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 2021

HIGHLIGHTS

- Revenue in the first six months of FY2021/2022 declined by 18%. While our operations in Hong Kong, Australia/New Zealand and Singapore grew steadily despite persistent COVID-19 limitations, our Mainland China sales and profits were severely impacted by the sales disruption as explained in our earlier profit warning announcement published on 6th August 2021.

- Profit from operations dropped by 95%, as a result of the fall in Mainland China sales, exacerbated by the reduction of pandemic related subsidies from governments as COVID-19 was gradually brought under control, and the return to advertising and promotion spending versus the previous year, during which such spending had been reduced due to the pandemic.

- Key business highlights
  - Mainland China – Performance was severely impacted due to the sales disruption during the peak season.
  - Hong Kong Operation – Solid growth via new product offerings whilst dealing with COVID-19 challenges.
  - Australia and New Zealand – Strong growth on both core and innovation products despite extended lockdowns.
  - Singapore – Gradual scale up of the imported beverage business.

- For the six months ended 30th September 2021 ("interim period"), the Group's revenue decreased 18% to HK$3,604 million.

- The Group's gross profit for the interim period was HK$1,727 million, down 28%, mainly due to lower sales volume.

- Gross profit margin dropped to 48% for the interim period, mainly attributable to lower sales volume, higher trade promotional expenses and reduction of government subsidies.

- EBITDA for the interim period was HK$320 million, representing a decrease of 72%. The decrease in EBITDA was mainly driven by lower sales performance, increased operating expenses and significantly lower government subsidies.

- EBITDA margin to revenue decreased from 26% to 9%.

- Profit before taxation decreased by 96% to HK$34 million.

- Profit attributable to equity shareholders of the Company was HK$33 million, representing a decrease of 95% compared to the previous interim period.

- In view of the disappointing results and the priority being given to restoring the performance of our Mainland China business, the Board of the Company has not declared an interim dividend for the interim period (six months ended 30th September 2020: HK3.8 cents per ordinary share).

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, including a structured entity (the "Group") for the six months ended 30th September 2021 (the "interim period"), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30th September 2021 HK$'000 (Unaudited)	2020 (Restated) HK$'000 (Unaudited)
Revenue	4, 5	**3,604,073**	4,410,245
Cost of sales		**(1,877,543)**	(2,000,574)
Gross profit		**1,726,530**	2,409,671
Other income		**52,980**	54,376
Marketing, selling and distribution expenses		**(1,174,684)**	(1,050,682)
Administrative expenses		**(352,192)**	(328,760)
Other operating expenses	6(c)	**(210,101)**	(155,505)
Profit from operations		**42,533**	929,100
Finance costs	6(a)	**(8,879)**	(5,842)
Share of losses of joint venture		**-**	(7,285)
Profit before taxation	6	**33,654**	915,973
Income tax	7	**7,321**	(216,413)
Profit for the period		**40,975**	699,560
Attributable to:			
Equity shareholders of the Company		**32,804**	671,905
Non-controlling interests		**8,171**	27,655
Profit for the period		**40,975**	699,560
Earnings per share	9		
Basic		**HK 3.1 cents**	HK 63.1 cents
Diluted		**HK 3.1 cents**	HK 62.6 cents

Details of dividends of the Company are set out in note 8.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30th September	
	2021	2020
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period	**40,975**	699,560
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	**22,965**	145,208
- Cash flow hedge: net movement in the hedging reserve	**(919)**	556
Other comprehensive income for the period	**22,046**	145,764
Total comprehensive income for the period	**63,021**	845,324
Attributable to:		
Equity shareholders of the Company	**58,584**	792,935
Non-controlling interests	**4,437**	52,389
Total comprehensive income for the period	**63,021**	845,324

