Tea have been supported by innovative and effective advertising campaigns. The launch of other new products during the period, including Premium Organic Soya Drink in different flavours, new Juice Drinks, Jelly Drinks with Juice, and Distilled Water with Minerals, was also met with a good degree of success.

The Group's school tuck shop business, operated by wholly-owned subsidiary Vitaland Services Limited, continued to grow in terms of market share. Vitaland's wholly owned subsidiary, Hong Kong Gourmet Limited, has also been steadily expanding its student meal box business.

(2) *Export Markets*

The Group continued to build its export business by introducing new products to existing distributors and expanding into new countries. The introduction of the Organic VITASOY range of products in Europe in August 2002 has been well received and able to boost sales.

North America

Production Efficiency

By Location of Assets (Production Plants)	**Six months ended 30th September, 2002**	Six months ended 30th September, 2001	Movement
Revenue (HK$)	**234 million**	240 million	(2.5%)
Segment Result (HK$)	**(13 million)**	(26 million)	50.0%

In the first half of fiscal 2002/2003, the Group's production plants in Massachusetts and California generated a total revenue of HK$234 million, a drop of 2.5% from the same period a year ago. The segment result during the period was an operating loss of HK$13 million, which showed a considerable improvement from the loss of HK$26 million in the interim period of fiscal 2001/2002. This improvement in performance could be attributed to the reduction in expenses relating to office consolidation carried out last year, the transfer of our West Coast direct store delivery business to a distributor, a temporary reduction in marketing investment during the period, and the reduction in debt service.

Market Performance

By Location of Customers	**Six months ended 30th September, 2002**	Six months ended 30th September, 2001	Movement
Revenue (HK$) - North American Market	**266 million**	275 million	(3.3%)

During the six months ended 30th September, 2002, sales in North America amounted to HK$266 million, a slight drop of 3.3% from the same period the year before. However, market research data has pointed to the increasing popularity of fresh soymilk, which is a good sign for future growth. In fact, more and more mainstream consumers are turning to the dairy section of supermarkets for refrigerated soymilk products. As a result, we experienced a 17.8% year-on-year increase in the sales of Refrigerated VITASOY Soymilk during the period under review. The sales of unseasoned tofu continued to decline as consumers were turning to more convenient foods like meat analogs, energy bars and meat replacements for their soy protein. However, the prospects for seasoned and ready-to-serve tofu remain good and the Group is well poised to launch new Tofu products and new packaging to meet market needs.

The Mainland

Production Efficiency

By Location of Assets (Production Plants)	Six months ended 30th September, 2002	Six months ended 30th September, 2001	Movement
Revenue (HK$)	272 million	253 million	7.5%
Segment Result (HK$)	36 million	33 million	9.1%

During the period under review, the production plants in Shanghai and Shenzhen together contributed HK$272 million to the Group's total revenue, an increase of 7.5% over the same period last year. Exports to Hong Kong increased by 2.3% in value. The segment result for the period was HK$36 million (2001/2002 interim: HK$33 million). In total terms, there has been continued improvement in operational efficiency and supply chain management for these two plants.

Market Performance

By Location of Customers	Six months ended 30th September, 2002	Six months ended 30th September, 2001	Movement
Revenue (HK$) - The Mainland Market	89 million	79 million	12.7%

The non-alcoholic beverage market in the Mainland continued to show positive growth in general, especially in the dairy and ready-to-drink tea and juice segments. The demand for bottled water and carbonated drinks continued to grow but soymilk remained soft.

Despite a very competitive and price-sensitive market environment, the Group achieved a healthy sales growth of 14.6% in southern China. This was attributable mainly to the successful launch of ready-to-drink Tea and Sport Drinks in PET plastic bottles earlier this year. The sales performance of VITASOY Soymilk and VITA Tea and Soft Drinks in returnable bottles grew by 10.0%. This growth was supported by the introduction of new flavours, competitive pricing, effective trade and consumer promotional campaigns and new package designs for Ultra Heat Treated ("UHT") products.

By taking advantage of the continued positive growth in southern China and in line with the Group's strategy of market diversification, we have expanded the distribution of our products in the provinces of Fujian and Hunan earlier this year. In terms of distribution coverage and volume gains, the initial results in these new markets have been encouraging.

In eastern China, the Group managed to end the sharp decline in sales since the last fiscal year. Sales performance was stable in the period under review. This was attributable mainly to the consolidation in sales and distribution channels in Greater Shanghai as well as our focused extension into some second-tier cities in the neighbouring provinces.

Australia and New Zealand

Production Efficiency

By Location of Assets (Production Plants)	Six months ended 30th September, 2002	Six months ended 30th September, 2001	Movement
Revenue (HK$)	35 million	4 million	775.0%
Segment Result (HK$)	2 million	(9 million)	122.2%

The Group's joint-venture plant in Wodonga, Victoria was commissioned in July 2001 to support the Australian and New Zealand markets. In the first half of fiscal 2002/2003, the Wodonga plant generated HK$35 million in revenue. The segment profit of the operation was HK$2 million.

