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 SIX MONTHS ENDED 30TH SEPTEMBER 2017

HIGHLIGHTS

- During the first half of FY2017/2018, the Vitasoy Group grew revenue by 23% net of the North American divestiture, cycling the modest 3% growth of same period last year on comparable basis. We expect a more moderate growth in the second half of the fiscal year as we experienced a strong 10% growth in the second half of last year.

- Key business performances
    - Mainland China – "Go Deep Go Wide" strategy keeps delivering sustainable growth.
    - Hong Kong Operation (Hong Kong, Macau and Exports) – Investing for future growth.
    - Australia and New Zealand – Maintaining market leadership position in plant milk segment.
    - Singapore – Improving sales of VITASOY branded tofu and imported beverages.

- The Group's half year revenue reached HK$3,646 million, up 21%. Excluding the impact of the North American divestiture in the last interim period, the Group achieved a year-on-year increase of 23% against last year.

- Gross profit was HK$1,922 million, up 19%, with gross profit margin sustained at 53%.

- EBITDA (Earnings before interest income, finance costs, income tax, depreciation, amortisation and share of losses of joint venture) for the period was HK$688 million, down HK$77 million or 10%. Before the net gain on the North American divestiture in the last interim period, EBITDA increased by 20%.

- EBITDA margin to revenue maintained at 19%.

- Profit before taxation was HK$557 million, a decrease of 14%. Before the net gain on the North American divestiture in the last interim period, profit before taxation improved by 22%.

- Profit attributable to equity shareholders of the Company decreased by 14% to HK$397 million. Before the net gain on the North American divestiture in the last interim period, profit attributable to equity shareholders of the Company increased by 12%.

- The Board of Directors has declared an interim dividend of HK3.8 cents per ordinary share to be paid on 28th December 2017.

RESULTS

In this announcement, “we” and “our” refer to the Company (as defined below) and, where the context otherwise requires, the Group (as defined below).

The Board of Directors (the “Board”) of Vitasoy International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**Six months ended 30th September**	
		2017	2016
		HK$’000	HK$’000
		(Unaudited)	(Unaudited)
Revenue	3, 4	**3,646,166**	3,013,183
Cost of sales		**(1,724,472)**	(1,402,038)
Gross profit		**1,921,694**	1,611,145
Other income		**9,999**	20,152
Net gain on disposal of assets and liabilities classified as held for sale	5(b), 10	**-**	189,857
Marketing, selling and distribution expenses		**(919,930)**	(801,617)
Administrative expenses		**(255,078)**	(232,428)
Other operating expenses		**(188,369)**	(137,663)
Profit from operations		**568,316**	649,446
Finance costs	5(a)	**(918)**	(1,392)
Share of losses of joint venture		**(10,071)**	-
Profit before taxation	5	**557,327**	648,054
Income tax	6	**(129,968)**	(163,737)
Profit for the period		**427,359**	484,317
Attributable to:			
Equity shareholders of the Company		**396,880**	459,989
Non-controlling interests		**30,479**	24,328
Profit for the period		**427,359**	484,317
Earnings per share	8		
Basic		**HK37.7 cents**	HK43.8 cents
Diluted		**HK37.4 cents**	HK43.5 cents

Details of dividends payable to equity shareholders of the Company are set out in note 7.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30th September	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period	**427,359**	484,317
Other comprehensive income for the period (after tax):		
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of financial statements of subsidiaries and joint venture outside Hong Kong	**62,548**	(48,976)
- Cash flow hedge: net movement in the hedging reserve	**1,196**	93
Other comprehensive income for the period	**63,744**	(48,883)
Total comprehensive income for the period	**491,103**	435,434
Attributable to:		
Equity shareholders of the Company	**453,123**	414,573
Non-controlling interests	**37,980**	20,861
Total comprehensive income for the period	**491,103**	435,434