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**At 30th September 2021** **HK$'000**	**HK$'000**	At 31st March 2021 HK$'000	HK$'000
		(Unaudited)		(Audited)	
Non-current assets					
Property, plant and equipment					
- Investment properties			**3,312**		3,376
- Right-of-use assets			**338,502**		351,797
- Other property, plant and equipment			**3,681,315**		3,787,545
			4,023,129		4,142,718
Deposits for the acquisition of property, plant and equipment			**1,324**		2,404
Intangible assets			**3,344**		3,697
Goodwill	10		**6,450**		18,352
Interest in joint venture			**-**		-
Deferred tax assets			**170,143**		139,489
			4,204,390		4,306,660
Current assets					
Inventories		**618,048**		725,526	
Trade and other receivables	11	**1,189,494**		1,194,108	
Current tax recoverable		**73,591**		79,594	
Cash and bank deposits		**799,944**		970,522	
		2,681,077		2,969,750	
Current liabilities					
Trade and other payables	12	**2,531,798**		2,819,336	
Bank loans	13	**286,491**		130,306	
Lease liabilities		**95,777**		93,582	
Current tax payable		**68,985**		40,750	
		2,983,051		3,083,974	
Net current liabilities			**(301,974)**		(114,224)
Total assets less current liabilities			**3,902,416**		4,192,436

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**At 30th September 2021**		At 31st March 2021	
		HK$'000	**HK$'000**	HK$'000	HK$'000
		(Unaudited)		(Audited)	
Non-current liabilities					
Lease liabilities		**94,201**		111,853	
Employee retirement benefit liabilities		**5,790**		7,461	
Deferred tax liabilities		**105,573**		116,248	
			205,564		235,562
NET ASSETS			**3,696,852**		3,956,874
CAPITAL AND RESERVES					
Share capital			**1,013,027**		984,030
Reserves			**2,370,785**		2,632,023
Total equity attributable to equity shareholders of the Company			**3,383,812**		3,616,053
Non-controlling interests			**313,040**		340,821
TOTAL EQUITY			**3,696,852**		3,956,874

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.

This interim financial report has been prepared on a going concern basis notwithstanding that the Group had net current liabilities of HK$301,974,000 at the end of the reporting period. In preparing this interim financial report, the Directors have given careful consideration to the current and anticipated future liquidity of the Group. Taking into account, inter alia, (i) cash and bank deposits of HK$799,944,000 at 30th September 2021, (ii) the unutilised loan facilities at the end of the reporting period, and (iii) the expected net cash inflows generated from the Group's operations for the next twelve months, the Directors are of the opinion that the Group will be able to meet its liabilities as and when they fall due. Accordingly, the Directors consider that the preparation of this interim financial report on a going concern basis is appropriate.

The financial information relating to the financial year ended 31st March 2021, which is included in the announcement of the results for the six months ended 30th September 2021 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 2021 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, KPMG, 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. Significant Accounting Policies

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020/2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021/2022 annual financial statements. Details of any changes in accounting policies arising from adoption of new and amended standards and adoption of a share award scheme are set out as below.

(a) New and amended standards adopted by the Group

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

The impact of the adoption of the amended HKFRSs is discussed below:

Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021 (2021 amendment)*

The Group previously applied the practical expedient in HKFRS 16 such that, as lessee, it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions were met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30th June 2021 to 30th June 2022.

The Group has adopted the 2021 amendment in this financial year. There is no impact on the opening balance of equity at 1st April 2021.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

The amendments provide targeted relief from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform"). The amendments do not have an impact on this interim financial report as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Significant Accounting Policies (continued)

(b) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans under which the Group receives services from employees as consideration for equity instruments of the Company. These plans comprise share option schemes and a share award scheme.

The fair value of share options or share awards granted to employees is recognised as an employee cost with a corresponding increase in the share-based compensation reserve within equity. The fair value is measured at grant date taking into account the terms and conditions upon which the options or the awarded shares were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options or the awarded shares, the total estimated fair value of the options or the awarded shares is spread over the vesting period, taking into account the probability that the options or the awarded shares will vest.

During the vesting period, the number of share options or the awarded shares that are expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options or awarded shares that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares.

For the share option schemes, the equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

For the share award scheme, the Group may acquire its own shares through the trustee of the share award scheme on the Stock Exchange for the shares to be vested under the share award scheme. The shares acquired by the Group that are not yet vested for this share award scheme were recorded as treasury shares and recorded as "Shares held for share award scheme" as a deduction under equity. Upon vesting of the awarded shares, the related costs of the acquired shares are reduced from the "Shares held for share award scheme", and the related fair value of the awarded shares are debited to share-based compensation reserve with the difference charged/credited to equity.

