Vitasoy International Holdings Ltd.
維他奶國際集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock code: 345)

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2018

HIGHLIGHTS

- The Group has performed ahead of internal growth target in the first six months of Fiscal Year 2018/2019, increasing revenue by 22% versus same period last year, on top of a growth of 23% in the first six months of Fiscal Year 2017/2018.

- This revenue growth sustains the Company's strong momentum from last year. We expect strong but more moderate growth in the second half of this Fiscal Year.

- Key business performances
  - Mainland China – As the main contributor to the Group, Vitasoy China experienced strong growth in both revenue and profit. Our strategy of "Go Deep Go Wide" continues to sustain our growth momentum.
  - Hong Kong Operation (Hong Kong, Macau and Exports) – Revenue from Hong Kong Operation showed an acceleration of growth, broad based across its portfolio of products and channels.
  - Australia and New Zealand – The operation accelerated growth through both improved execution and product innovation.
  - Singapore – Beyond maintaining its market leadership position in tofu, the operation accelerated growth from the imported beverage business.

- For the six months ended 30th September 2018, the Group's revenue increased 22% to HK$4,448 million.

- The Group's gross profit for the interim period was HK$2,408 million, up 25%, mainly driven by increases in sales volume.

- EBITDA (Earnings before interest income, finance costs, income tax, depreciation, amortisation and share of losses of joint venture) for the interim period was HK$831 million, representing an increase of 21%. The increase in EBITDA was mainly driven by higher gross profit.

- EBITDA margin to revenue maintained at 19%.

- Profit before taxation increased by 26% to HK$703 million.

- Profit attributable to equity shareholders of the Company was HK$518 million, representing an increase of 30% compared to the previous interim period.

- The Board of Directors has declared an interim dividend of HK3.8 cents per ordinary share to be paid on 20th December 2018.

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 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30th September	
		2018	2017
	Note	**HK$'000**	HK$'000
		(Unaudited)	(Unaudited)
Revenue	4, 5	**4,447,550**	3,646,166
Cost of sales		**(2,039,796)**	(1,724,472)
Gross profit		**2,407,754**	1,921,694
Other income		**17,537**	9,999
Marketing, selling and distribution expenses		**(1,215,473)**	(919,930)
Administrative expenses		**(308,669)**	(255,078)
Other operating expenses		**(187,505)**	(188,369)
Profit from operations		**713,644**	568,316
Finance costs	6(a)	**(906)**	(918)
Share of losses of joint venture		**(9,490)**	(10,071)
Profit before taxation	6	**703,248**	557,327
Income tax	7	**(153,498)**	(129,968)
Profit for the period		**549,750**	427,359
Attributable to:			
Equity shareholders of the Company		**517,727**	396,880
Non-controlling interests		**32,023**	30,479
Profit for the period		**549,750**	427,359
Earnings per share	9		
Basic		**HK 48.9 cents**	HK37.7 cents
Diluted		**HK 48.4 cents**	HK37.4 cents

Details of dividends payable to equity shareholders of the Company are set out in note 8.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30th September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period	**549,750**	427,359
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	**(167,392)**	62,548
- Cash flow hedge: net movement in the hedging reserve	**(4,850)**	1,196
Other comprehensive income for the period	**(172,242)**	63,744
Total comprehensive income for the period	**377,508**	491,103
Attributable to:		
Equity shareholders of the Company	**365,433**	453,123
Non-controlling interests	**12,075**	37,980
Total comprehensive income for the period	**377,508**	491,103

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**At 30th September 2018**		At 31st March 2018	
		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			**173,762**		67,134
- Investment properties			**3,825**		4,088
- Other property, plant and equipment			**2,334,106**		2,277,653
			2,511,693		2,348,875
Deposits for the acquisition of property, plant and equipment			**1,219**		1,586
Intangible assets			**3,562**		3,922
Goodwill			**18,151**		18,983
Interest in joint venture			**34,335**		45,291
Deferred tax assets			**111,917**		103,362
			2,680,877		2,522,019
Current assets					
Inventories		**591,765**		709,312	
Trade and other receivables	10	**1,217,140**		954,944	
Current tax recoverable		**8,670**		10,209	
Cash and bank deposits		**976,919**		985,694	
		2,794,494		2,660,159	
Current liabilities					
Trade and other payables	11	**2,016,992**		1,863,772	
Bank loans	12	**62,684**		27,085	
Obligations under finance leases		**-**		921	
Current tax payable		**84,536**		31,265	
		2,164,212		1,923,043	
Net current assets			**630,282**		737,116
Total assets less current liabilities			**3,311,159**		3,259,135