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**At 30th September 2017**		At 31st March 2017	
		HK$'000	**HK$'000**	HK$'000	HK$'000
		(Unaudited)		(Audited)	
Non-current assets					
Property, plant and equipment					
- Interests in leasehold land held for own use under operating leases			**63,888**		62,182
- Investment properties			**4,350**		4,614
- Other property, plant and equipment			**2,048,063**		1,986,480
			2,116,301		2,053,276
Deposits for the acquisition of property, plant and equipment			**1,569**		1,125
Intangible assets			**3,958**		4,010
Goodwill			**36,497**		35,293
Interest in joint venture			**9,477**		148
Deferred tax assets			**91,050**		56,451
			2,258,852		2,150,303
Current assets					
Inventories		**570,637**		582,446	
Trade and other receivables	9	**1,136,029**		900,003	
Current tax recoverable		**736**		736	
Cash and bank deposits		**837,293**		853,119	
		2,544,695		2,336,304	
Current liabilities					
Trade and other payables	11	**1,723,459**		1,466,904	
Bank loans	12	**27,561**		7,329	
Obligations under finance leases		**1,579**		1,221	
Current tax payable		**105,418**		37,781	
		1,858,017		1,513,235	
Net current assets			**686,678**		823,069
Total assets less current liabilities			**2,945,530**		2,973,372

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**At 30th September 2017**		At 31st March 2017	
		HK$'000	**HK$'000**	HK$'000	HK$'000
		(Unaudited)		(Audited)	
Non-current liabilities					
Bank loans	12	**-**		200,000	
Obligations under finance leases		**-**		909	
Employee retirement benefit liabilities		**23,268**		22,065	
Deferred tax liabilities		**67,200**		60,692	
			90,468		283,666
NET ASSETS			**2,855,062**		2,689,706
CAPITAL AND RESERVES					
Share capital			**807,823**		774,246
Reserves			**1,818,175**		1,697,123
Total equity attributable to equity shareholders of the Company			**2,625,998**		2,471,369
Non-controlling interests			**229,064**		218,337
TOTAL EQUITY			**2,855,062**		2,689,706

Notes:

1. Independent review

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), whose unmodified review report is included in the interim financial report to be sent to shareholders. In addition, the interim financial report has been reviewed by the Company's Audit Committee.

2. Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the HKICPA.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016/2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017/2018 annual financial statements.

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The financial information relating to the financial year ended 31st March 2017 that is included in this announcement results for the six months ended 30th September 2017 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31st March 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

3. Revenue

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

4. Segment reporting

(a) Segment results, assets and liabilities

The Group manages its businesses by entities, which are organised by geography. Information regarding the Group's reporting segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Mainland China		Hong Kong Operation		Australia and New Zealand		Singapore		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Six months ended 30th September										
Revenue from external customers	**2,251,779**	1,618,770	**1,093,757**	1,110,829	**250,578**	236,542	**50,052**	47,042	**3,646,166**	3,013,183
Inter-segment revenue	**43,511**	58,173	**25,436**	23,042	**1,287**	136	**1,355**	1,027	**71,589**	82,378
Reportable segment revenue	**2,295,290**	1,676,943	**1,119,193**	1,133,871	**251,865**	236,678	**51,407**	48,069	**3,717,755**	3,095,561
Reportable segment profit from operations	**397,825**	282,470	**183,898**	189,335	**49,208**	50,162	**4,177**	5,033	**635,108**	527,000
Additions to non-current segment assets during the period	**82,998**	79,107	**53,825**	33,969	**28,771**	2,921	**2,448**	1,070	**168,042**	117,067
	At 30th September 2017	At 31st March 2017	**At 30th September 2017**	At 31st March 2017	**At 30th September 2017**	At 31st March 2017	**At 30th September 2017**	At 31st March 2017	**At 30th September 2017**	At 31st March 2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Reportable segment assets	**2,425,807**	2,049,409	**2,763,656**	2,950,858	**401,410**	362,806	**104,710**	96,439	**5,695,583**	5,459,512
Reportable segment liabilities	**1,470,716**	1,304,623	**604,535**	721,986	**130,174**	105,010	**13,034**	11,695	**2,218,459**	2,143,314

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	Six months ended 30th September	
	2017	2016
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**3,717,755**	3,095,561
Elimination of inter-segment revenue	**(71,589)**	(82,378)
Consolidated revenue	**3,646,166**	3,013,183

