



# Press Release

## **Vitasoy reports healthy rebound in interim net profit** *Focused strategy to tap growth potential in major markets*

Hong Kong, 14 December 2004 — Vitasoy International Holdings Limited ("VIHL" or "the Group") (SEHK Code: 0345), a Hong Kong-based manufacturer and distributor of non-carbonated beverages and food, today announced that its interim net profit for the six months ending 30 September 2004 amounted to HK\$68 million, up 25.9% from the same period last year.

The Group achieved a consolidated turnover of HK\$1,234 million, representing an increase of 8.0% over the previous year. The period under review recorded a non-recurring item resulting from rationalization measures in the United States. As at September 2004, the Group recognized an impairment loss on fixed assets amounting to HK\$12 million. Excluding this non-recurring item, the Group's profit attributable to shareholders grew by 48.0% to HK\$80 million.

Mr. Winston Yau-lai Lo, Executive Chairman of VIHL said, "Through the concerted effort of our various operations worldwide, we have been able to achieve healthy sales growth, effective supply chain management and higher productivity. All these initiatives helped counteract the negative impact of the rising costs of raw materials. Improvement in operating results was registered in all markets."

The Group reported an 11.8% increase in gross profit to HK\$729 million during the first half, compared to HK\$652 million for the same period last year. The gross profit margin increased to 59.1% against 57.0% in the same period one year ago.

The Group's basic earnings per share were HK6.9 cents (2003/04 interim: HK5.5 cents per share). In view of the Group's strong balance sheet, the Board of Directors has declared an interim dividend of HK2.8 cents per share (2003/04 interim: HK2.8 cents per share).

Reviewing the Group's major markets, Mr. Lo said, "Sales in the Hong Kong market recorded 13.3% growth during the review period, primarily because of a low basis for comparison and launches of new products, especially tea-based beverages, which were well received by consumers."

Strong growth in the opening of school tuck-shops was another contributor to interim performance. The number of tuck shops managed by the Group's wholly owned subsidiary Vitaland Services Limited increased to 303 by the end of September 2004, representing an increase of 18.4% year on year.

For the North American market, the Group registered a year-on-year sales drop of 2.4%. It was mainly due to the decline in aseptic soymilk sales. Yet, the Group achieved significant sales growth in seasoned tofu and, with wider distribution, the Group's tofu sales grew at a rate of 10.3%.

The Group has launched a series of rationalization measures to streamline operations in the US. Key areas for rationalization in North America included closing the ageing US West Coast tofu plant and exiting from the unprofitable fresh soymilk market, he added.

These initiatives are aimed at establishing a foundation for improving the contribution over the long term. "Upon rationalizing our production facilities, we expect ongoing annual savings from the consolidation of the US operations to be more than HK\$10 million," Mr. Lo said.

There will be a one-off charge of approximately HK\$9 million in the second half of the current financial year associated with the consolidation, including items such as shutdown costs, severance and asset relocation.

After careful competitive analysis, the Group decided to withdraw from the US refrigerated soymilk market and devote more resources to the development of new value-added products.

The two moves are an integral part of the Group's plan to become a more market-oriented company and simultaneously improve the production efficiency of the US operation.



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In China, the soymilk market remained soft during the review period, facing strong price pressure from competitors, despite continuing growth in the non-alcoholic ready-to-drink beverage market.

The Group's revenue generated from the China market totaled HK\$71 million during the review period, down 22.8% from the same period last year. "The decrease in turnover was mainly due to a change in business strategy to focus on higher profit margin products," Mr. Lo said.

The "core business, core brand and core competency" strategy helped the Group's China operation to report a 35.7% increase in operating profit to HK\$38 million.

Performance in Australia and New Zealand has emerged as a bright spot for Vitasoy. The Australian soy beverage market has been growing again after a year of consolidation. The growth of Vitasoy's Australian and New Zealand business during the period was mainly driven by rice milk and flavoured soymilk, but price competition remained very keen with heavy discounting.

During the review period, the Group's revenue generated from the Australian and New Zealand markets amounted to HK\$70 million, up 34.6% year on year. This improvement was the result of greater emphasis on product innovation and more creative marketing. Total sales grew by 32% in volume and 27% in local currency terms.

Due to higher sales and improved manufacturing efficiency, profit derived from the Australian operation amounted to HK\$6 million, reversing the HK\$4 million loss in the same period last year. The Group's joint-venture plant in Wodonga, Victoria generated HK\$67 million in revenue, up 39.6% from the same period last year.

Looking forward, Mr. Lo said, "While the local and global economies appear to be on track to gradual recovery, we are alert to the intense competition in the non-alcoholic beverage market."

He expects Hong Kong's retail environment in the second half of the year to remain tough against a background of escalating raw material costs and intensifying competition.

"Solid financial resources coupled with strong brand equity and quality management will help the Group to ride out the challenges in the marketplace ahead. We shall continue our focused business development strategy around the world through brand enhancement, product innovation, aggressive marketing and in-store promotion to ensure the overall growth momentum," said Mr. Lo.

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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 that are consumed in over 30 markets throughout the world.

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