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**At 30th September 2018**		At 31st March 2018	
		HK$'000	**HK$'000**	HK$'000	HK$'000
		(Unaudited)		(Audited)	
Non-current liabilities					
Employee retirement benefit liabilities		**15,691**		16,066	
Deferred tax liabilities		**74,856**		73,923	
			90,547		89,989
NET ASSETS			**3,220,612**		3,169,146
CAPITAL AND RESERVES					
Share capital			**890,787**		857,335
Reserves			**2,085,084**		2,052,422
Total equity attributable to equity shareholders of the Company			**2,975,871**		2,909,757
Non-controlling interests			**244,741**		259,389
TOTAL EQUITY			**3,220,612**		3,169,146

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 HKICPA.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017/18 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018/19 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The financial information relating to the financial year ended 31st March 2018 that is included in the announcement results for the six months ended 30th September 2018 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 2018 to the Registrar of Companies as required by 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. Changes in Accounting Policies

(a) Overview

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as HKFRS 9.

The Group has been impacted by HKFRS 9 in relation to measurement of credit losses and hedge accounting. The Group has also been impacted by HKFRS 15 in relation to accounting for consideration payable to a customer and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 3(b) for HKFRS 9 and note 3(c) for HKFRS 15.

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

3. **Changes in Accounting Policies (continued)**

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation (continued)*

(i) Credit losses (continued)

Measurement of ECLs (continued)

Where the effect of discounting is material, the expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof for trade and other receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:
- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowance for trade and other receivables is always measured at an amount equal to lifetime ECL. ECLs are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

The adoption of the ECL model under HKFRS 9 has no material impact on the Group.

(ii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward looking.

The adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied with following impact:

- All hedging relationships designated under HKAS 39 at 31st March 2018 met the criteria for hedge accounting under HKFRS 9 at 1st April 2018 and are therefore regarded as continuing hedging relationships. Changes to hedge accounting policies have been applied prospectively.

3. Changes in Accounting Policies (continued)

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirement only to contracts that were not completed before 1st April 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Consideration payable to a customer

HKFRS 15 requires an entity to account for consideration payable to a customer as a reduction of revenue, unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.

The Group has reassessed the nature of payments to customers and only those for exchanging distinct goods or services with the customers are separately recognised as expenses. As a consequence, revenue and marketing, selling and distribution expenses decreased by HK$81,085,000 for the six months ended 30th September 2018.

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

As a result of the adoption of HKFRS 15, "receipt in advance from customers" previously grouped under "accrued expenses and other payables" within trade and other payables is now separately disclosed in note 11.

(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

3. Changes in Accounting Policies (continued)

(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration (continued)*

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC)22 does not have any material impact on the financial position and the financial result of the Group.

4. 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.

5. 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
For the six months ended 30th September										
Revenue from external customers	**2,992,303**	2,251,779	**1,137,857**	1,093,757	**262,717**	250,578	**54,673**	50,052	**4,447,550**	3,646,166
Inter-segment revenue	**46,230**	43,511	**35,067**	25,436	**1,415**	1,287	**1,313**	1,355	**84,025**	71,589
Reportable segment revenue	**3,038,533**	2,295,290	**1,172,924**	1,119,193	**264,132**	251,865	**55,986**	51,407	**4,531,575**	3,717,755
Reportable segment profit from operations	**564,971**	397,825	**193,758**	183,898	**45,486**	49,208	**905**	4,177	**805,120**	635,108
Additions to non-current segment assets during the period	**386,144**	82,998	**43,195**	53,825	**26,448**	28,771	**2,298**	2,448	**458,085**	168,042
	At 30th September 2018	At 31st March 2018	**At 30th September 2018**	At 31st March 2018	**At 30th September 2018**	At 31st March 2018	**At 30th September 2018**	At 31st March 2018	**At 30th September 2018**	At 31st March 2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Reportable segment assets	**2,909,697**	2,568,086	**2,879,226**	2,842,352	**436,289**	406,790	**66,712**	69,119	**6,291,924**	5,886,347
Reportable segment liabilities	**1,582,620**	1,498,014	**661,033**	575,619	**171,557**	121,176	**14,793**	16,279	**2,430,003**	2,211,088