Market Performance

By Location of Customers	Six months ended 30th September, 2002	Six months ended 30th September, 2001	Movement
Revenue (HK$) - Australian and New Zealand Market	39 million	36 million	8.3%

Turnover derived from Australia and New Zealand in the first six months ended 30th September, 2002 was HK$39 million, an increase of 8.3% from the same period last year. The increase was largely due to the launch of Refrigerated Soymilk.

After 12 months of decline brought about by price de-regulation in the dairy industry, the soymilk market in Australia has been growing again with volumes returning to the 2000 levels. This growth was more striking in the refrigerated soymilk segment with a 26.4% increase in value whereas in the UHT soymilk segment, the increase was a modest 1.8%.

The teething troubles that affected performance at the beginning are now behind us. As a result, the Group has returned to a position for achieving higher sales and profit.

Since its first national launch in July 2001, Refrigerated VITASOY Soymilk has been performing well with steady growth in market share in terms of both volume and value. We have been increasing our market share in the past few months, becoming third in the Australian market recently.

To boost our volume, we are focused on actively improving consumers' acceptance of our current products, looking for opportunities to strengthen VITASOY's position in the trade and undertaking a new product development programme.

GENERAL OUTLOOK

As always, we are committed to increasing shareholder value in the long term. To do that, we will continue to leverage the strength of the VITASOY brand and sub-brands and our capabilities in meeting the needs of different markets. We will also continue to be focused on innovation and diversification.

We expect the difficult retail environment in Hong Kong to continue in the near future as deflationary pressure persists. Competition in price would probably remain strong, which would affect profit margins for the beverage sector as a whole. In such circumstances, we will be focused on the development of new products and new tastes that bring higher value for money to consumers, and on the efficient deployment of resources that can result in higher cost-effectiveness. This two-pronged approach has been very effective in boosting sales and controlling costs in the first half of fiscal 2002/2003 and should continue to be effective in the second half.

In terms of exports, we expect further improvement as we can see an encouraging response to Organic VITASOY Soymilk, especially in Europe, which is a growing market.

In Hong Kong, we have a correct positioning for our tuck shop and meal box business, which is expected to make further progress and increase in market share.

North America remains a major market for the Vitasoy Group. After the completion of restructuring and office consolidation, which inevitably had a negative short-term impact on profits, we are optimistic of progressive improvement in the coming months. While the prevailing economic downturn affects the US retail sector in general, soymilk products are relatively immune from such impact because they appeal mainly to the mature, health-conscious and ready-to-spend consumer group. Our focus in North America, therefore, will be to create new products and new tastes and, at the same time, penetrate new market channels in order to boost our market share. We will also carry out more focused advertising and marketing campaigns for that purpose.

Vitasoy USA is currently updating and refreshing the packaging of all VITASOY, NASOYA and AZUMAYA brands of products. The new package designs are based on extensive consumer research, showing new, bold and colourful illustrations of the products' usage that appeal to consumers' taste. The new packaging also offers clear product descriptions with colour-coding, making it easier for our customers to locate in the shop. Soymilk products now have a consistently strong VITASOY branding in both the refrigerated and natural foods sections of the supermarket. NASOYA and AZUMAYA Tofu now have nutrition information on the front panel of the package for easy reference. All new packaging will be found on shelves early next year.

Vitasoy USA recently entered into an extended business relationship with HP Hood Inc. whereby the latter will package Refrigerated VITASOY Soymilk products. HP Hood Inc.'s expertise in the dairy business and distribution as well as its national presence will enhance the VITASOY brand.

In the Mainland of China, the market for the VITASOY range of products has been growing with the economy and there is still immense potential for further growth. While we continue to reinforce our leadership in the soymilk market, we are also actively diversifying into other fast-growing and profitable product categories such as Tea, Juice and Sport Drinks. Our strategy is to capture a bigger share of the Mainland's beverage market by means of value-added and trendy products as we penetrate new distribution channels. We are especially confident in the prospects of the south. We have recently secured a co-pack agreement with one of the largest dairy manufacturers in the Mainland for producing their products, which can help further improve the utilisation of our production capacity in Shanghai. All in all, the Mainland is expected to continue contributing to the Group's sales and profits in the remainder of the year and beyond.

The Australian and New Zealand market is expected to grow and increase in importance for the Group. With our Wodonga plant now fully operational, our focus will be to strengthen the distribution of UHT Soymilk and to expand the range and sales of Refrigerated Soymilk. We are going to re-package our products and launch new products in both the UHT and Refrigerated categories in the coming months.

The Group's performance in the interim period has convinced us that steady growth can be sustained into the remainder of the year. We will continue to focus on market and product diversification, to be supported by marketing and brand building. In the second half of fiscal 2002/2003, we are planning to increase the spending on marketing and promotional expenses by about HK$15 million as compared to the same period last year. This is necessitated by the need for further increasing our market share and reinforcing our market leadership but might have an impact on the Group's profitability in the second half of the year.

EMPLOYMENT, TRAINING, DEVELOPMENT AND REMUNERATION POLICY

As at 30th September, 2002, the number of full-time employees was 2,246, decreasing by 2% from a year earlier. Our manpower management policy remains to maximise the contribution of staff resources for productivity gains.

