維他奶國際集團有限公司

VITASOY INTERNATIONAL HOLDINGS LTD.

(Incorporated in Hong Kong with limited liability)

(Stock code: 345)

ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31ST MARCH, 2008

HIGHLIGHTS

- Net sales revenue in Fiscal 2007/2008 was HK$2,416 million, up 15% from HK$2,109 million in 2006/2007 (note).

- Gross profit for the year was HK$1,131 million, up HK$152 million or 16%. Owing to stringent control of cost of sales, gross profit margin was able to be maintained at 46%.

- EBITDA for the year was HK$391 million, up HK$47 million or 14%. EBITDA margin to net sales was maintained at 16%.

- Profit attributable to equity shareholders of the Company was HK$211 million, representing an increase of 21% from Fiscal 2006/2007.

- Country Achievements: solid business performance in Hong Kong, remarkable sales growth in Mainland China, increased market share in Australia, narrowed loss in North America and acquisition of Unicurd in Singapore.

(note) In line with the industry practice, the Group began to show its turnover figure on net sales basis (i.e. gross sales less return, rebate and discount) in 2007/2008. Comparative figure for 2006/2007 was restated accordingly.

RESULTS

The Board of Directors (the "Board") of Vitasoy International Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2008, together with the comparative figures for the previous financial year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2008

	Note	**2008** HK$'000	2007 HK$'000
Turnover	2(b), 3 & 4	**2,416,384**	2,109,136
Cost of sales		**(1,285,562)**	(1,130,130)
Gross profit		**1,130,822**	979,006
Other revenue	5	**61,820**	51,740
Marketing, selling and distribution expenses		**(541,301)**	(468,655)
Administrative expenses		**(179,878)**	(166,104)
Other operating expenses		**(170,786)**	(145,472)
Profit from operations		**300,677**	250,515
Finance costs	6(a)	**(8,865)**	(8,068)
Profit before taxation	6	**291,812**	242,447
Income tax	7	**(55,831)**	(41,135)
Profit for the year		**235,981**	201,312
Attributable to:			
Equity shareholders of the Company		**211,208**	173,901
Minority interests		**24,773**	27,411
Profit for the year		**235,981**	201,312
Dividends	8(a)	**217,929**	196,865
Earnings per share	9		
Basic		**20.9 cents**	17.3 cents
Diluted		**20.8 cents**	17.2 cents

CONSOLIDATED BALANCE SHEET

At 31st March, 2008

	Note	**2008** HK$'000	**2008** HK$'000	2007 HK$'000	2007 HK$'000
Non-current assets					
Fixed assets					
- Property, plant and equipment			**757,086**		749,306
- Investment property			**9,352**		9,878
- Interests in leasehold land held for own use under operating leases			**7,505**		5,388
			773,943		764,572
Employee retirement benefit assets			**3,327**		2,220
Deferred tax assets			**4,249**		6,374
Other financial asset			**-**		14,347
			781,519		787,513
Current assets					
Inventories		**268,417**		212,298	
Trade and other receivables	10	**421,295**		392,910	
Current tax recoverable		**675**		-	
Bank deposits		**18,962**		23,984	
Cash and cash equivalents		**529,799**		461,726	
		1,239,148		1,090,918	
Current liabilities					
Trade and other payables	11	**458,677**		379,533	
Bank loans (unsecured)		**47,190**		27,005	
Obligations under finance leases		**6,873**		7,533	
Current tax payable		**19,443**		7,361	
		532,183		421,432	
Net current assets			**706,965**		669,486
Total assets less current liabilities			**1,488,484**		1,456,999
Non-current liabilities					
Bank loans (unsecured)		**21,419**		69,960	
Obligations under finance leases		**29,146**		27,773	
Employee retirement benefit liabilities		**2,034**		2,418	
Deferred tax liabilities		**12,036**		11,360	
			64,635		111,511
NET ASSETS			**1,423,849**		1,345,488
CAPITAL AND RESERVES					
Share capital			**252,894**		251,759
Reserves			**1,052,490**		1,002,602
Total equity attributable to equity shareholders of the Company			**1,305,384**		1,254,361
Minority interests			**118,465**		91,127
TOTAL EQUITY			**1,423,849**		1,345,488

Notes:

1. Basis of preparation

The consolidated results set out in this announcement do not constitute the Group's statutory financial statements for the year ended 31st March, 2008 but are extracted from those financial statements.