5. Segment reporting (continued)

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

	Six months ended 30th September	
	2018	2017
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**4,531,575**	3,717,755
Elimination of inter-segment revenue	**(84,025)**	(71,589)
Consolidated revenue	**4,447,550**	3,646,166

	Six months ended 30th September	
	2018	2017
	HK$'000	HK$'000
Profit or loss		
Reportable segment profit from operations	**805,120**	635,108
Finance costs	**(906)**	(918)
Share of losses of joint venture	**(9,490)**	(10,071)
Unallocated head office and corporate expenses	**(91,476)**	(66,792)
Consolidated profit before taxation	**703,248**	557,327

	At 30th September	At 31st March
	2018	2018
	HK$'000	HK$'000
Assets		
Reportable segment assets	**6,291,924**	5,886,347
Elimination of inter-segment receivables	**(993,935)**	(909,792)
	5,297,989	4,976,555
Interest in joint venture	**34,335**	45,291
Deferred tax assets	**111,917**	103,362
Current tax recoverable	**8,670**	10,209
Goodwill	**18,151**	18,983
Unallocated head office and corporate assets	**4,309**	27,778
Consolidated total assets	**5,475,371**	5,182,178

	At 30th September	At 31st March
	2018	2018
	HK$'000	HK$'000
Liabilities		
Reportable segment liabilities	**2,430,003**	2,211,088
Elimination of inter-segment payables	**(375,192)**	(344,300)
	2,054,811	1,866,788
Employee retirement benefit liabilities	**15,691**	16,066
Deferred tax liabilities	**74,856**	73,923
Current tax payable	**84,536**	31,265
Unallocated head office and corporate liabilities	**24,865**	24,990
Consolidated total liabilities	**2,254,759**	2,013,032

6. Profit before taxation

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

	Six months ended 30th September	
	2018	2017
	HK$'000	HK$'000
(a) Finance costs:		
Interest on bank loans	**885**	846
Finance charges on obligations under finance leases	**21**	72
	906	918

	Six months ended 30th September	
	2018	2017
	HK$'000	HK$'000
(b) Other items:		
Interest income	**(7,755)**	(4,043)
Depreciation of investment properties	**264**	264
Amortisation of interests in leasehold land held for own use under operating leases	**1,579**	766
Depreciation of other property, plant and equipment	**123,216**	122,920
Amortisation of intangible assets	**190**	186
Recognition of impairment losses on trade and other receivables	**256**	247
Recognition of impairment losses on property, plant and equipment	**58**	37,191
Net (gain)/loss on forward exchange contracts not designated as hedging instruments	**(101)**	1,212
Cost of inventories	**2,047,563**	1,725,441

7. Income tax

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

	Six months ended 30th September	
	2018	2017
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax	**28,867**	22,908
Current tax – Outside Hong Kong	**137,521**	133,118
Deferred taxation	**(12,890)**	(26,058)
	153,498	129,968

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30th September 2017: 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.

8. Dividends

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

	Six months ended 30th September	
	2018	2017
	HK$'000	HK$'000
Interim dividend declared after the interim period of HK3.8 cents per ordinary share (six months ended 30th September 2017: HK3.8 cents per ordinary share)	**40,322**	40,161

The interim dividend proposed after the end of the reporting period is based on 1,061,117,500 ordinary shares (six months ended 30th September 2017: 1,056,657,500 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	
	2018	2017
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK31.4 cents per ordinary share (six months ended 30th September 2017: HK27.1 cents per ordinary share)	**333,191**	285,831
Special dividend in respect of the previous financial year, approved and paid during the interim period of nil (six months ended 30th September 2017: HK4.2 cents per ordinary share)	**-**	44,299
	333,191	330,130