The Group remains committed to staff development. A wide range of skills training and staff development programmes were launched in Hong Kong, the Mainland and the US respectively, with a view to improving job-related competencies and efficiency.

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

FINANCIAL REVIEW

As at 30th September, 2002, the Group had a healthy net cash position of HK$212 million (31st March, 2002: HK$132 million). Undrawn facilities available to the Group totalled HK$346 million.

The total external borrowings as at 30th September, 2002 amounted to HK$197 million (31st March, 2002: HK$305 million). The maturity profile is spread over a period of five years, with HK$171 million repayable in the first year, HK$5 million in the second year and HK$21 million within the remaining three years. The amount of borrowings denominated in US Dollar, Renminbi and Australian Dollar were the equivalents of HK$30 million, HK$71 million and HK$93 million respectively. The gearing ratio (total borrowings/shareholders' funds) was 16% (31st March, 2002: 26%).

With adequate funds and as yet unused banking facilities, the Group's liquidity position remains strong, with sufficient financial resources to meet current commitments and working capital requirements. Capital expenditure during the period amounted to HK$26 million (2001/2002 interim: HK$55 million), which was primarily funded by cash from operations.

CHARGES ON GROUP ASSETS

As at 30th September, 2002, assets of the Group with an aggregate carrying value of HK$52 million (31st March, 2002: HK$331 million) were pledged to secure loan facilities used by the subsidiaries.

FINANCIAL RISK MANAGEMENT

The major type of financial risks faced by the Group arises from fluctuations in interest rates and exchange rates. The Group uses financial instruments, where appropriate, to manage such risks. The Group would hedge its non-HK Dollar and non-US Dollar denominated assets and investment located in overseas countries with an appropriate level of borrowings in the currencies of those countries.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2002 - Unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30th September, 2002 $'000	Restated 2001 $'000
Turnover	3	1,157,727	1,103,522
Cost of sales		(505,460)	(490,898)
Gross profit		652,267	612,624
Other revenue		8,959	14,255
Marketing, selling and distribution expenses		(419,092)	(423,132)
Administrative expenses		(78,113)	(75,191)
Other operating expenses		(59,200)	(57,251)
Profit from operations	3	104,821	71,305
Finance cost	4	(5,169)	(8,394)
Profit on disposal of associate	5	2,485	—
Share of loss of associate		(273)	(3,207)
Profit from ordinary activities before taxation	4	101,864	59,704
Taxation	6	(21,286)	(18,050)
Profit from ordinary activities after taxation		80,578	41,654
Minority interests		(1,059)	5,919
Profit attributable to shareholders	14	79,519	47,573
Dividend — interim declared	7	27,275	27,233
Earnings per share	8		
Basic		8.2 cents	4.9 cents
Diluted		8.1 cents	4.9 cents

The notes on pages 16 to 26 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2002 - Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30th September,	
			Restated
		2002	2001
	Note	*$'000*	*$'000*
Balance as at 1st April as previously reported		1,189,333	1,177,875
Prior period adjustment in respect of employee benefits	2 and 14	(8,629)	(8,214)
Balance as at 1st April as restated		1,180,704	1,169,661
Exchange difference arising from consolidation	14	(1,692)	122
Profit for the period (2001 - restated)		79,519	47,573
Dividend approved in respect of the previous financial year	7	(49,679)	(49,701)
Shares issued on exercise of share options		1,746	—
Repurchase of own shares		—	(2,115)
Balance as at 30th September		1,210,598	1,165,540

The notes on pages 16 to 26 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30th September, 2002 - Unaudited
(Expressed in Hong Kong dollars)

	Note	At 30th September, 2002 $'000	At 30th September, 2002 $'000	Restated At 31stMarch, 2002 $'000	Restated At 31stMarch, 2002 $'000
Non-current assets					
Fixed assets			888,965		918,117
Interest in associate			—		11,593
Bank deposits	11		70,000		—
			958,965		929,710
Current assets					
Inventories	9	206,396		193,797	
Trade and other receivables	10	349,273		327,688	
Bank deposits	11	—		87,050	
Cash and cash equivalents	11	339,326		350,137	
		894,995		958,672	
Current liabilities					
Bank loans and bank overdrafts		171,111		304,755	
Trade and other payables	12	375,175		317,168	
Obligations under finance leases		219		211	
Taxation		21,468		9,145	
		567,973		631,279	
Net current assets			327,022		327,393
Total assets less current liabilities			1,285,987		1,257,103
Non-current liabilities					
Bank loans		25,810		—	
Obligations under finance leases		6,099		581	
Provision for retirement gratuities and long service payments		—		33,892	
Deferred taxation		8,390		8,278	
			40,299		42,751
Minority interests			35,090		33,648
NET ASSETS			1,210,598		1,180,704
CAPITAL AND RESERVES					
Share capital	13		243,523		243,148
Reserves	14		967,075		937,556
			1,210,598		1,180,704