The statutory financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial assets at fair value through profit or loss are stated at their fair values.

2. Changes in accounting policies

(a) The HKICPA has issued certain new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group.

There have been no significant changes to the accounting policies applied in the financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

(b) In prior years, the Group's turnover represented the gross sales value less returns. During the year, the Group has changed its turnover policy by netting off rebates and discounts against turnover so as to follow industry practice. Under the new policy, turnover represented the invoiced value of products sold, net of returns, rebates and discounts. As a result of such change, the Group's turnover for the year has been reduced by HK$622,274,000 (2007: HK$584,325,000). This new policy does not have impact on the Group's results of operations and financial position.

3. Turnover

The principal activities of the Group are the manufacture and sale of food and beverages. Turnover represents the invoiced value of products sold, net of returns, rebates and discounts.

4. Segment reporting

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of assets is chosen because this is in line with the Group's internal management information reporting system.

No business segment analysis of the Group is presented as all the Group's turnover and trading result are generated from the manufacture and sale of food and beverages.

	Hong Kong		**Mainland China**		**Australia and New Zealand**		**North America**		**Unallocated**		**Consolidated**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**1,280,705**	1,099,407	**511,572**	473,819	**279,752**	217,374	**344,355**	318,536	**-**	-	**2,416,384**	2,109,136
Other revenue from external parties	**3,861**	5,955	**37,112**	28,632	**-**	-	**-**	54	**20,847**	17,099	**61,820**	51,740
Total revenue	**1,284,566**	1,105,362	**548,684**	502,451	**279,752**	217,374	**344,355**	318,590	**20,847**	17,099	**2,478,204**	2,160,876
Segment result	**235,027**	221,620	**75,752**	76,766	**57,468**	40,337	**(22,547)**	(49,357)			**345,700**	289,366
Unallocated operating income and expenses											**(45,023)**	(38,851)
Profit from operations											**300,677**	250,515
Finance costs											**(8,865)**	(8,068)
Income tax											**(55,831)**	(41,135)
Profit for the year											**235,981**	201,312
Depreciation and amortisation for the year	**49,925**	47,722	**24,197**	31,252	**19,651**	15,767	**13,883**	15,131			**107,656**	109,872
Impairment losses on trade and other receivables	**16**	(1,168)	**180**	(206)	**3,079**	451	**125**	927			**3,400**	4
Segment assets	**694,910**	661,632	**393,484**	349,247	**288,233**	253,593	**213,698**	210,421			**1,590,325**	1,474,893
Unallocated assets											**430,342**	403,538
Total assets											**2,020,667**	1,878,431
Segment liabilities	**220,610**	186,304	**160,001**	131,373	**41,908**	28,562	**29,340**	28,224			**451,859**	374,463
Unallocated liabilities											**144,959**	158,480
Total liabilities											**596,818**	532,943
Capital expenditure incurred during the year	**44,136**	63,762	**38,020**	18,795	**1,863**	47,554	**3,959**	4,828			**87,978**	134,939

4. Segment reporting (continued)

Revenue from external customers by location of customers is as follows:

	2008	2007
	HK$'000	HK$'000
Hong Kong	**1,259,376**	1,195,114
Mainland China	**363,131**	228,554
Australia and New Zealand	**285,208**	221,987
North America	**409,030**	379,177
Others	**99,639**	84,304
	2,416,384	2,109,136

5. Other revenue

	2008	2007
	HK$'000	HK$'000
Interest income	**17,204**	16,674
Service fee	**37,453**	28,965
Rental income	**2,091**	2,090
Change in fair value of financial asset at fair value through profit or loss	**1,294**	324
Sundry income	**3,778**	3,687
	61,820	51,740

6. Profit before taxation

Profit before taxation is arrived at after charging:

	2008	2007
	HK$'000	HK$'000
(a) Finance costs:		
Interest on bank loans	**5,671**	6,899
Finance charges on obligations under finance leases	**3,194**	1,169
	8,865	8,068
(b) Other items:		
Amortisation of interests in leasehold land held for own use under operating leases	**279**	227
Depreciation		
- assets leased out under operating leases	**526**	527
- assets acquired under finance leases	**7,343**	4,884
- other assets	**99,508**	104,234
Impairment losses on trade and other receivables	**3,400**	4
Cost of inventories	**1,369,545**	1,226,120

7. Income tax

Income tax in the consolidated income statement represents:

	2008 HK$'000	2007 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**38,016**	32,831
Under/(over)-provision in respect of prior years	**294**	(539)
	38,310	32,292
Current tax – Outside Hong Kong		
Provision for the year	**14,062**	6,199
Under-provision in respect of prior years	**98**	50
	14,160	6,249
Deferred tax		
Origination and reversal of temporary differences	**4,590**	2,594
Effect of change in tax rate on deferred tax balance (notes (i) and (ii))	**(1,229)**	-
	3,361	2,594
	55,831	41,135

The provision for Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Notes:

(i) On 27th February, 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from fiscal year of 2008/2009 and a one-off reduction of 75% of the tax payable for the 2007/2008 assessment subject to a ceiling of HK$25,000. As a result of the above change, current tax payable of the Group and the Company decreased by HK$75,000 and HK$25,000 respectively; and the deferred tax liabilities of the Group and the Company decreased by HK$697,000 and HK$671,000 respectively.

(ii) On 16th March, 2007, the National People's Congress passed the Corporate Income Tax Law of the PRC (the "new tax law"). Under the new tax law, the statutory income tax rate applicable to the Company's subsidiary in Shenzhen is changed from 15% to 25% progressively within five years from 1st January, 2008 (2008: 18%; 2009: 20%; 2010: 22%; 2011: 25%). For the subsidiary located in Shanghai, the statutory income tax rate is changed from 27% to 25% from 1st January, 2008 and that subsidiary starts its two years' tax holiday from 1st January, 2008 and thereafter enjoys a tax relief of 50% reduction in the income tax rate for a period of 3 years commencing 1st January, 2010.

The new tax law has been applied when measuring the Group's current tax payable and deferred tax assets as at 31st March, 2008. The balance of current tax payable and deferred tax assets increased by HK$394,000 and HK$532,000 respectively as a result of the change of tax rate.

8. Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2008	2007
	HK$'000	HK$'000
Interim dividend declared and paid of HK2.8 cents per ordinary share (2007: HK2.8 cents per ordinary share)	**28,315**	28,197
Final dividend proposed after the balance sheet date of HK8.7 cents per ordinary share (2007: HK6.7 cents per ordinary share)	**88,216**	67,669
Special dividend proposed after the balance sheet date of HK10.0 cents per ordinary share (2007: HK10.0 cents per ordinary share)	**101,398**	100,999
	217,929	196,865

The final and special dividends proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2008	2007
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK6.7 cents per ordinary share (2007: HK6.7 cents per ordinary share)	**67,706**	67,404
Special dividend in respect of the previous financial year, approved and paid during the year, of HK10.0 cents per ordinary share (2007: HK10.0 cents per ordinary share)	**101,054**	100,603
	168,760	168,007

9. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$211,208,000 (2007: HK$173,901,000) and the weighted average number of 1,010,332,000 ordinary shares (2007: 1,006,101,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2008	2007
	Number of shares	Number of shares
	'000	'000
Issued ordinary shares at 1st April	**1,007,036**	1,003,288
Effect of share options exercised	**3,296**	2,813
Weighted average number of ordinary shares for the year	**1,010,332**	1,006,101

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK$211,208,000 (2007: HK$173,901,000) and the weighted average number of 1,016,659,000 ordinary shares (2007: 1,012,797,000 ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2008 Number of shares ’000	2007 Number of shares ’000
Weighted average number of ordinary shares for the year	**1,010,332**	1,006,101
Effect of deemed issue of ordinary shares under the Company’s share option scheme for nil consideration	**6,327**	6,696
Weighted average number of ordinary shares (diluted) for the year	**1,016,659**	1,012,797

10. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of allowances for doubtful debts) with the following ageing analysis as of the balance sheet date:

	2008 HK$’000	2007 HK$’000
Current	**284,660**	257,196
Less than 1 month past due	**83,341**	83,514
1 to 3 months past due	**9,714**	7,777
More than 3 months but less than 12 months past due	**865**	1,364
More than 12 months past due	**92**	183
Amounts past due	**94,012**	92,838
	378,672	350,034

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

11. Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	2008	2007
	HK$'000	HK$'000
Due within 1 month or on demand	**193,596**	163,583
Due after 1 month but within 3 months	**21,955**	12,424
Due after 3 months but within 6 months	**2,527**	977
Due over 6 months	**3,016**	2,709
	221,094	179,693

DIVIDENDS

The Board of the Company is recommending a final dividend of HK8.7 cents per ordinary share at the Annual General Meeting on 28th August, 2008. This, together with the interim dividend of HK2.8 cents per ordinary share, will mean that the Group's total dividend for Fiscal 2007/2008 will be HK11.5 cents per ordinary share (2006/2007 total dividend: HK9.5 cents per ordinary share). In addition, the Board is recommending a special dividend of HK10.0 cents per ordinary share (2006/2007 special dividend: HK10.0 cents per ordinary share).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 25th August, 2008 to Thursday, 28th August, 2008, both days inclusive, during which period no transfer of shares will be effected. To determine entitlement of shareholders to the recommended final and special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, 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, 22nd August, 2008.

MANAGEMENT REPORT

Turnover

The Group's net sales revenue in Fiscal 2007/2008 was HK$2,416 million, up 15% from HK$2,109 million in 2006/2007. This growth was attributable mainly to the steady to strong performance of the Hong Kong, Mainland China and Australia and New Zealand operations respectively as well as Vitasoy USA's positive sales growth.

In Hong Kong, net sales increased steadily by 5% against the backdrop of a robust retail market as the Group continued to roll out a large array of new products to drive demand growth and expand market share. In Mainland China, under the "core business, core brand and core city" strategy, net sales grew strongly by 59%, which speaks for the Group's incessant and strenuous effort in brand building, distribution network expansion and market penetration. The Australian and New Zealand operations delivered consistently impressive results by growing its net sales by 28% year-on-year as it continued to benefit from the Group's brand equity and product innovation capabilities. Notwithstanding a general decline in market demand, the Group's North American operation resumed its growth momentum by recording a moderate growth of 8% after re-focusing on core competencies, developing alternate distribution channels and penetrating into the ethnic market segment.

Gross Profit

The Group's gross profit for the year was HK$1,131 million, up HK$152 million or 16%. Owing to stringent control of cost of sales, gross profit margin was able to be maintained at 46%.

Operating Expenses

Total operating expenses were up by 14% to HK$892 million, representing 37% of net sales. Marketing, selling and distribution expenses stood at HK$541 million, up 16% as a result of more promotions and marketing activities to reinforce the Group's brands as well as investment to expand and strengthen the distribution capability.

Earnings before Interest, Taxation, Depreciation and Amortisation Expenses ("EBITDA")

EBITDA for the year was HK$391 million, up HK$47 million or 14%. EBITDA margin to net sales was maintained at 16%.

Profit Attributable to Equity Shareholders of the Company

For the year ended 31st March, 2008, profit attributable to equity shareholders of the Company was HK$211 million, representing an increase of 21% from Fiscal 2006/2007.

General Review

The Group's encouraging sales performance last year is an apt reflection of our effective business strategy, the implementation of which was aided by the prevalence of a largely favourable operating environment in nearly all our major markets.

In accordance with our strategies announced at this time last year, we forged ahead with product innovation by developing and launching a wide variety of new and trendy products with higher added value, growing our market presence through brand building, deepening our market penetration through channel development, and re-focusing on core competencies where necessary to maximise gain. Naturally all these efforts have been supported by our innovative marketing and sales effort that unfailingly delivers superior results and breaks new ground for us. As a result, we achieved strong sales growth and expanded our market presence in Mainland China, Australia and New Zealand and Hong Kong. At the same time, having re-adjusted our business focus in North America, we attained a single-digit sales growth and achieved the primary goal of narrowing operating loss substantially.