The Group may also issue new shares for the vested share awards. The amount previously recognised in share-based compensation reserve will be transferred to share capital upon the issuance of new shares.

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	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
		(Restated)		*(Restated)*						*(Restated)*
	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	**2,230,336**	3,135,648	**1,011,076**	977,254	**300,563**	237,310	**62,098**	60,033	**3,604,073**	4,410,245
Inter-segment revenue	**44,054**	32,607	**13,029**	20,072	**3,931**	5,129	**2,131**	1,981	**63,145**	59,789
Reportable segment revenue	**2,274,390**	3,168,255	**1,024,105**	997,326	**304,494**	242,439	**64,229**	62,014	**3,667,218**	4,470,034
Reportable segment (loss)/profit from operations	**(32,587)**	742,623	**124,067**	212,701	**34,866**	30,415	**(3,343)**	516	**123,003**	986,255
Additions to non-current segment assets during the period	**51,731**	356,554	**44,697**	67,024	**20,678**	2,063	**10,561**	1,859	**127,667**	427,500
	At 30th September 2021	At 31st March 2021	**At 30th September 2021**	At 31st March 2021	**At 30th September 2021**	At 31st March 2021	**At 30th September 2021**	At 31st March 2021	**At 30th September 2021**	At 31st March 2021
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Reportable segment assets	**4,084,802**	4,430,545	**3,462,307**	3,578,124	**469,840**	461,614	**122,292**	105,208	**8,139,241**	8,575,491
Reportable segment liabilities	**2,635,004**	2,750,636	**835,207**	820,889	**152,872**	126,521	**36,200**	29,611	**3,659,283**	3,727,657

5. Segment reporting (continued)

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

	Six months ended 30th September	
	2021	2020
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**3,667,218**	4,470,034
Elimination of inter-segment revenue	**(63,145)**	(59,789)
Consolidated revenue	**3,604,073**	4,410,245

	Six months ended 30th September	
	2021	2020
		(Restated)
	HK$'000	HK$'000
Profit or loss		
Reportable segment profit from operations	**123,003**	986,255
Finance costs	**(8,879)**	(5,842)
Share of losses of joint venture	**-**	(7,285)
Recognition of impairment losses on goodwill	**(11,852)**	-
Unallocated head office and corporate expenses	**(68,618)**	(57,155)
Consolidated profit before taxation	**33,654**	915,973

	At 30th September	At 31st March
	2021	2021
	HK$'000	HK$'000
Assets		
Reportable segment assets	**8,139,241**	8,575,491
Elimination of inter-segment receivables	**(1,507,132)**	(1,544,815)
	6,632,109	7,030,676
Interest in joint venture	**-**	-
Deferred tax assets	**170,143**	139,489
Current tax recoverable	**73,591**	79,594
Goodwill	**6,450**	18,352
Unallocated head office and corporate assets	**3,174**	8,299
Consolidated total assets	**6,885,467**	7,276,410

	At 30th September	At 31st March
	2021	2021
	HK$'000	HK$'000
Liabilities		
Reportable segment liabilities	**3,659,283**	3,727,657
Elimination of inter-segment payables	**(676,284)**	(598,539)
	2,982,999	3,129,118
Employee retirement benefit liabilities	**5,790**	7,461
Deferred tax liabilities	**105,573**	116,248
Current tax payable	**68,985**	40,750
Unallocated head office and corporate liabilities	**25,268**	25,959
Consolidated total liabilities	**3,188,615**	3,319,536

6. Profit before taxation

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

	Six months ended 30th September	
	2021	2020
	HK$'000	HK$'000
(a) Finance costs:		
Interest on bank loans	**5,656**	1,397
Interest on lease liabilities	**3,223**	4,445
	8,879	5,842