The notes on pages 16 to 26 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2002 - Unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30th September,	
		Restated
	2002	2001
	$'000	*$'000*
Net cash from operating activities	132,065	65,091
Net cash from/ (used in) investing activities	18,625	(244,973)
Net cash used in financing activities	(155,645)	(9,818)
Net decrease in cash and cash equivalents	(4,955)	(189,700)
Effect of foreign exchange rates	(288)	60
Cash and cash equivalents at 1st April	341,720	311,795
Cash and cash equivalents at 30th September	336,477	122,155
Analysis of the balances of cash and cash equivalents		
Bank deposits maturing within three months	266,839	87,990
Cash at bank and on hand	72,487	42,792
Cash and cash equivalents in the consolidated balance sheet	339,326	130,782
Bank overdrafts	(2,849)	(8,627)
Cash and cash equivalents in the condensed consolidated cash flow statement	336,477	122,155

The notes on pages 16 to 26 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the Board of Directors is included on page 32. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 (revised) "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31st March, 2002 included in the interim financial report does not constitute the statutory financial statements of the Company and its subsidiaries (the "Group") for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st March, 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10th July, 2002.

The same accounting policies adopted in the 2001/2002 annual financial statements have been applied to the interim financial report except for the adoption of new accounting standards as disclosed under note 2.

2. Adoption of new accounting standards in Hong Kong

The following new SSAPs issued by the HKSA, which became effective for accounting periods beginning on or after 1st January, 2002, were adopted for the preparation of the Group's interim financial report for the six months ended 30th September, 2002:

— SSAP 34 "Employee benefits"
— SSAP 1 (revised) "Presentation of financial statements"
— SSAP 15 (revised) "Cash flow statements"
— SSAP 11 "Foreign currency translation"

(a) Adoption of SSAP 34 "Employee benefits"

(i) Accrued liabilities on unused annual leave

Prior to the issuance of SSAP 34, the Group did not provide for the liabilities in respect of its staff's annual leave entitlement. SSAP 34 requires that obligations in respect of this entitlement should be accrued as soon as services are rendered. The Group has adopted this new accounting policy retrospectively and accordingly restated the opening balances of the retained profits as at 1st April, 2001 and 2002. The previously reported profits for the six months ended 30th September, 2001 and for the year ended 31st March, 2002 have been adjusted to reflect movements in the accrued annual leave balance during the periods. These effects are summarised as follows:

2. **Adoption of new accounting standards in Hong Kong** *(continued)*

(a) ***Adoption of SSAP 34 "Employee benefits"*** *(continued)*

(i) Accrued liabilities on unused annual leave (continued)

	Balance as at 1st April, 2001	Net movement in entitlement 6 months ended 30th September, 2001	6 months ended 31st March, 2002	Balance as at 1st April, 2002
	$'000	*$'000*	*$'000*	*$'000*
Retained profits as previously reported	588,455			597,943
Prior period adjustment in respect of unused annual leave entitlements (note 14)	(8,214)	(1,153)	738	(8,629)
Retained profits as restated	580,241			589,314

(ii) Post-employment benefits — retirement gratuities

Prior to the issuance of SSAP 34, the Group recognised the obligation in respect of retirement gratuities and long service payments following the methodology and accounting treatments which are in accordance with those prescribed in SSAP 34. Therefore the adoption of SSAP 34 has no material effect on the prior year financial statements, and no prior period adjustment has been made in this respect.

(b) ***Adoption of SSAP 1 (revised) "Presentation of financial statements"***

In order to comply with the revised requirements of SSAP 1 (revised), the Group adopts the new statement "Consolidated statement of changes in equity" which replaces the "Consolidated statement of recognised gains and losses" included in previous interim financial reports and annual financial statements. The new statement reconciles the movement of key components of the shareholders' fund, including share capital, reserves and retained profits, from the beginning to end of a period.

(c) ***Adoption of SSAP 15 (revised) "Cash flow statements"***

In prior years, cash and cash equivalents in the condensed consolidated cash flow statement included bank overdrafts and bank advances repayable within three months from the date of advance. With effect from 1st April, 2002, in order to comply with SSAP 15 (revised), cash and cash equivalents no longer include bank advances other than bank overdrafts which are repayable on demand and which form an integral part of the Group's cash management. In addition, the format of the condensed consolidated cash flow statement has been revised to follow the new requirements of SSAP 15 (revised). Comparative figures for the condensed consolidated cash flow statement have been adjusted accordingly.

2. **Adoption of new accounting standards in Hong Kong** *(continued)*

(d) Adoption of SSAP 11 "Foreign currency translation"

In prior years, the financial statements of overseas subsidiaries were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1st April, 2002, the Group adopted a new accounting policy of translating the income statements of overseas subsidiaries at average rates for the period, in order to comply with SSAP 11. The adoption of this SSAP has no material effect on the prior year financial statements, therefore no prior period adjustment has been made.