	Six months ended 30th September	
	2017	2016
	HK$'000	HK$'000
Profit or loss		
Reportable segment profit from operations	**635,108**	527,000
Finance costs	**(918)**	(1,392)
Share of losses of joint venture	**(10,071)**	-
Net gain on disposal of assets and liabilities classified as held for sale (note 10)	**-**	189,857
Unallocated head office and corporate expenses	**(66,792)**	(67,411)
Consolidated profit before taxation	**557,327**	648,054

4. Segment reporting (continued)

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities (continued)

	At 30th September 2017 HK$'000	At 31st March 2017 HK$'000
Assets		
Reportable segment assets	**5,695,583**	5,459,512
Elimination of inter-segment receivables	**(994,235)**	(1,030,931)
	4,701,348	4,428,581
Interest in joint venture	**9,477**	148
Deferred tax assets	**91,050**	56,451
Current tax recoverable	**736**	736
Unallocated head office and corporate assets	**936**	691
Consolidated total assets	**4,803,547**	4,486,607

	At 30th September 2017 HK$'000	At 31st March 2017 HK$'000
Liabilities		
Reportable segment liabilities	**2,218,459**	2,143,314
Elimination of inter-segment payables	**(490,808)**	(492,880)
	1,727,651	1,650,434
Employee retirement benefit liabilities	**23,268**	22,065
Deferred tax liabilities	**67,200**	60,692
Current tax payable	**105,418**	37,781
Unallocated head office and corporate liabilities	**24,948**	25,929
Consolidated total liabilities	**1,948,485**	1,796,901

5. Profit before taxation

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

	Six months ended 30th September	
	2017 HK$'000	2016 HK$'000
(a) Finance costs:		
Interest on bank loans	**846**	2,969
Finance charges on obligations under finance leases	**72**	111
	918	3,080
Less: interest expense capitalised into property, plant and equipment *	**-**	(1,688)
	918	1,392

* The borrowing costs have been capitalised at a rate of 1.43% per annum for six months ended 30th September 2016.

5. Profit before taxation (continued)

Profit before taxation is arrived at after charging/(crediting): (continued)

	Six months ended 30th September	
	2017	2016
	HK$'000	HK$'000
(b) Other items:		
Interest income	**(4,043)**	(1,484)
Depreciation of investment properties	**264**	263
Amortisation of interests in leasehold land held for own use under operating leases	**766**	774
Depreciation of other property, plant and equipment	**122,920**	115,981
Amortisation of intangible assets	**186**	187
Recognition of impairment losses on property, plant and equipment	**37,191**	-
Net loss/(gain) on forward exchange contracts not designated as hedging instruments	**1,212**	(697)
Net gain on disposal of assets and liabilities classified as held for sale (note 10)	**-**	(189,857)
Cost of inventories	**1,725,441**	1,406,932

6. Income tax

Income tax in the consolidated statement of profit or loss represents:

	Six months ended 30th September	
	2017	2016
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax	**22,908**	26,977
Current tax – Outside Hong Kong	**133,118**	116,308
Deferred taxation	**(26,058)**	20,452
	129,968	163,737

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30th September 2016: 16.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

7. Dividends

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

	Six months ended 30th September	
	2017	2016
	HK$'000	HK$'000
Interim dividend declared after the interim period of HK3.8 cents per ordinary share (six months ended 30th September 2016: HK3.8 cents per ordinary share)	**40,153**	39,958

The interim dividend proposed after the end of the reporting period is based on 1,056,657,500 ordinary shares (six months ended 30th September 2016: 1,050,705,500 ordinary shares), being the total number of issued shares at the date of approval of the interim financial report.

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

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

	Six months ended 30th September	
	2017	2016
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK27.1 cents per ordinary share (six months ended 30th September 2016: HK26.5 cents per ordinary share)	**285,831**	278,400
Special dividend in respect of the previous financial year, approved and paid during the following interim period, of HK4.2 cents per ordinary share (six months ended 30th September 2016: nil)	**44,299**	-
	330,130	278,400

The final and special dividends approved and paid during the interim period are based on the total number of issued shares on 26th September 2017.