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$517,727,000 (six months ended 30th September 2017: HK$396,880,000) and the weighted average number of 1,059,802,000 ordinary shares (six months ended 30th September 2017: 1,053,500,000 ordinary shares) in issue during the period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30th September	
	2018	2017
	Number of shares	Number of shares
	'000	'000
Issued ordinary shares at 1st April	**1,058,872**	1,051,692
Effect of share options exercised	**930**	1,808
Weighted average number of ordinary shares at 30th September	**1,059,802**	1,053,500

(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$517,727,000 (six months ended 30th September 2017: HK$396,880,000) and the weighted average number of 1,069,804,000 ordinary shares (six months ended 30th September 2017: 1,061,536,000 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	
	2018	2017
	Number of shares	Number of shares
	'000	'000
Weighted average number of ordinary shares at 30th September	**1,059,802**	1,053,500
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	**10,002**	8,036
Weighted average number of ordinary shares (diluted) at 30th September	**1,069,804**	1,061,536

10. Trade and other receivables

	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Trade debtors and bills receivable	**965,370**	727,465
Less: allowance for doubtful debts	**(1,251)**	(1,022)
	964,119	726,443
Other debtors, deposits and prepayments	**253,021**	228,501
	1,217,140	954,944

As of 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 2018 HK$'000	At 31st March 2018 HK$'000
Within three months	**944,261**	704,686
Three to six months	**19,180**	8,239
Over six months	**678**	13,518
	964,119	726,443

Trade receivables are mainly 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.

11. Trade and other payables

	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Trade creditors and bills payable	**649,484**	574,402
Accrued expenses and other payables	**1,304,411**	931,091
Receipt in advance from customers	**63,097**	358,098
Derivative financial instruments	**-**	181
	2,016,992	1,863,772

As of 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 2018 HK$'000	At 31st March 2018 HK$'000
Within three months	**646,159**	570,706
Three to six months	**1,494**	3,196
Over six months	**1,831**	500
	649,484	574,402

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

12. Bank loans

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

	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Within one year or on demand	**62,684**	27,085

As of the end of the reporting period, 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 financial 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 2018 (six months ended 30th September 2017: HK3.8 cents per ordinary share), to shareholders whose names appear on the Register of Members at the close of business on Friday, 7th December 2018. Dividend warrants will be sent to shareholders on or about Thursday, 20th December 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on Monday, 10th December 2018. 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 Friday, 7th December 2018.

MANAGEMENT REPORT

Business Highlights

The Group has performed ahead of internal growth target in the first six months of Fiscal Year 2018/2019, increasing revenue by 22% versus same period last year, on top of a growth of 23% in first six months of Fiscal Year 2017/2018.

This revenue growth sustains the Company's strong momentum from last year. We expect strong but more moderate growth in the second half of this Fiscal Year.

The Group's growth was broad based as all markets have grown sales revenue.

Mainland China was the fastest growing market, further extending its position as the Group's largest segment. Both Hong Kong and Australia accelerated their growth rate versus last year. Vitasoy-URC, Inc., the Group's joint venture in the Philippines continued to grow the business by gradually building the soy category.

Profit attributable to equity shareholders of the Company delivered solid growth of 30% during the first six months of Fiscal Year 2018/2019, on top of a strong growth in previous interim period. It was mainly contributed by consistently improving profitability in Mainland China and a reduction in effective tax rate.

In view of the Group's solid financial performance, the Board has declared an interim dividend of HK3.8 cents per ordinary share for the six months ended 30th September 2018 (six months ended 30th September 2017: HK3.8 cents per ordinary share), payable on 20th December 2018.

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 2018, the Group's revenue increased 22% to HK$4,448 million (FY2017/2018 interim: HK$3,646 million). All operating entities registered increase in revenue.

  - **Mainland China: +33% (+30% in local currency)**
    As the main contributor to the Group, Vitasoy China experienced strong growth in both revenue and profit. Our strategy of "Go Deep Go Wide" continues to sustain our growth momentum.

  - **Hong Kong Operation (Hong Kong, Macau and Exports): +4%**
    Revenue from Hong Kong Operation showed an acceleration of growth, broad based across its portfolio of products and channels.

  - **Australia and New Zealand: +5% (+9% in local currency)**
    The operation accelerated growth through both improved execution and product innovation.