In early April 2008, we have acquired the entire equity of Unicurd Food Co. (Private) Limited ("Unicurd"), which is a leading soyfood manufacturer and marketer in Singapore. This acquisition represents a major step taken by the Group in enhancing its market presence in Singapore.

Hong Kong

In Hong Kong, the growth momentum of the economy remained vigorous in the past year. Economic growth was driven by active investment in business, stock and property, exports of merchandise and services as well as inbound tourism. The retail sector flourished on the back of greater consumer confidence which was boosted by improved employment and higher labour income. Benefiting from such an operating environment, Hong Kong's non-carbonated beverage market grew in both volume and value terms. Amid strong internal demand, inflationary pressure was also increasing. While adding to operating cost, however, this also helped to some extent in justifying the increase of retail beverage prices.

We continued to maintain our market leadership position by growing our net sales revenue by 5%.

Under an aggressive product development programme, we rolled out a record number of new products and flavours to drive demand growth. As a result, our core products like Ready-To-Drink Tea, Soymilk and Distilled Water continued to perform strongly. At the same time, we developed and launched several new products to ride on the current trend of healthy dieting and succeeded in significantly reinforcing our market position in this area. On top of that, we also made considerable headway in expanding into the dessert and cooking ingredient segment by launching the organic VITASOY SAN SUI Tofu range of products and VITASOY Soya Bean Hot Pot Soup during the year, the former of which in particular has attracted very keen response from the market since its launch in May 2007.

The Group's tuck shop business in Hong Kong conducted through its subsidiary, Vitaland Services Limited ("Vitaland"), grew in sales but recorded a drop in profit because of higher operating costs. We will work closely with our business partners to protect our profit margin while keeping quality service level. The catering business of Hong Kong Gourmet Limited showed a slight decline while its profit was also eroded by the soaring cost of food ingredients.

The Group's exports from Hong Kong improved further, growing by 18% in value terms year-on-year.

Mainland China

The Chinese economy as a whole remained robust in 2007. The increasing awareness of the importance of healthy dieting, especially among higher-income urban consumers, continued to create higher demand for nutritional beverages such as soymilk in Mainland China.

This benign operating environment has been conducive to the continued execution of our "core business, core brand and core city" strategy in Mainland China. Net sales surged by a strong 59% year-on-year as we have been in a good position to harvest from our persistent and systematic investment in brand building and promoting soy benefits. The expansion of the Group's distribution channels in Mainland China has also allowed us to expand and deepen our market presence, particularly in Southern China. Meanwhile, we continued to profit from Closer Economic Partnership Agreement (CEPA) by bringing in from Hong Kong a broader range of products that have been in keen demand in the major cities. In terms of channel development, we have already succeeded in entering the school retail segment.

Australia and New Zealand

The Australian and New Zealand markets as a whole remained a high-growth market for the Group although the soymilk and rice milk markets in Australia experienced a slight decline in the early part of fiscal year while that in New Zealand had shown only modest growth last year.

Net sales revenue generated in Australia and New Zealand taken together increased by a strong 28%. Backed by our joint-venture facility in Wodonga whose production capacity has been substantially expanded since end-2006, we have been pursuing a more aggressive business expansion programme to profit from our brand equity and product innovation capabilities. The large array of new products launched in Fiscal 2007/2008 has been highly successful in driving the growth of sales and market share in this important market.

North America

Notwithstanding the prevailing economic downturn, Vitasoy USA achieved very encouraging results last year. While reversing the negative growth trend since Fiscal 2002/2003 by growing net sales in North America by 8%, we also achieved the main goal of substantially narrowing our operating loss by 53% versus Fiscal 2006/2007.

By adjusting our business strategy to re-focus on core competencies, we have been able to drive the sales of most core products, including tofu, SAN SUI soymilk, pasta and imported beverages. We have also extended our presence to alternate distribution channels such as food service and club store as well as ethnic markets. Meanwhile, effective financial management and the trimming down of operating costs allowed us to drastically reduce our operating loss.