3. **Segmental information**

The analysis of the asset-based geographical location of the operations of the Group during the period is as follows:

	Six months ended 30th September,			
	Group Turnover		Profit from operations	
	2002 $'000	2001 $'000	2002 $'000	Restated 2001 $'000
Hong Kong	616,882	606,766	94,606	81,880
North America	233,992	239,924	(12,886)	(25,556)
The Mainland	271,532	252,956	36,010	32,845
Australia and New Zealand	35,321	3,876	2,192	(8,668)
	1,157,727	1,103,522	119,922	80,501
Unallocated	—	—	(15,101)	(9,196)
	1,157,727	1,103,522	104,821	71,305

Asset-based segment reporting is in line with the Group's internal management information reporting system. No business segment analysis of the Group's turnover and trading results is presented as all the Group's turnover and trading results are generated from the manufacture and distribution of food and beverages.

Turnover by the location of customers is as follows:

	Six months ended 30th September,	
	2002 $'000	2001 $'000
Hong Kong	728,994	677,677
North America	265,587	275,049
The Mainland	89,043	78,947
Australia and New Zealand	38,976	36,463
Others	35,127	35,386
	1,157,727	1,103,522

4. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after (crediting)/charging:

	Six months ended 30th September, 2002 $'000	2001 $'000
Interest income	(2,855)	(8,092)
Finance charges on obligations under finance leases	220	—
Interest on borrowings	4,949	8,394
Depreciation	53,983	49,105

5. Disposal of associate

The equity interest in Sodexho (Hong Kong) Limited, our associate, was sold in August 2002 for a consideration of $14,000,000, yielding a gain on disposal of $2,485,000.

6. Taxation

	Six months ended 30th September, 2002 $'000	2001 $'000
Hong Kong taxation	19,808	16,205
Overseas taxation	1,387	1,090
Deferred taxation	112	749
	21,307	18,044
Share of associate's taxation	(21)	6
	21,286	18,050

The provision for Hong Kong profits tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

7. Dividends

(a) Dividend attributable to the interim period

	Six months ended 30th September, 2002 $'000	2001 $'000
Interim dividend declared after the interim period end of 2.8 cents per share (2001: 2.8 cents per share)	27,275	27,233

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

(b) Dividend attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30th September, 2002 $'000	2001 $'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 5.1 cents per share (2001: 5.1 cents per share) (note 14)	49,679	49,701

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $79,519,000 (2001 restated: $47,573,000) and the weighted average number of 973,656,000 ordinary shares (2001: 974,417,000 ordinary shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of $79,519,000 (2001 restated: $47,573,000) and the weighted average number of 978,682,000 ordinary shares (2001: 976,113,000 ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares.

8. **Earnings per share** *(continued)*

(c) ***Reconciliation***

	Six months ended 30th September, 2002 Number of shares '000	2001 Number of shares '000
Weighted average number of ordinary shares used in calculating basic earnings per share	973,656	974,417
Deemed issue of ordinary shares for no consideration arising from share options	5,026	1,696
Weighted average number of ordinary shares used in calculating diluted earnings per share	978,682	976,113

9. **Inventories**

Included in the inventories of the Group, there are raw materials and finished goods stated net of provisions, at the lower of their cost and estimated net realisable value, as follows:

	At 30th September, 2002 $'000	At 31st March, 2002 $'000
Raw materials	20,733	23,190
Finished goods	—	219

10. **Trade and other receivables**

	At 30th September, 2002 $'000	At 31st March, 2002 $'000
Trade debtors and bills receivable	310,439	290,458
Deposits, prepayments and other debtors	36,619	31,845
Current portion of long-term loan (note 17(a))	2,215	5,385
	349,273	327,688

10. Trade and other receivables *(continued)*

The ageing analysis of trade debtors and bills receivable (net of provisions for bad and doubtful debts) is as follows:

By date of invoice	At 30th September, 2002 *$'000*	At 31st March, 2002 *$'000*
0-3 months	279,180	250,943
4-6 months	30,357	38,444
Over 6 months	902	1,071
	310,439	290,458

Credit terms given to customers vary and are generally based on the financial strength of individual customer. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

11. Cash and cash equivalents and bank deposits

	At 30th September, 2002 *$'000*	At 31st March, 2002 *$'000*
Cash at bank and on hand	72,487	35,062
Bank deposits maturing within three months	266,839	315,075
Cash and cash equivalents	339,326	350,137
Bank deposits maturing after three months but within one year	—	87,050
Bank deposits maturing after one year	70,000	—
	409,326	437,187

At 30th September, 2002, no cash and cash equivalents of the Group were pledged as security for liabilities (31st March, 2002: $8,031,000).

12. Trade and other payables

	At 30th September, 2002 *$'000*	Restated At 31st March, 2002 *$'000*
Trade creditors and bills payable	160,412	150,455
Accrued expenses and other payables	159,542	149,413
Provision for retirement gratuities and long service payments	55,221	17,300
	375,175	317,168

12. Trade and other payables *(continued)*

The ageing analysis of trade creditors and bills payable is as follows:

By date of invoice	At 30th September, 2002 $'000	At 31st March, 2002 $'000
0-3 months	155,943	145,723
4-6 months	1,674	4,641
Over 6 months	2,795	91
	160,412	150,455

13. Share capital

	At 30th September, 2002		At 31st March, 2002	
	Number of shares '000	Amount $'000	Number of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.25 each	3,200,000	800,000	3,200,000	800,000
Issued and fully paid:				
At 1st April	972,596	243,148	974,526	243,631
Shares issued on exercise of share options	1,500	375	—	—
Shares repurchased (note 14)	—	—	(1,930)	(483)
	974,096	243,523	972,596	243,148

During the period, options were exercised to subscribe for 1,500,000 ordinary shares in the Company at a consideration totalling $1,746,000, of which $375,000 was credited to share capital and the balance of $1,371,000 (note 14) was credited to the share premium account.