	Six months ended 30th September	
	2021	2020
	HK$'000	HK$'000
(b) Other items:		
Interest income from bank deposits	**(3,662)**	(2,675)
Interest income from loan to joint venture	**(894)**	(1,296)
Government grants (Note (i))	**(30,509)**	(136,394)
COVID-19-related rent concessions	**(12,341)**	(13,706)
Depreciation of investment properties	**63**	63
Depreciation of right-of-use assets	**49,109**	53,034
Depreciation of other property, plant and equipment	**232,644**	173,023
Amortisation of intangible assets	**346**	315
Recognition of impairment losses on trade and other receivables	**4,544**	54
Recognition of impairment losses on property, plant and equipment	**1,545**	4,897
Recognition of impairment losses on goodwill	**11,852**	-
Cost of inventories (Note (ii))	**1,890,584**	1,998,891

Notes:

(i) During the current interim period, government grants related to an investment in Mainland China in 2020 of HK$25,333,000 (six months ended 30th September 2020: nil) were received from the government of the People's Republic of China. Other government grants included COVID-19 financial assistance in Mainland China, Hong Kong and Singapore amounting to HK$4,000,000 (six months ended 30th September 2020: HK$134,011,000), of which HK$1,083,000 (six months ended 30th September 2020: HK$27,791,000) was included in other income, HK$1,179,000 (six months ended 30th September 2020: HK$100,179,000) was netted off against staff costs and HK$1,738,000 (six months ended 30th September 2020: HK$6,041,000) was netted off against cost of sales and operating expenses.

(ii) Cost of inventories included recognition of write down of inventories of HK$15,595,000 (six months ended 30th September 2020: HK$397,000).

6. Profit before taxation (continued)

	Six months ended 30th September	
	2021	2020
		(Restated)
	HK$'000	HK$'000
(c) Other operating expenses:		
Staff costs	**93,773**	75,123
Warehouse expenses	**3,911**	5,130
Sundry tax in Mainland China	**21,271**	26,564
Management fee charged by a related party	**18,932**	15,000
Royalty withholding tax	**8,011**	12,084
Quality assurance and sampling expenses	**7,125**	7,315
Repair and maintenance expenses	**3,385**	1,954
Net gain on disposal of property, plant and equipment	**(318)**	(395)
Recognition of impairment losses on trade and other receivables	**4,544**	54
Recognition of impairment losses on property, plant and equipment	**1,545**	4,897
Recognition of impairment losses on goodwill	**11,852**	-
Recognition/(reversal) of write down of inventories	**13,041**	(983)
Others	**23,029**	8,762
	210,101	155,505

7. Income tax

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

	Six months ended 30th September	
	2021	2020
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax	**14,234**	27,935
Current tax – Outside Hong Kong	**18,318**	241,475
Deferred taxation	**(39,873)**	(52,997)
	(7,321)	216,413

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30th September 2020: 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	
	2021	2020
	HK$'000	HK$'000
No interim dividend declared after the interim period (six months ended 30th September 2020: HK3.8 cents per ordinary share)	**-**	40,465

The interim dividend declared after 30th September 2020 is based on 1,064,867,500 ordinary shares, being the total number of issued shares at the date of approval of the interim financial report.

At 30th September 2020, the interim dividend declared has not been recognised as a liability.

(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	
	2021	2020
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK29.0 cents per ordinary share (six months ended 30th September 2020: HK28.4 cents per ordinary share)	**310,158**	302,325

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$32,804,000 (six months ended 30th September 2020: HK$671,905,000) and the weighted average number of 1,068,026,000 ordinary shares (six months ended 30th September 2020: 1,064,138,000 ordinary shares) in issue during the period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30th September	
	2021	2020
	Number of shares	Number of shares
	'000	'000
Issued ordinary shares at 1st April	**1,067,188**	1,063,778
Effect of share options exercised	**959**	360
Effect of shares purchased under share award scheme	**(121)**	-
Weighted average number of ordinary shares at 30th September	**1,068,026**	1,064,138

(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$32,804,000 (six months ended 30th September 2020: HK$671,905,000) and the weighted average number of 1,073,913,000 ordinary shares (six months ended 30th September 2020: 1,073,626,000 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	
	2021	2020
	Number of shares	Number of shares
	'000	'000
Weighted average number of ordinary shares at 30th September	**1,068,026**	1,064,138
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	**5,887**	9,488
Weighted average number of ordinary shares (diluted) at 30th September	**1,073,913**	1,073,626

As at 30th September 2021, the Group had potential dilutive shares in connection with its share option scheme and share award scheme (30th September 2020: share option scheme only). The potential ordinary shares relating to the share award scheme were not included in the calculation of diluted earnings per share as they did not give rise to any dilutive effect for the period.