8. 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$396,880,000 (six months ended 30th September 2016: HK$459,989,000) and the weighted average number of 1,053,500,000 ordinary shares (six months ended 30th September 2016: 1,049,269,000 ordinary shares) in issue during the period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30th September	
	2017	2016
	Number of shares	Number of shares
	'000	'000
Issued ordinary shares at 1st April	**1,051,692**	1,047,330
Effect of share options exercised	**1,808**	1,939
Weighted average number of ordinary shares at 30th September	**1,053,500**	1,049,269

(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$396,880,000 (six months ended 30th September 2016: HK$459,989,000) and the weighted average number of 1,061,536,000 ordinary shares (six months ended 30th September 2016: 1,057,804,000 ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30th September	
	2017	2016
	Number of shares	Number of shares
	'000	'000
Weighted average number of ordinary shares at 30th September	**1,053,500**	1,049,269
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	**8,036**	8,535
Weighted average number of ordinary shares (diluted) at 30th September	**1,061,536**	1,057,804

9. Trade and other receivables

	At 30th September 2017 HK$'000	At 31st March 2017 HK$'000
Trade debtors and bills receivable	**951,356**	677,129
Less: allowance for doubtful debts	**(3,601)**	(3,375)
	947,755	673,754
Other debtors, deposits and prepayments	**188,274**	226,249
	1,136,029	900,003

At the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30th September 2017 HK$'000	At 31st March 2017 HK$'000
Within three months	**922,236**	648,675
Three to six months	**24,236**	23,270
Over six months	**1,283**	1,809
	947,755	673,754

Trade receivables are due within one to three months from the date of billing. Management has a credit policy in place and the exposure to the credit risk is monitored on an ongoing basis. 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. Normally, the Group does not obtain collateral from customers.

10. Disposal group held for sale

The Group disposed of the majority of the assets and liabilities of Vitasoy USA Inc. on 9th May 2016 at a consideration of HK$398.9 million. All the assets and liabilities held for sale were derecognised upon completion and a gain of HK$189.9 million was recognised as "Other income" for the six months ended 30th September 2016.

11. Trade and other payables

	At 30th September 2017 HK$'000	At 31st March 2017 HK$'000
Trade creditors and bills payable	**622,339**	497,239
Accrued expenses and other payables	**1,100,025**	969,047
Derivative financial instruments	**1,095**	618
	1,723,459	1,466,904

At the end of the reporting period, the ageing analysis of trade creditors and bills payable, based on the invoice date, is as follows:

	At 30th September 2017 HK$'000	At 31st March 2017 HK$'000
Within three months	**613,090**	496,435
Three to six months	**8,919**	431
Over six months	**330**	373
	622,339	497,239

The Group's general payment terms are one to two months from the invoice date.

12. Bank loans

At the end of the reporting period, the bank loans were repayable as follows:

	At 30th September 2017 HK$'000	At 31st March 2017 HK$'000
Within one year or on demand	**27,561**	7,329
After one year but within two years	**-**	150,000
After two years but within five years	**-**	50,000
	-	200,000
	27,561	207,329

At 31st March 2017, bank loans totalling HK$7,329,000 were secured by charges over property, plant and equipment with net book value totalling HK$62,768,000. At 30th September 2017, no bank loans were secured by charges over property, plant and equipment.

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants.

INTERIM DIVIDEND

The Board of the Company has declared an interim dividend of HK3.8 cents per ordinary share for the six months ended 30th September 2017 (six months ended 30th September 2016: HK3.8 cents per ordinary share), to shareholders whose names appear on the Register of Members at the close of business on Wednesday, 13th December 2017. Dividend warrants will be sent to shareholders on or about Thursday, 28th December 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on Thursday, 14th December 2017. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 13th December 2017.

MANAGEMENT REPORT

Business Highlights

During the first half of FY2017/2018, the Vitasoy Group grew revenue by 23% net of the divestiture of North American Mainstream and SAN SUI Business (the "North American divestiture"), cycling the modest 3% growth of same period last year on a comparable basis. We expect a more moderate growth in the second half of the fiscal year as we experienced a strong 10% growth in the second half of last year.

Mainland China was the key growth driver, complemented by moderate sales growth in Hong Kong, steady revenue improvement in Australia, and rising sales in Singapore spurred by beverage performance. Finally, Vitasoy-URC, Inc., the joint venture in the Philippines between the Group and Universal Robina Corporation has smoothly started its operations with initial shipments to customers.