  - **Singapore: +9% (+7% in local currency)**
    Beyond maintaining its market leadership position in tofu, the operation accelerated growth from the imported beverage business.

Gross Profit and Gross Profit Margin

- The Group's gross profit for the interim period was HK$2,408 million, up 25% (FY2017/2018 interim: HK$1,922 million), mainly driven by increases in sales volume.
- Gross profit margin increased to 54% in the first half of FY2018/2019 (FY2017/2018 interim: 53%), mainly attributed to improving manufacturing efficiency driven by higher volume and favourable trend of commodity prices particularly sugar and milk powder.

Operating Expenses

- Total operating expenses increased 26% to HK$1,712 million (FY2017/2018 interim: HK$1,363 million) as we increased investment in brand equity programs, and higher staff-related and logistic expenses.
- Marketing, selling and distribution expenses increased accordingly 32% to HK$1,215 million (FY2017/2018 interim: HK$920 million). Higher distribution costs was in line with growing sales volume. Expansion of sales team in Mainland China resulted in increased staff costs.
- Administrative expenses increased 21% to HK$309 million (FY2017/2018 interim: HK$255 million), reflecting salary inflationary adjustments, strengthened organisational capacity and competency, and higher professional fees for our digitisation initiatives.
- Other operating expenses were HK$188 million, versus HK$188 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$831 million, representing an increase of 21%. The increase in EBITDA was mainly driven by higher gross profit.

Profit Before Taxation

- Profit before taxation increased by 26% to HK$703 million (FY2017/2018 interim: HK$557 million).

Taxation

- Income tax charged for the interim period was HK$153 million (FY2017/2018 interim: HK$130 million) with an effective tax rate of 22% versus 23% in last interim period.

Profit Attributable to Equity Shareholders of the Company

- Profit attributable to equity shareholders of the Company was HK$518 million, representing an increase of 30% compared to the previous interim period (FY2017/2018 interim: HK$397 million).

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 2018, our cash and bank deposits amounted to HK$977 million (31st March 2018: HK$986 million). 32%, 57% and 8% of our cash and bank deposits were denominated in HKD, RMB and USD, respectively (31st March 2018: 39%, 35% and 23%). As of 30th September 2018, the Group had a net cash balance of HK$914 million (31st March 2018: HK$958 million). Available banking facilities amounted to HK$870 million (31st March 2018: HK$941 million) to facilitate future cash flow needs.
- The Group's borrowings amounted to HK$63 million (31st March 2018: HK$28 million) and were denominated in AUD.
- The gearing ratio (total borrowings/total equity attributable to equity shareholders of the Company) increased to 2% (31st March 2018: 1%).
- The Group's return on capital employed (ROCE) (EBITDA for the interim period/average non-current debt and equity as at 30th September 2018 and 31st March 2018) for the first half of FY2018/2019 was 26% (FY2017/2018 interim: 24%).
- Capital expenditure incurred during the period increased significantly to HK$458 million (FY2017/2018 interim: HK$168 million), to fund the acquisition of land for the new Changping plant in Dongguan City of Guangdong Province of Mainland China, installation of new production lines in both Hong Kong and Mainland China and 2-year infrastructure investment program in Hong Kong.
- There was no asset being pledged under loan and lease arrangement. (31st March 2018: HK$3 million).

Non-financial Key Performance Indicators

- The Group has already disclosed various non-financial key performance indicators (KPIs) in the "Sustainability Report 2017/2018", which was released in July 2018 and dispatched to shareholders together with the Annual Report 2017/2018. The KPIs focused on portfolio ("making the right products") and energy and community impact ("making products the right way"). We continue to remain on track towards our published glide path in this area, with the full FY2018/2019 report to be released in July 2019.

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 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. For the first six months ended 30th September 2018, the Group entered into foreign exchange contracts to manage foreign currency risks for the receipt of royalty and dividend income in Australian dollars from our Australian operation.