10. Goodwill

	At 30th September 2021 HK$'000	At 31st March 2021 HK$'000
At 1st April 2021/1st April 2020	**18,352**	17,251
Recognition of impairment losses for the period/year	**(11,852)**	-
Exchange adjustments	**(50)**	1,101
At 30th September 2021/31st March 2021	**6,450**	18,352

Impairment testing for cash-generating unit containing goodwill

Goodwill arose from the acquisition of the entire share capital of Vitasoy International Singapore Pte. Ltd. ("VIS").

The recoverable amount of the VIS operation is determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period (31st March 2021: five-year period). Cash flows beyond the five-year period (31st March 2021: five-year period) are extrapolated using an annual growth rate of 3% (31st March 2021: 3%). The growth rate does not exceed the long-term average growth rate for the business in which the VIS operation operates.

Key assumptions used for the value-in-use calculation:

	At 30th September 2021	At 31st March 2021
- Gross margin	**31.9%**	34.3%
- Average annual sales growth rate for the five-year period	**12.9%**	10.6%
- Pre-tax discount rate	**9.5%**	8.8%

Management determined the budgeted gross margin and sales growth rate based on past performance and its expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant segment.

As the cash generating unit has been reduced to its recoverable amount of HK$61,546,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

11. Trade and other receivables

	At 30th September 2021 HK$'000	At 31st March 2021 HK$'000
Trade debtors and bills receivable, net of loss allowance	**856,853**	819,987
Other debtors, deposits and prepayments	**332,641**	374,121
	1,189,494	1,194,108

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 loss allowances, is as follows:

	At 30th September 2021 HK$'000	At 31st March 2021 HK$'000
Within three months	**831,048**	803,401
Three to six months	**20,357**	11,163
Over six months	**5,448**	5,423
	856,853	819,987

Trade debtors and bills receivable are generally 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. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

12. Trade and other payables

	At 30th September 2021 HK$'000	At 31st March 2021 HK$'000
Trade creditors and bills payable	**904,799**	976,968
Accrued expenses and other payables	**1,554,004**	1,627,752
Receipts in advance from customers	**72,995**	214,616
	2,531,798	2,819,336

12. Trade and other payables (continued)

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 2021 HK$'000	At 31st March 2021 HK$'000
Within three months	**900,917**	970,805
Three to six months	**514**	5,867
Over six months	**3,368**	296
	904,799	976,968

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

13. Bank loans

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

	At 30th September 2021 HK$'000	At 31st March 2021 HK$'000
Within one year or on demand	**286,491**	130,306

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.

14. Comparative figures

Certain reclassifications were made to the consolidated statement of profit or loss to conform with the current period's presentation in order to better reflect the nature of underlying expenses. As a result, marketing, selling and distribution expenses increased by HK$44,248,000, administrative expenses decreased by HK$22,392,000 and other operating expenses decreased by HK$21,856,000.

Certain expenses of Mainland China and Hong Kong Operation segments as disclosed in note 5 have been reallocated to conform with the current period's presentation to reflect more appropriately the performance of the reportable segments. As a result, head office and corporate administrative costs decreased by HK$37,331,000 and reportable segment profit from operations of Mainland China and Hong Kong Operation decreased by HK$31,735,000 and HK$5,596,000 respectively.

INTERIM DIVIDEND

The Board of the Company has not declared an interim dividend for the six months ended 30th September 2021 (six months ended 30th September 2020: HK3.8 cents per ordinary share).