Net of the North American divestiture, our profit attributable to equity shareholders of the Company increased by 12%, as a result of increased gross profit and enhanced operational efficiency, partially offset by an increase in operating expenses. In absolute, it decreased by 14% (increased by 48% for FY2016/2017 interim and 40% for FY2015/2016 interim respectively), mainly due to the fact that a non-recurring gain was recorded in the previous interim period from the North American divestiture.

In view of the Group's solid financial performance, the Board of Directors has declared an interim dividend of HK3.8 cents per ordinary share for the six months ended 30th September 2017 (six months ended 30th September 2016: HK3.8 cents per ordinary share), payable on 28th December 2017.

Financial Highlights

The financial position of the Group remains healthy. Below is an analysis of our key financial indicators including revenue, gross profit margin and return on capital employed:

Revenue

- For the six months ended 30th September 2017, the Group's revenue increased 21% to HK$3,646 million (FY2016/2017 interim: HK$3,013 million), and increased by 23% when net of the impact of the North American divestiture. All operating entities registered positive sales increase.

  - **Mainland China: +39% (+41% in local currency)**
    Vitasoy China experienced robust performance with broad-based growth in both established and new markets. Both the VITASOY and VITA brands are improving their market presence.

  - **Hong Kong Operation (Hong Kong, Macau and Exports): -2% (+3% net of North American divestiture)**
    Hong Kong Operation recorded an absolute decrease in sales of 2%, as revenue from the North American divestiture business was included in the previous interim period; net of North American divestiture business, Hong Kong Operation registered a moderate growth of 3% after re-clustering the post-divestiture imported beverages business of North America under its segment. VITASOY innovation and strong VITA Tea results drove the performance.

  - **Australia and New Zealand: +6% (+2% in local currency)**
    Australia and New Zealand business continued to grow. VITASOY is the leading plant milk brand in both markets and continues to grow via plant based innovation like Almond Milk.

  - **Singapore: +6% (+7% in local currency)**
    Overall revenue increased by 6% as both VITASOY branded tofu and imported beverage sales registered strong growth.

Gross Profit and Gross Profit Margin

- The Group's gross profit for the interim period was HK$1,922 million, up 19% (FY2016/2017 interim: HK$1,611 million), mainly driven by the strong sales performance. Excluding the impact of the North American divestiture, gross profit increased by 20%.
- Gross profit margin sustained at 53% in the first half of FY2017/2018 (FY2016/2017 interim: 53%), attributed to improved manufacturing efficiency, net off by increased commodity prices particularly for milk powder and sugar. Excluding the impact of the North American divestiture, gross profit margin for the previous interim period was 54%.

Operating Expenses

- Total operating expenses increased 16% to HK$1,363 million (FY2016/2017 interim: HK$1,172 million) due to increased investment in brand programs, higher staff related and logistic expenses.
- Marketing, selling and distribution expenses increased 15% to HK$920 million (FY2016/2017 interim: HK$802 million), mainly due to increased investment in strengthening our brand equity and advertising for new product launches. Distribution costs were higher as a result of increased sales volume. There were also increased sales staff and commission expenses which were mainly due to expansion of sales team in Mainland China.
- Administrative expenses increased 10% to HK$255 million (FY2016/2017 interim: HK$232 million), reflecting inflationary adjustment on salary and increased headcount.
- Other operating expenses were HK$188 million, versus HK$138 million for the same period last year.

EBITDA (Earnings Before Interest Income, Finance Costs, Income tax, Depreciation, Amortisation and Share of Losses of Joint Venture)

- EBITDA for the interim period was HK$688 million, representing a decrease of 10%. Before the net gain on the North American divestiture in the last interim period, EBITDA increased by 20%. The increase of EBITDA was mainly driven by higher gross profit.

Profit Before Taxation

- Profit before taxation decreased by 14% to HK$557 million (FY2016/2017 interim HK$648 million). Before the net gain on the North American divestiture, profit before taxation improved by 22%. The improvement was mainly due to incremental growth in gross profit, in spite of a moderate growth in depreciation charges.

Taxation

- Income tax charged for the year was HK$130 million (FY2016/2017 interim: HK$164 million) with an effective tax rate of 23% versus 25% last year.