Singapore

Through our subsidiary, Vitasoy Investment (Singapore) Pte. Limited, we have acquired Unicurd for a total consideration of S$14 million (HK$78.6 million), which was funded entirely from the Group's internal cash resources. Upon the completion of this transaction on 2nd April, 2008, Unicurd has become one of the Group's wholly-owned subsidiaries. Unicurd is the market leader of packaged tofu in Singapore with an estimated market share of 60%. Besides tofu, it also specialises in soy desserts, soymilk, tofu puffs, noodles and pickles. Aside from domestic sales, it also exports to markets in Europe, Asia, New Zealand, South Africa and Dubai.

We consider this acquisition an important strategic move in a business segment that we know thoroughly well. It also speaks for our commitment to growing the Group's business in areas that are complimentary to and compatible with our core competencies. In the days ahead, we will maintain Unicurd's excellent manufacturing and service standards that form a key part of its corporate culture. It goes without saying that we will actively facilitate its further development with the Group's extensive global resources.

Outlook

Looking ahead, we are cautiously optimistic that the retail environment of the majority of our major markets, including Hong Kong, Mainland China and Australia and New Zealand, is likely to remain stable as their economies stay on their respective growth track. On the other hand, operating cost will be an increasingly thorny issue in view of the escalation of raw material cost, which would likely be aggravated by fluctuations in supply. Furthermore, the rise of wages and other operating expenses will accentuate the challenge of cost management while the profitability of businesses could possibly be subject to depletion in a volatile foreign exchange market.

In Hong Kong, our key business emphasis in the current year will be to engage in active product innovation and aggressive marketing to drive business growth, although sales growth might be at a relatively slower pace after a buoyant 2007.

In June 2008, we have revamped the VITASOY logo and product package in Hong Kong to refresh and rejuvenate the VITASOY brand. In the months ahead, we are launching a series of marketing and advertising activities to support the revamping programme and to reinforce the market position of the VITASOY brand.

Regarding our tuck shop business in Hong Kong under Vitaland, we will take a more selective approach in business development by focusing on the quality instead of quantity of business partners to ensure better profitability. Steps have been taken to streamline operation by automating the ordering process to speed up transactions. Needless to say, we will also strive to manage costs pragmatically, for example, by adopting a more effective procurement strategy.

Mainland China is expected to remain a high-growth market for us in the foreseeable future. Robust domestic consumption is expected to drive GDP growth and enliven the prospects for the sale of consumer products. However, rising inflation and thus higher operating cost in this market should be regarded as a major challenge. Besides, the promulgation of new labour protection legislation will no doubt have extra cost implications for business operators.

With rising affluence especially in the major cities and consumers' increasing health awareness, our systematic effort in brand building and soy benefit education should continue to pay off in terms of sales growth, brand loyalty and market penetration in Mainland China. In the coming year, we will deepen the execution of our "core business, core brand and core city" to drive the growth of sales and market share by expanding our distribution channels and introducing a broader range of products.

We believe the operating environment in Australia and New Zealand will be positive in the coming year as their respective economy continues to grow, although rising costs and intense competition on price will remain major issues. To spur sales growth, our strategic focus will be on product innovation and revamping product packaging. For instance, a new one-litre refrigerated product, VITASOY Rice Milk, will be launched together with other new one-litre aseptic varieties. Notwithstanding severe competition, we will maintain our premium retail shelf price to defend our brand's premium market position while adhering to our current promotion strategy to drive both volume consumption and consumer trial. At the same time, we will fortify our market position by maintaining superior product and service quality.

In the North American market, we will drive the sales of existing products, including tofu and pasta, in traditional business channels, expand our private-label tofu business, focus on alternate channels such as food service, club store and so on, and continue to develop the supermarket and "natural" businesses. New product growth will be driven by the launch of single-serve Aseptic Soymilk and the development of innovative seasonal and specialty soymilk products. With a view to further improving our bottom line, we will focus on cost management by enhancing trade spending efficiency. In view of the rise in raw material costs, we might consider to raise the price of our products where possible during the year.