MANAGEMENT REPORT

Business Highlights

Revenue in the interim period declined by 18%. While our operations in Hong Kong, Australia/New Zealand and Singapore grew steadily despite persistent COVID-19 limitations, our Mainland China sales and profits were severely impacted by the sales disruption as explained in our earlier profit warning announcement published on 6th August 2021.

Profit from operations dropped by 95%, as a result of the fall in Mainland China sales, exacerbated by the reduction of pandemic related subsidies from governments as COVID-19 was gradually brought under control, and the return to advertising and promotion spending versus the previous year during which such spending had been reduced due to the pandemic.

Mainland China's revenue shortfall during the peak summer months has significantly impacted business performance. Hong Kong was able to deliver growth despite travel restrictions, border closures and disrupted school schedules. Australia performed strongly on the back of a rebounding economy and new product offerings. Singapore has also recovered steadily in the local beverage and tofu export business despite the resurgence of COVID-19 cases when the country reopened borders. For the Philippines operation, the sustained lockdowns hindered growth in the on-the-go category, whilst our home consumption offering has continued to grow steadily.

Profit attributable to equity shareholders of the Company decreased by 95%, in line with the profit warning announced on 6th August, 2021.

Despite the above significant headwinds and disruption, the Group has implemented a comprehensive program to accelerate the sales recovery in Mainland China whilst continuing to fuel success in the other growing markets. We expect Mainland China to regain momentum from new product launches, enhanced sales execution followed by a return to profitable growth in the next Fiscal Year.

In view of the disappointing results and the priority being given to restoring the performance of our Mainland China business, the Board of the Company has not declared an interim dividend for the six months ended 30th September 2021 (six months ended 30th September 2020: HK3.8 cents per ordinary share).

Financial Highlights

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

Revenue

- For the six months ended 30th September 2021, the Group's revenue decreased 18% to HK$3,604 million (FY2020/2021 interim: HK$4,410 million).

  - **Mainland China: -29% (-35% in local currency)**
    Revenue in second quarter impacted by not being on shelves and not advertising for most of the July – September quarter.

  - **Hong Kong Operation (Hong Kong, Macau and Exports): +3%**
    Hong Kong benefited from the success of new product launches despite ongoing disruption from COVID-19.

  - **Australia and New Zealand: +27% (+17% in local currency)**
    Solid growth momentum on back of successful innovations in our Oat Milk portfolio and new advertising campaign despite COVID-19 extended lockdowns.

  - **Singapore: +3% (On par in local currency)**
    Growth driven by local beverages and tofu exports.

Gross Profit and Gross Profit Margin

- The Group's gross profit for the interim period was HK$1,727 million, down 28% (FY2020/2021 interim: HK$2,410 million), mainly due to lower sales volume.
- Gross profit margin dropped to 48% in the interim period (FY2020/2021 interim: 55%), mainly attributed to lower sales volume, higher trade promotional expenses and reduction of government subsidies.

Operating Expenses

- Total operating expenses increased 13% to HK$1,737 million (FY2020/2021 interim: HK$1,535 million), mainly due to reduction of pandemic related government subsidies, resumption of advertising and promotion spending, write-downs of inventories and impairment of goodwill in the Singapore business.
- Marketing, selling and distribution expenses increased 12% to HK$1,175 million (FY2020/2021 interim: HK$1,051 million) reflecting increased staff costs for building up the expansion of the sales network in Mainland China, resumption of advertising and promotion expenses and significantly lower government subsidies.
- Administrative expenses increased 7% to HK$352 million (FY2020/2021 interim: HK$329 million), mainly due to reduction of pandemic related government subsidies.
- Other operating expenses were HK$210 million, mainly including staff costs for other supporting functions, management fees charged by a related party and sundry tax charges in Mainland China, versus HK$155 million for the same period last year. The increase was attributable to lower government subsidies, partial impairment of goodwill in the Singapore business, and write-downs of inventories.

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$320 million, representing a decrease of 72%. The decrease in EBITDA was mainly driven by lower sales performance, increased operating expenses and significantly lower government subsidies.
- EBITDA margin to revenue decreased from 26% to 9% as a result.