Profit Attributable to Equity Shareholders of the Company

- Profit attributable to equity shareholders of the Company was HK$397 million, representing a decrease of 14% compared to the previous interim period (FY2016/2017 interim: HK$460 million). Profit attributable to equity shareholders of the Company before the net gain on the North American divestiture increased by 12%, mainly due to improvement in operating profit and reduction in net finance costs, partly net off by share of losses of our joint venture in the Philippines.

Financial Position

- We finance our operations and capital expenditure primarily through internally generated cash as well as banking facilities provided by our principal bankers. As at 30th September 2017, our cash and bank deposits amounted to HK$837 million (31st March 2017: HK$853 million). 13%, 62% and 21% of our cash and bank deposits were denominated in HKD, RMB and USD, respectively (31st March 2017: 66%, 24% and 7%). As of 30th September 2017, the Group had a net cash balance of HK$808 million (31st March 2017: HK$644 million). Available banking facilities amounted to HK$1,011 million (31st March 2017: HK$931 million) to facilitate future cash flow needs.
- The Group's borrowings (including obligations under finance leases) amounted to HK$29 million (31st March 2017: HK$209 million) and were denominated in AUD (31st March 2017: HK$200 million were denominated in HKD and HK$9 million were denominated in AUD). Fixed rate borrowings amounted to HK$1.6 million, with an effective interest rate of 7.5% for obligations under finance leases.
- The gearing ratio (total borrowings/total equity attributable to equity shareholders of the Company) decreased to 1% (31st March 2017: 8%) as the Group repaid most of the borrowings using its internally generated cash.
- The Group's return on capital employed (ROCE) (EBITDA for the interim period/average non-current debt and equity as at 30th September 2017 and 31st March 2017) for the first half of FY2017/2018 was 24% (FY2016/2017 interim: 28%). Decrease in ROCE was mainly due to the fact that one-off gain was generated from the North American divestiture business.
- Capital expenditure incurred during the period increased to HK$168 million (FY2016/2017 interim: HK$116 million), which was mainly spent on acquisition of new production line and upgrade of existing production machinery in both Hong Kong and Mainland China.
- Assets with a carrying value of HK$3 million (31st March 2017: HK$65 million) were pledged under certain loans and lease arrangements.

Non-financial Key Performance Indicators

- The Group has already disclosed various non-financial key performance indicators (KPIs) in the "Sustainability Report 2016/2017", which was released in July 2017 and dispatched to shareholders together with the Annual Report 2016/2017. The KPIs focused on portfolio ("making the right products") and energy and community impact ("making products the right way). We continue to stay on track towards our published glide path in this area, with full FY2017/2018 report to be released in July 2018.

Financial Risk Management

- The Group's overall financial management policy focuses on controlling and managing risks, covering transactions being directly related to the underlying businesses of the Group. For synergy, efficiency and control, the Group operates a central cash and treasury management system for all subsidiaries. Borrowings are normally taken out in local currencies by the operating subsidiaries to fund their investments and partially mitigate the foreign currency risks.
- The financial risks faced by the Group were mainly connected with uncertainties in interest rates and exchange rate movements. At the close of the first six months ended 30th September 2017, the Group entered into foreign exchange contracts to manage the currency risks for the receipt of royalty and dividend income in Australian dollars from our Australian operation.

General Review

Mainland China

- Vitasoy China achieved 41% and 42% growth in revenue and profit from operations in local currency respectively.
- The growth was broad based across traditional strongholds like South China, and also in new markets where the Company has been expanding. By retail segment, we also delivered similarly consistent performance, including the accelerating e-commerce channel. Whilst VITASOY remains the core focus on our operations, the VITA brand also achieved an encouraging response behind our summer activation.
- After the first full year of smooth operation of the new Wuhan plant, the Group has also announced the intention to relocate the Shenzhen production plant to a larger and more efficient new factory in Changping Town, Dongguan City, Guangdong Province to ensure an adequate production capacity for our future expansion. We will fund the construction by internally generated resources. Production at the new factory is expected to commence in 2021.