At 30th September, 2002, options to subscribe for 29,117,250 ordinary shares under the Company's share option scheme were unexercised (31st March, 2002: 31,848,000 ordinary shares). The options may be exercised in periods up to 31st July, 2003 and 31st August, 2005 at prices of $1.104 and $1.193 per share respectively.

14. Reserves

	Share Premium	Capital Reserve	Exchange Reserve	Capital Redemption Reserve	Legal Reserve	General Reserve	Retained Profits	Total
At 1st April, 2001 as previously reported	267,574	108,261	(35,853)	618	2,928	2,261	588,455	934,244
Prior period adjustment in respect of employee benefits (note 2)	—	—	—	—	—	—	(8,214)	(8,214)
At 1st April, 2001 as restated	267,574	108,261	(35,853)	618	2,928	2,261	580,241	926,030
Profit for the period (restated)							86,516	86,516
Transfer from retained profits to legal reserve					2,480		(2,480)	—
Transfer from capital reserve to retained profits		(4,086)					4,086	—
Dividend approved in respect of the previous year (note 7(b))							(49,701)	(49,701)
Dividend declared in respect of the current year (note 7(a))							(27,233)	(27,233)
Repurchase of own shares (note 13)				483			(2,115)	(1,632)
Exchange differences arising on consolidation			3,576					3,576
At 31st March, 2002	267,574	104,175	(32,277)	1,101	5,408	2,261	589,314	937,556
At 1st April, 2002 as previously reported	267,574	104,175	(32,277)	1,101	5,408	2,261	597,943	946,185
Prior period adjustment in respect of employee benefits (note 2)	—	—	—	—	—	—	(8,629)	(8,629)
At 1st April, 2002 as restated	267,574	104,175	(32,277)	1,101	5,408	2,261	589,314	937,556
Profit for the period							79,519	79,519
Net premium on shares issued on exercise of share options (note 13)	1,371							1,371
Transfer from capital reserve to retained profits		(2,043)					2,043	—
Dividend approved in respect of the previous year (note 7(b))							(49,679)	(49,679)
Exchange differences arising on consolidation			(1,692)					(1,692)
At 30th September, 2002	268,945	102,132	(33,969)	1,101	5,408	2,261	621,197	967,075

14. Reserves *(continued)*

(i) The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) The exchange reserve has been set up and will be dealt with in accordance with the accounting policy adopted for translation of the financial statements of foreign subsidiaries.

(iii) The legal reserve has been set up by Shenzhen Vitasoy (Guang Ming) Foods and Beverage Company Limited and Vitasoja (Macau) Limitada in accordance with the regulations in the People's Republic of China and Macau respectively.

(iv) As part of the restructuring of the Group in February 1994, the Company disposed of a property to a former subsidiary and consideration was received in the form of cash and another property. A total gain, representing the difference between the historical carrying value of the property disposed of and the fair value of the consideration received, resulted.

The gain arising from this transaction was divided into realised and unrealised portions in the ratio of the amount of cash and the fair value of the property received ("the property"). The unrealised gain was taken to capital reserve and is realised on depreciation of the property. During the period, $2,043,000 (year ended 31st March, 2002: $4,086,000) is transferred from capital reserve to retained profits.

15. Capital commitments

	At 30th September, 2002 *$'000*	At 31st March, 2002 *$'000*
Contracted for	**6,409**	226
Authorised but not contracted for	**33,805**	58,164
	40,214	58,390

16. Contingent liabilities

Two remaining claims were filed against Nasoya Foods Inc. ("NFI"), one of the Company's subsidiaries, relating to a traffic accident that occurred in 2000. At 30th September, 2002, NFI has established a provision for claims, amounting to $1,561,000, which is in excess of the insurance coverage. In the opinion of management, this matter is not anticipated to have a material adverse effect on the financial position, result of operations, or cash flows of the Group.

17. Material related party transactions

(a) Pursuant to an agreement entered into on 20th January, 2000, which was disclosed as a connected transaction under the Listing Rules, the Company has a commitment to provide financial assistance of up to $30,000,000 to Shenzhen Guang Ming Holdings Limited ("Guang Ming"), formerly known as "Guang Ming Farm", the minority shareholder of the Company's subsidiary, Shenzhen Vitasoy (Guang Ming) Foods and Beverage Company Limited. Guang Ming has drawn loans totalling $20,000,000 under this agreement and part of them have been repaid. As at 30th September, 2002, the outstanding loans amounted to $2,215,000 (31st March, 2002: $5,385,000) (note 10), are interest-bearing and are repayable within one year. The Company has financed the loans with bank facilities established for this purpose. The balance of the utilised banking facilities as at 30th September, 2002 is included in bank loans and bank overdrafts under current liabilities.