Profit Before Taxation

- Profit before taxation for the interim period decreased by 96% to HK$34 million (FY2020/2021 interim: HK$916 million).

Taxation

- Income tax credited for the interim period was HK$7 million (FY2020/2021 interim: income tax charged HK$216 million) and the effective tax rate was -22%, representing higher net tax credits arising from losses in Mainland China.

Profit Attributable to Equity Shareholders of the Company

- Profit attributable to equity shareholders of the Company for the interim period was HK$33 million, representing a decrease of 95% compared to the previous interim period (FY2020/2021 interim: HK$672 million).

Financial Position

- The Group finances its operations and capital expenditure primarily through internally generated cash as well as banking facilities provided by its principal bankers. As at 30th September 2021, cash and bank deposits amounted to HK$800 million (31st March 2021: HK$971 million), of which 37%, 54% and 3% were denominated in Hong Kong dollars (HKD), Renminbi (RMB) and United States dollars (USD), respectively (31st March 2021: 40%, 52% and 2%). As of 30th September 2021, the Group had a net cash balance (cash and bank deposits less bank borrowings, bills payable and lease liabilities) of HK$81 million (31st March 2021: HK$453 million). Available banking facilities amounted to HK$894 million (31st March 2021: HK$905 million) to facilitate future cash flow needs.
- The Group's debt amounted to HK$719 million (31st March 2021: HK$518 million) of which bank borrowings amounted to HK$286 million (31st March 2021: HK$130 million), bills payable amounted to HK$243 million (31st March 2021: HK$183 million), and lease liabilities amounted to HK$190 million (31st March 2021: HK$205 million).
- The gearing ratio (total debt/total equity attributable to equity shareholders of the Company) increased to 21% (31st March 2021: 14%). The gearing ratio would have been 16% (31st March 2021: 9%) had lease liabilities been excluded from total borrowings.
- The Group's return on capital employed (ROCE) (EBITDA for the interim period/average non-current debt and equity as at 30th September 2021 and 31st March 2021) for the first half of FY2021/2022 was 8% (FY2020/2021 interim: 30%).
- Capital expenditure incurred during the period amounted to HK$95 million (FY2020/2021 interim: HK$359 million), primarily to fund the upgrade of production capability.
- There were no assets pledged under loan and/or lease arrangements.

Non-financial Key Performance Indicators

- The Group has already disclosed various non-financial key performance indicators (KPIs) in the "Sustainability Report 2020/2021", which was published in July 2021 together with the Annual Report 2020/2021. The KPIs focused on product and packaging portfolio improvement ("making the right products") and reduction in energy used ("making products the right way"). It is expected that the Group continues to remain on track with its published glide path throughout the year ending 31st March 2022, and those KPIs would be published in the Sustainability Report 2021/2022 to be released in July 2022.

Financial Risk Management

- The Group's overall financial management policy focuses on anticipating, mitigating, 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.

General Review

Mainland China

- Revenues in the interim period declined by 35% in local currency versus the previous year primarily due to product being off the shelves during the July – September peak summer months. Due to RMB appreciation, our revenue dropped 29% in HKD terms. Encouragingly, sales are forecast to improve as product presence is beginning to be restored from the end of September, with advertising restarting albeit gradually and selectively on a province by province basis, according to consumer sentiment.
- Loss from operations was RMB27 million for the interim period, a decline from a profit of RMB670 million of the last interim period. Key contributing factors included lower sales volume, as well as significantly lower government subsidies versus the previous year. Excluding government subsidies, loss from operations would have been RMB28 million for the interim period while profit from operations had been be RMB628 million last year.
- At the end of September, we initiated a number of in-store activations for the Mid-Autumn Festival, school promotions for the start of the new school year and also corporate enhancement participations like the 21st China International Fair for Investment & Trade, to strongly emphasise our corporate values and mission of providing plant based, sustainable, tasty and nutritional products. We will strengthen these activities in the second half to accelerate the scale of recovery, with the goal to restore growth in the new fiscal year.
- Encouragingly, whilst the summer 2021 innovation program was disrupted, we have gathered strong favorable consumer feedback on our new product innovations. For VITASOY brand, we launched a whole new brand VITAOAT oat milk to step change growth in this very promising segment. For VITA brand, the new VITA Sparkling Lemon Tea introduced a whole new refreshing tea experience, which creates a new platform for the brand.
- Mainland China business registered a loss from operations of HK$33 million for the interim period versus interim profit of HK$743 million last year.