Globally, the development of the supply situation in the commodity market over the last twelve months has been challenging. The prices of oil and key agricultural products such as soyabean, wheat and corn have seen significant surges and have become volatile, thus making materials procurement and business planning more important.

Such uncertainty has been caused by a multitude of factors, including erratic climates (droughts, floods, extreme cold, etc.), bio-fuel development, , increasing demand of food from emerging economies and, last but not least, speculative activities in the worldwide commodity market.

It is therefore imperative for us to ensure a high degree of flexibility in our pricing policy. We will also step up our effort in materials procurement in order to mitigate the adverse impact of raw material price increase.

Liquidity and Financial Resources

The Group's financial position has remained very strong. As at 31st March, 2008, the Group was in a healthy net cash position of HK$444 million (31st March, 2007: HK$368 million). Banking facilities available to but not used by the Group amounted to HK$351 million.

As at 31st March, 2008, the Group's borrowings (including obligations under finance leases) amounted to HK$105 million (31st March, 2007: HK$132 million). The gearing ratio (total borrowings/total equity attributable to equity shareholders of the Company) was 8.0% (31st March, 2007: 10.5%).

The Group incurred capital expenditures totalling HK$88 million in 2007/2008 (2006/2007: HK$135 million), which was primarily funded by cash generated from various operations.

Charges on Group Assets

As at 31st March, 2008, certain assets of the Group with an aggregate carrying value of HK$38 million (31st March, 2007: HK$35 million) were pledged under certain loans and lease agreement.

Financial Risk Management

The Group's financial management focuses on controlled management of risks, with transactions being directly related to the underlying businesses of the Group. The Group operates a central cash and treasury management system for all its subsidiaries. Borrowings are normally taken out in local currencies by the Group's operating subsidiaries to fund and partially hedge their investments.

The financial risks faced by the Group arise mainly from the fluctuation of interest rates and exchange rates. The Group makes use of financial instruments, where appropriate, to manage those risks. At the close of Fiscal 2007/2008, the Group had no significant exposures under foreign exchange contracts or financial derivatives.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31st March, 2008, complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except for the Code Provision A.2.1. Code Provision A.2.1 sets out that the roles of the Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Winston Yau-lai LO is the Executive Chairman of the Company. At the present stage, the roles of the Chairman of the Board and some roles of the Chief Executive Officer of the Company are performed by Mr. Winston Yau-lai LO. However, the Board and the Executive Chairman of the Company fully recognise that the respective roles of the Chairman of the Board and the Chief Executive Officer should be separated in the course of time to ensure better checks and balances and hence better corporate governance.

On 1st August, 2007, we have promoted Mr. Laurence P. EISENTRAGER, the Chief Executive, Hong Kong to the Group Chief Executive Officer reporting to the Chairman of the Board. Mr. Laurence P. EISENTRAGER has assumed most of the executive responsibilities from the Executive Chairman for the Group's major markets and operating units and the transition has been progressing very smoothly. We are confident that the transition process of assigning the responsibilities of the Executive Chairman to the Group Chief Executive Office will be completed in Fiscal year of 2009/2010.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The Audit Committee was established in 1999. Its current members include three Independent Non-executive Directors, namely, Mr. Iain F. BRUCE (Chairman), Dr. The Hon. Sir David Kwok-po LI and Mr. Jan P. S. ERLUND.

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 Group's interim and annual financial statements.

The Group's annual results for the year ended 31st March, 2008 have been reviewed by the Audit Committee.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The Company's annual report for 2007/2008 will be published on the website of The Stock Exchange of Hong Kong Limited at *www.hkex.com.hk* and the Company's website at *www.vitasoy.com* in due course.

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

Hong Kong, 3rd July, 2008

As at the date of this announcement, Mr. Winston Yau-lai LO, Mr. Laurence P. EISENTRAGER and Mr. Eric Fat YU are executive directors. Ms. Myrna Mo-ching LO and Ms. Yvonne Mo-ling LO are non-executive directors. Dr. The Hon. Sir David Kwok-po LI, Mr. Iain F. BRUCE and Mr. Jan P. S. ERLUND are independent non-executive directors.