17. Material related party transactions *(continued)*

(b) During the period, the products of the Group are distributed by a related party in Australia and a management fee is charged as a consideration of the provision of services. The management fee is calculated based on a pre-determined percentage of the gross sales of products distributed by the related party, which is on normal commercial terms and is on terms comparable to the prevailing market rate. Total management fee charged by the related party for the period amounted to $1,081,000 (2001: $999,000). The amount due to the related party as at 30th September, 2002 amounted to $902,000 (31st March, 2002: $250,000). This transaction also constitutes a connected transaction under the Listing Rules.

18. Post balance sheet events

(a) In addition to the defined contribution retirement benefit plan and mandatory provident fund as disclosed in the 2001/2002 annual financial statements, the Group has set up a fund named as "Vitasoy International Holdings Limited Defined Benefit Scheme" for retirement gratuities on 1st November, 2002. Certain employees, who completed a prescribed minimum period of services and joined the Group before specific dates, are entitled to the retirement gratuities upon retirement age. The gratuity is based on the last month's salary and the number of years of service. Assets held by the fund are legally separated from the Group and exist solely to pay or fund the retirement benefits. They are not available to the Group's own creditors and cannot be returned to the Group, unless either the remaining assets of the fund are sufficient to meet all the related obligations of the retirement plan or the assets are returned to the Group to reimburse it for retirement benefits already paid.

(b) After the balance sheet date, the Directors declared an interim dividend. Further details are disclosed in note 7.

19. Comparative figures

Comparative figures have been restated and reclassified based on the adoption of new accounting standards as set out in note 2.

20. Approval of interim financial report

The interim financial report was approved by the Board on 4th December, 2002.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE MAIN BOARD LISTING RULES

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.8 cents per share for the year ending 31st March, 2003 (2002: HK2.8 cents per share), to shareholders whose names appear on the Register of Members at the close of business on Friday, 20th December, 2002. Dividend warrants will be sent to shareholders on or about Tuesday, 31st December, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23rd to 24th December, 2002, both days inclusive, during which period no transfers of shares will be effected. To determine entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 20th December, 2002.

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

The Directors who held office at 30th September, 2002 had the following interests in the issued share capital of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) at that date as recorded in the register as required under section 29 of the SDI Ordinance or notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:—

	Type of interests and number of ordinary shares of HK$0.25 each				
Director	Personal interests	Family interests	Corporate interests	Other interests	Total interests
Mr. Winston Yau-lai LO (Notes 1, 5 & 6)	11,188,500	28,702,500	—	109,670,550	149,561,550
Mr. Frank Yau-yee LO (Notes 2 & 6)	461,250	—	—	112,140,750	112,602,000
Ms. Yvonne Mo-ling LO (Notes 3 & 6)	31,866,450	843,750	—	72,678,300	105,388,500
Ms. Myrna Mo-ching LO (Notes 4 & 6)	—	—	27,974,700	72,678,300	100,653,000
Mr. Chi-kian SHIU (Note 5)	3,281,400	—	—	4,426,950	7,708,350

Director	Personal interests	Type of interests and number of ordinary shares of HK$0.25 each Family interests	Corporate interests	Other interests	Total interests
Mr. John Shek-hung LAU (Note 5)	15,000	—	—	4,426,950	4,441,950
Mr. Eric Fat YU (Note 5)	75,000	—	—	4,426,950	4,501,950
Mr. Fransis Ming-yin KONG (Note 5)	3,000	—	—	4,426,950	4,429,950
Dr. David Kwok-po LI	2,000,000	—	—	—	2,000,000

Notes:—

1. Mr. Winston Yau-lai LO is interested in 32,565,300 shares held by The Bank of East Asia (Nominees) Limited, 1,875,000 shares held by his wife and 26,827,500 shares held by HKSCC Nominees Limited in trust for his wife.

2. Mr. Frank Yau-yee LO is interested in 39,462,450 shares held by Benson Corporation which is the trustee of the Benson Unit Trust, the beneficiaries of which are members of his family.

3. Ms. Yvonne Mo-ling LO is interested in 843,750 shares held in the name of Ms. Yvonne WONG who holds the shares in trust for Ms. Yvonne Mo-ling LO's daughter who is under the age of 18.

4. Ms. Myrna Mo-ching LO is interested in 27,974,700 shares held by Supreme Luck Holdings Limited which in turn holds such shares in trust for The Lo Kwee Seong 1987 Trust. Ms. Myrna Mo-ching LO is a director of Supreme Luck Holdings Limited.

5. Each of Mr. Winston Yau-lai LO, Mr. Chi-kian SHIU, Mr. John Shek-hung LAU, Mr. Eric Fat YU and Mr. Fransis Ming-yin KONG are trustees of the Group's staff provident fund scheme, which holds 4,426,950 shares, and are therefore deemed to be interested in such shares.