Hong Kong Operation (Hong Kong, Macau and Exports)

- Revenue decreased by 2%, given the fact that revenue from the North American divestiture business was included in the previous interim period. Excluding this, Hong Kong revenue grew by 3%, including the North American imported beverages business which was now clustered in this section. On a strictly local basis, Hong Kong revenue was on par with last interim period.
- The performance of our Hong Kong Operation is driven by both core items like VITA Tea and new products like VITASOY CALCI-PLUS (Almond Milk, Coconut Milk, upgraded Plant Sterol Soya Milk), which meet the ever-increasing shopper interest towards premium, healthy and sustainable products.
- We have increased our investment in sales and marketing activities so as to expand in-store presence and drive consumer penetration and trials.

Australia and New Zealand

- Vitasoy's sales continued to grow in Australia and New Zealand, increased by 2% in local currency (6% growth when converted into Hong Kong Dollars), mainly driven by increased sales in supermarket channel. Operating profits decreased by 5% in local currency as a result of increased investment on building our brand equity. The appreciation of Australian Dollars narrowed the drop.
- The Group held the no.1 market leadership position in both Australia and New Zealand, and continued to invest in both trade and marketing spending to drive business growth.

Singapore

- Vitasoy Singapore delivered 6% increase in revenue, while operating profits dropped by 17%, mainly due to increased investments behind the VITASOY branded tofu and imported beverages from Hong Kong.
- In the tofu business, the VITASOY branded tofu continued to grow market share, whilst imported beverages improved their performance thus driving the increase in revenue.

General Outlook

In the second half of FY2017/2018, the Group expects to continue to grow albeit at more moderate level, as cycling much stronger growth last year versus the first half of this year. Whilst Mainland China will continue to scale up, we will also continue to invest in our other markets to strengthen our equities and execution as this is critical to secure our future growth.

Mainland China

- Mainland China continues to be the key driver of growth. We will continue our "Go Deep Go Wide" strategy, and stay focused on improving the execution of our equities and in store fundamentals.

Hong Kong Operation (Hong Kong, Macau and Exports)

- In Hong Kong, we will increase focus on our core equities of VITASOY and VITA brands, and also leverage our most successful innovation to expand consumption in more occasions and channels. We will continue to increase investment in marketing and promotion, and also in improving our manufacturing and logistics' infrastructure.

Australia and New Zealand

- As consumers in Australia and New Zealand become more health conscious and appreciate the benefits of plant milk, the Group expects solid growth in the category to continue during second half of the year. We will focus on core soya milk, almond and other plant milks which are expected to contribute towards strong trial and market share.

Singapore

- The Group expects to retain its market leadership position by introducing innovative products in both tofu and imported beverages to continue scaling up operation.

Philippines

- In the second half, we will launch our Vitasoy Philippines communication program, and continue the strong collaboration with Universal Robina Corporation to expand our presence, aiming to bring our nutritious and tasty plant milk products to more communities in the Philippines.

CORPORATE GOVERNANCE

The Company is firmly committed to a high level of corporate governance and adherence to the governance principles and practices emphasising transparency, independence, accountability, responsibility and fairness.

The Company has, throughout the six months ended 30th September 2017, complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The Audit Committee comprises four Independent Non-executive Directors, namely, Mr. Paul Jeremy BROUGH (Chairman), Dr. the Hon. Sir David Kwok-po LI, Mr. Jan P. S. ERLUND and Mr. Anthony John Liddell NIGHTINGALE.

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 unaudited interim financial report for the six months ended 30th September 2017.

The Audit Committee reviews and assesses the effectiveness of the Company's risk management and internal control systems which cover all material financial, operational and compliance controls. The Audit Committee also reviews regularly the corporate governance structure and practices within the Company and monitors compliance fulfillment on an ongoing basis.

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 securities during the six months ended 30th September 2017.

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

The Company's interim report for the six months ended 30th September 2017 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, 28th November 2017

As at the date of this announcement, Mr. Winston Yau-lai LO, Mr. Roberto GUIDETTI and Mr. Eugene LYE are executive directors. Ms. Yvonne Mo-ling LO, Mr. Peter Tak-shing LO and Ms. May LO are non-executive directors. Dr. the Hon. Sir David Kwok-po LI, Mr. Jan P. S. ERLUND, Mr. Anthony John Liddell NIGHTINGALE, Mr. Paul Jeremy BROUGH and Dr. Roy Chi-ping CHUNG are independent non-executive directors.