General Review

Mainland China

- Vitasoy China achieved 33% in revenue and an even stronger 42% growth in profit, on top of the growth of 39% and 41% in last interim period respectively. The performance was driven by high growth in sales volume, favourable material costs and continuous improvements in manufacturing efficiency. The appreciation of average Renminbi when comparing to previous interim period had a positive impact on results when reported in Hong Kong Dollars.
- Both brands VITASOY and VITA contributed to grow, reflecting increased shoppers' preference for high quality, tasty and sustainable products.
- In particular, the VITASOY brand has accelerated growth despite the increase in the market competitive activities, including both new national launches and more aggressive pricing and promotional activities. The Group re-launched its premium high nutrition VITASOY Health Plus range. For VITA, we continued to drive execution and expansion of our Lemon Tea product across regions and channels.
- Continued application of our "Go Deep Go Wide" strategy has delivered sustainable growth in the Group's business in Mainland China.
- All regions grew strongly, including Guangdong province, and so did all main trading channels. As a result, the Group continues to diversify and broaden its business base. E-commerce operations also continued to grow, helping to promote the Group's brands nationwide, especially in areas not yet reached by current distribution infrastructure.

Hong Kong Operation (Hong Kong, Macau and Exports)

- Revenue increased 4% with broad based growth across all product lines and main channels, across on-the-go and home occasions, with e-commerce registering particularly strong growth from its small base.
- We have accelerated investments in both our core brands VITASOY and VITA.
- A new VITASOY brand equity campaign promoting the benefits of soy consumption, launch of SAN SUI No Sugar Soya Milk and continued investment in CALCI-PLUS enhanced overall growth while strengthening the Group's market leadership position in Hong Kong's soya milk category.
- Under the VITA brand, on top of the existing No Sugar Tea range of Jasmine Tea, Chrysanthemum Tea and Roasted Brown Rice Tea, we launched a new variant Dong Ding Oolong Tea.
- Beyond the above mentioned investments in brand equity, Hong Kong continued its 2-year internal investment programme in manufacturing and logistic infrastructure, setting up the basis for the next wave of growth. This program will intensify with increased spending during this Fiscal Year's second half and next Fiscal Year.

Australia and New Zealand

- Revenue from operations accelerated to 9% in local currency, and 5% in Hong Kong dollars, due to the depreciation of the Australian Dollar.
- The growth rate has increased thanks to the plant milk market's own growth, and expansion of our VITASOY portfolio across both ambient and chilled aisles of major supermarkets.
- During the period we have been driving our previously introduced Protein Plus and Almond variants, and secured price and promotion competitiveness.
- The market keeps evolving ever more rapidly, and thus our product innovation will be an ever more important growth driver for the rest of the Fiscal Year and going forward.

Singapore

- Vitasoy Singapore grew revenue by 9% in Hong Kong Dollars, maintaining its strong position in the core tofu business as well as accelerating growth in the imported beverage business.
- We are determined to gradually scale up our operation.
- We have thus increased our investments and will continue to do so, to secure the right organizational capability, amplification and infrastructure for the future.

General Outlook

Looking towards the second half of the fiscal year, the Group expects growth to continue at a strong yet more moderate pace. We expect Mainland China to continue to be our fastest growing market, behind a balanced combination of per capita consumption increase in our established markets and geographical expansion.

Mainland China

- We will continue to execute the "Go Deep Go Wide" strategy that has been delivering results and scale. Proactively addressing an intensified competitive environment, we have accelerated investment in building brand equity as well as enhanced marketing efforts in trials and promotions.

Hong Kong Operation (Hong Kong, Macau and Exports)

- We will continue to focus on core products under the VITASOY and VITA brands, also including tailored innovations in communication and product assortment. Our 2-year investment programme will accelerate spending in production and logistics' infrastructure, creating stronger fundamentals for the next wave of growth.

Australia and New Zealand

- We will complement our execution efforts with more product innovation to stay ahead in the increasingly dynamic plant milk market in both Australia and New Zealand.

Singapore

- We will grow both our core tofu business and our imported beverage portfolio to accelerate scaling up the operation.

Philippines

- Our joint venture with Universal Robina Corporation is increasing awareness of our VITASOY platform and its benefit, driving trial and adoption across both on-the-go and home occasions. We are gradually building scale, and this is happening as expected through continuing to bring new users into VITASOY and the soymilk category gradually and consistently.

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 2018, 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 2018.

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 2018.

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 2018 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, 21st November 2018

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.