6. Each of Mr. Winston Yau-lai LO, Mr. Frank Yau-yee LO, Ms. Yvonne Mo-ling LO and Ms. Myrna Mo-ching LO are interested in 72,678,300 shares held by The Bank of East Asia (Nominees) Limited which holds such shares as a nominee for the K. S. Lo Foundation. Each of them are trustees of the K. S. Lo Foundation and are therefore deemed to be interested in such shares.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company, none of the Directors or their respective associates had any interest in any shares in or debentures of the Company or any of its associates within the meaning of the SDI Ordinance.

The Directors of the Company had personal interests in options to subscribe for ordinary shares of HK$0.25 each in the Company under the share option scheme. Particulars of the Directors' interests in options during the period and as at 30th September, 2002 are set out in the section "Share Option Scheme" below.

SHARE OPTION SCHEME

On 4th September, 2002, the Company adopted a new share option scheme (the "New Share Option Scheme") whereby the Directors may, at their discretion, invite any eligible participant (including a director of the Company or any of the subsidiaries, and any executive or employee of the Company or any of the subsidiaries) to subscribe for shares. As at 30th September, 2002, the Company had not granted any options under the New Share Option Scheme.

Meanwhile, the share option scheme adopted by the Company on 9th March, 1994 (the "Old Share Option Scheme") was terminated on 4th September, 2002. However, the options granted under the Old Share Option Scheme will remain in full force and effect. Particulars of share options outstanding during the period and as at 30th September, 2002 are as follows:—

Participants	Date granted	Period during which options are exercisable	Price per share on exercise of options HK$	Number of options at the beginning of the period	Number of options exercised during the period	Number of options forfeited during the period on resignation/ termination of employment of eligible employees	Number of options outstanding at the period end
Directors							
Mr. Winston Yau-lai LO	28/6/1998	1/8/1998 - 31/7/2003	1.104	2,737,500	Nil	Nil	2,737,500
	4/7/2000	7/9/2000 - 31/8/2005	1.193	3,450,000	Nil	Nil	3,450,000
Mr. Eric Fat YU	28/6/1998	1/8/1998 - 31/7/2003	1.104	1,245,000	Nil	Nil	1,245,000
	4/7/2000	7/9/2000 - 31/8/2005	1.193	1,953,000	Nil	Nil	1,953,000
Mr. John Shek-hung LAU	28/6/1998	1/8/1998 - 31/7/2003	1.104	1,305,000	Nil	Nil	1,305,000
	4/7/2000	7/9/2000 - 31/8/2005	1.193	1,953,000	Nil	Nil	1,953,000
Mr. Fransis Ming-yin KONG	28/6/1998	1/8/1998 - 31/7/2003	1.104	1,478,250	Nil	Nil	1,478,250
	4/7/2000	7/9/2000 - 31/8/2005	1.193	2,331,000	Nil	Nil	2,331,000
Eligible employees working under	28/6/1998	1/8/1998 - 31/7/2003	1.104	3,527,250	478,000	750	3,048,500
employment contracts	4/7/2000	7/9/2000 - 31/8/2005	1.193	11,868,000	1,022,000	1,230,000	9,616,000

Details of options exercised to subscribe for ordinary shares in the Company during the six months ended 30th September, 2002 are as follows:—

Participant	Date granted	Number of options	Price per share on exercise of options *HK$*	Weighted average closing price# *HK$*
Eligible employees working under employment contracts	28/6/1998	478,000	1.104	1.320
	4/7/2000	1,022,000	1.193	1.442

\# The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised.

None of the Directors has exercised their options to acquire shares during the period.

Apart from the above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified, in addition to Mr. Winston Yau-lai LO, Mr. Frank Yau-yee LO, Ms. Myrna Mo-ching LO and Ms. Yvonne Mo-ling LO as set out in the section "Directors' Interests in Shares and Rights to Acquire Shares" above, of the following interests in the Company's issued shares at 30th September, 2002 amounting to 10% or more of the shares in issue, as recorded in the register required to be kept pursuant to section 16(1) of the SDI Ordinance (including interests which they are taken and deemed to have under that Ordinance) :—

Name of shareholder	Ordinary shares of HK$0.25 each	% of total issued shares
Mr. Peter Tak-shing LO	127,197,000	13.06%
Ms. Irene CHAN	101,403,000	10.41%

Both Mr. Peter Tak-shing LO and Ms. Irene CHAN are interested in 72,678,300 shares held by The Bank of East Asia (Nominees) Limited which holds such shares as a nominee for the K. S. Lo Foundation. They are both the trustees of the K. S. Lo Foundation and are therefore deemed to be interested in such shares.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th September, 2002.

AUDIT COMMITTEE

The Committee was established in November 1998 and comprises two Independent Non-executive Directors and one Non-executive Director, with written terms of reference.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial report, which has not been audited.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period for the six months ended 30th September, 2002, in compliance with the Code of Best Practice set out by The Stock Exchange of Hong Kong Limited in Appendix 14 of the Main Board Listing Rules.

By Order of the Board
Winston Yau-lai LO
Executive Chairman

Hong Kong, 4th December, 2002

VITASOY INTERNATIONAL HOLDINGS LTD.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF VITASOY INTERNATIONAL HOLDINGS LIMITED

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 12 to 26.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2002.

KPMG
Certified Public Accountants

Hong Kong, 4th December, 2002