



Press Release

Vitasoy reports 42% net profit growth: Successful implementation of market driven and customer-oriented strategy

Hong Kong, 6 July 2006 — Vitasoy International Holdings Limited (VIHL, or "the Group") (SEHK Code: 0345), a Hong Kong-based manufacturer and distributor of non-carbonated beverage and food, today announced that its profit attributable to shareholders for the year ending 31 March 2006 amounted to HK\$172 million, representing a significant increase of 42.1% over the preceding year. The Group recorded a consolidated turnover of HK\$2,520 million, up 5.9% from the previous year.

Mr. Winston Yau-lai Lo, Executive Chairman of VIHL said, "Taking advantage of the improved operating environment in our major markets, we managed to execute successfully a focused business strategy worldwide. The remarkable growth in profit was mainly attributed to our new product launches and product innovation. Moreover, proactive approaches in marketing and brand reinforcement, increased efforts in global expansion and strengthening of distribution network contributed to enhancement in the Group's earnings power. Meanwhile, stringent cost control and improved productivity also underpinned the gain in our Group's profitability."

The Group reported an 8.3% increase in gross profit to HK\$1,481 million during the year, compared to HK\$1,368 million for the previous year. The gross profit margin increased to 58.8% against 57.5% one year ago. "The strengthening of gross margin well illustrated our success in launching value-added products, capitalising on our brand portfolio and leveraging on business volume growth," said Mr. Lo.

The Group's basic earnings per share were HK17.2 cents, compared to HK12.2 cents a year ago. The Board of Directors has proposed a final dividend of HK6.7 cents per share (2004/2005: HK5.7 cents per share), which together with the interim dividend of HK2.8 cents per share (2004/2005: HK2.8 cents per share) makes a total dividend of HK9.5 cents per share (2004/2005: HK8.5 cents per share) for the year ending 31 March 2006. In view of the Group's strong balance sheet and healthy cash flow, the Directors also recommend a special dividend of HK10.0 cents per share. (2004/2005: HK10.0 cents per share).

When reviewing major markets of the Group, Mr. Lo said, "In the Hong Kong market, after a relatively slow first half, Vitasoy regained growth momentum in the second half and achieved a sales growth of 10.0%, thereby lifting the full year sales growth to a modest 3.9%. This growth reflected significant efforts in product innovation. Launch of new varieties targeting new market segments, along with efforts in marketing and distribution, have strengthened Vitasoy's leading position in a variety of beverage categories. Export sales recorded a 14.5% growth after the appointment of more new distributors."

Vitasoy's tuck shop business consolidated its market leadership during the review period. The sales volume in the tuck shop business grew by 8.8% while the school meal business recorded a 24.6% increase in volume.

Mr. Lo said, "The looming inflation will put pressure on the domestic market. Moreover, price competition and cost management remain key challenges. Despite these, Vitasoy plans to increase market share by leveraging the brand portfolio and strengthening existing brands. Product and packaging innovation, marketing and promotion, and the use of innovative and effective advertising campaigns remain our key strategies."

During the review year, Vitasoy actively repositioned its brand towards "healthy eating made delicious and convenient" in the North American market and succeeded in growing and reinforcing its market leadership in the water-packed tofu category. Revenue generated from the North American market increased by 2.0% year-on-year, excluding the sales of exited products.

"This was the first full year of operation after the rationalization initiatives taken in the previous financial year. We have successfully further narrowed our operating losses and improved our profit margins in the North American operation. Vitasoy plans to ride on product innovation to drive sales of tofu and to consolidate its market leadership position. We also intend to grow the aseptic soymilk segment through product innovation and flexible pricing," Mr. Lo commented on the U.S. business.



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Vitasoy recorded a robust 28.6% sales growth in the Mainland China market, with the successful implementation of a focused strategy of "core business, core brand and core competency," Mr. Lo said, "We achieved more efficient product distribution with better outlet management, particularly in Southern China. Our brand building initiatives in this market have also been bearing fruit with stronger brand awareness and higher consumer off-take."

Mr. Lo added, "The fact that the Chinese government is supporting rural development, may imply that opportunities exist for greater penetration into smaller cities and big towns. Vitasoy will exploit these new opportunities by capitalizing on existing sales and marketing capabilities. We will further increase the utilization rate of our production plants through the co-packaging business. Moreover, we will enrich product offerings in the Mainland market from Hong Kong imports through the CEPA arrangements."

In Australia and New Zealand, Vitasoy gained substantially from a successful launch of new products, strong marketing programme and effective retail pricing strategy, thereby sustaining robust growth in terms of sales and profitability, as well as market share. Revenue and profit increased by 37.2% and 160.0% respectively.

"We continued customer education on the benefits of soymilk by working closely with naturopaths, dieticians and physicians. Vitasoy enjoyed a strong reputation as a supplier of high quality products in Australia and New Zealand," Mr. Lo said.

Mr. Lo remarked, "We expect the market there to sustain healthy growth in sales, profitability and market share in the coming year. We will reinforce VITASOY's position as "the soy expert" and continue to focus on developing new products in the "value soy beverage" area and add new flavours. To meet the demand for both existing and new products, we have already commenced an expansion programme for the Wodonga plant." The capacity expansion programme will double the volume capability and is planned for completion in the second half of 2006/2007.

Looking ahead, Mr. Lo said, "Vitasoy will continue to strive as the preferred choice for customers by pursuing a market-driven and customer-oriented strategy with a focus on brand building, product innovation and aggressive marketing and promotion. However, rising oil prices and raw material costs, inflation and volatile interest rates remain key challenges. We will maintain disciplined cost control to achieve greater cost efficiency and explore new business opportunities in order to bring in higher shareholders' value."

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Vitasoy International Holdings Limited is one of the leading manufacturers and distributors of non-carbonated drinks with a base in Hong Kong. Founded in 1940 and with production facilities in Hong Kong, Mainland China, the United States and Australia, Vitasoy has successfully developed and launched nearly 300 products in different forms and sizes. Vitasoy products are consumed in over 30 markets throughout the world. Vitasoy is currently a constituent of Morgan Stanley Capital International ("MSCI") Hong Kong Small Cap Index, Hang Seng Composite Index, Hang Seng HK SmallCap Index, and Hang Seng Composite Industry Indexes - Consumer Goods.

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