Hong Kong Operation (Hong Kong, Macau and Exports)

- The Hong Kong Operation grew by 3%, with convenience store channels recovering and e-commerce expanding. The Group's Vitaland tuckshop business in schools has improved although the COVID-19 restrictions have not been completely lifted.
- Profit from operations dropped 42%, mainly resulting from significantly lower government subsidies and higher investment spending to support anticipated peak season demand compared to the previous interim period. Excluding government subsidies, profit from operations dropped by 8%.
- We have enriched our plant milk offerings to introduce VITAOAT, a whole new tasty oat milk. For VITA brand, in addition to the launch of VITA Sparkling Lemon Tea in Mainland China, we also successfully introduced new VITA Fresh Tea to bring an innovative VITA tea experience to shoppers who are interested in chilled short shelf-life products.

Australia and New Zealand

- The Australia and New Zealand business delivered strong growth behind strong core performance and the success of new product offerings, particularly in the new promising Oat Milk segment. Despite the extended lockdown in Victoria state, which impacted the rate of recovery in coffee channel, revenue grew 17% in local currency terms versus the interim period last year.
- Profit from operations for the interim period grew 6% in local currency terms as a result of higher gross profit, partially offset by higher freight costs, advertising and promotional spending for new products and brand equity building.
- Due to the appreciation of the Australian dollars, revenue grew 27% while profit from operations grew 15% in HKD terms.

Singapore

- Singapore revenue was flat in local currency terms, mainly attributable to increased imported beverages and tofu export business, partially offset by lower domestic tofu sales due to consumers over stocking during COVID-19 pandemic-related lockdown last year. Loss from operation was SGD577,000 for the interim period, falling from last interim profit of SGD92,000, as the operation faced higher costs of production, and freight costs amid COVID-19 restrictions, and the depressed local market conditions from ongoing lockdowns.
- Due to the appreciation of the Singapore dollar, revenue grew 3% in HKD terms, while the loss from operation was HK$3,343,000 for the interim period versus an interim profit of HK$516,000 last year.

General Outlook

Although the Group's growth path was temporarily disrupted by the shortfall of Mainland China sales in the summer and from the COVID-19 limitations, we remain confident about a recovery in our Mainland China business; the Group's long term prospects, favorable market and consumer trends, our Group's positioning and product innovation, production capability and upcoming new product pipeline for 2022.

Mainland China

- We will continue to accelerate the full re-activation of advertising and in-store activities, driving both of our winning core portfolio as well as innovation products launched in this year, including VITAOAT Oat Milk and VITA Sparkling Lemon Tea, to accelerate the recovery and bring about a restoration of sustainable growth in 2022.

Hong Kong Operation (Hong Kong, Macau and Exports)

- The Hong Kong Operation will continue its growth via product innovation and market activation programs despite existing COVID-19 constraints affecting our school business.

Australia and New Zealand

- We will continue to drive growth in both Australia and New Zealand, via quality executions of our broad plant-based milk innovation portfolio across both on premise and off premise channels.

Singapore

- We will invest on scaling up Singapore behind relaunch of the local tofu business and the introduction of new plant milk products in the second half of the fiscal year.

The Philippines

- Our joint venture with Universal Robina Corporation will continue to focus on establishing the VITASOY brand in the Philippines. We will continue to drive multi-serve offerings while strengthening brand equity for future growth.

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 2021, 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 2021.

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 fulfilment 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 2021, except that the trustee of the Company's Share Award Scheme purchased on The Stock Exchange of Hong Kong Limited a total of 500,000 shares of the Company at a total consideration of about HK$10 million to satisfy the award of shares to selected participants pursuant to the terms of the rules and trust deed of the Share Award Scheme.

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 2021 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, 25th November 2021

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.