維他奶國際集團有限公司
VITASOY INTERNATIONAL HOLDINGS LTD.
(Incorporated in Hong Kong with limited liability)
(Stock code: 345)

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2016

HIGHLIGHTS

- During the first half of FY2016/2017, the Vitasoy Group maintained above market average growth, though at a slower pace - cycling the high growth of the same period last year. This performance was in line with our determination to deliver "Sustainable Growth" through execution, expansion and innovation.

- Key business performances
  - Mainland China – Delivering sustainable growth, benefiting from the "Go Deep Go Wide" strategy.
  - Hong Kong Operation (Hong Kong, Macau and Exports) – Below target performance, also impacted by manufacturing issues.
  - Australia and New Zealand – Consolidating solid market leadership position with accelerating growth in sales and profit.
  - Singapore – Expanding Tofu leadership position yet performance affected by Imported Beverage business during transition period of distributor.

- The Group's half year revenue reached HK$3,013 million, down 3%. Excluding the impact of the North American divestiture, the Group achieved a year-on-year increase of 3% against last year.

- Gross profit was HK$1,611 million, up 1%, with gross profit margin improved to 53%. Excluding the impact of the North American divestiture, gross profit up by 3% with gross profit margin maintained at 54%.

- EBITDA (Earnings before interest income, finance costs, income tax, depreciation and amortisation) for the period was HK$765 million, up HK$236 million or 45%. Before the net gain on the North American divestiture, EBITDA increased by 9%.

- EBITDA margin to revenue was 25%. Before the net gain on the North American divestiture, EBITDA margin to revenue was 19%.

- Profit before taxation was HK$648 million, an increase of 54%. Before the net gain on the North American divestiture, profit before taxation improved by 9%.

- Profit attributable to equity shareholders of the Company increased by 48% to HK$460 million. Before the net gain on the North American divestiture, profit attributable to equity shareholders of the Company increased by 15%.

- The Board of Directors has declared an interim dividend of HK3.8 cents per ordinary share to be paid on 29th December 2016.

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 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30th September **2016** **HK$'000** **(Unaudited)**	 2015 HK$'000 (Unaudited)
Revenue	3, 4	**3,013,183**	3,116,656
Cost of sales		**(1,402,038)**	(1,519,065)
Gross profit		**1,611,145**	1,597,591
Other income		**20,152**	12,451
Net gain on disposal of assets and liabilities classified as held for sale	5(b), 10	**189,857**	-
Marketing, selling and distribution expenses		**(801,617)**	(811,675)
Administrative expenses		**(232,428)**	(235,859)
Other operating expenses		**(137,663)**	(138,221)
Profit from operations		**649,446**	424,287
Finance costs	5(a)	**(1,392)**	(1,953)
Profit before taxation	5	**648,054**	422,334
Income tax	6	**(163,737)**	(93,161)
Profit for the period		**484,317**	329,173
Attributable to:			
Equity shareholders of the Company		**459,989**	309,594
Non-controlling interests		**24,328**	19,579
Profit for the period		**484,317**	329,173
Earnings per share	8		
Basic		**HK43.8 cents**	HK29.7 cents
Diluted		**HK43.5 cents**	HK29.4 cents

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30th September	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period	**484,317**	329,173
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 outside Hong Kong	**(48,976)**	(50,517)
- Cash flow hedge: net movement in the hedging reserve	**93**	47
Other comprehensive income for the period	**(48,883)**	(50,470)
Total comprehensive income for the period	**435,434**	278,703
Attributable to:		
Equity shareholders of the Company	**414,573**	270,407
Non-controlling interests	**20,861**	8,296
Total comprehensive income for the period	**435,434**	278,703

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**At 30th September 2016** HK$'000	HK$'000	At 31st March 2016 HK$'000	HK$'000
		(Unaudited)		(Audited)	
Non-current assets					
Property, plant and equipment					
- Other property, plant and equipment			**2,069,015**		2,114,264
- Investment properties			**4,877**		5,140
- Interests in leasehold land held for own use under operating leases			**64,689**		67,568
			2,138,581		2,186,972
Deposits for the acquisition of property, plant and equipment			**1,531**		309
Intangible assets			**4,282**		4,530
Goodwill			**36,046**		36,547
Bank deposits			**-**		1,406
Deferred tax assets			**76,552**		101,290
Other non-current assets			**19,401**		-
			2,276,393		2,331,054
Current assets					
Inventories		**484,944**		528,264	
Trade and other receivables	9	**1,150,549**		827,627	
Current tax recoverable		**4,700**		8,072	
Cash and bank deposits		**515,700**		271,731	
		2,155,893		1,635,694	
Assets of disposal group classified as held for sale	10	**-**		218,078	
		2,155,893		1,853,772	
Current liabilities					
Trade and other payables	11	**1,393,164**		1,286,879	
Bank loans	12	**65,818**		139,652	
Obligations under finance leases		**1,169**		1,135	
Current tax payable		**102,169**		16,675	
		1,562,320		1,444,341	
Liabilities of disposal group classified as held for sale	10	**-**		26,039	
		1,562,320		1,470,380	
Net current assets			**593,573**		383,392
Total assets less current liabilities			**2,869,966**		2,714,446

	Note				
Non-current liabilities					
Bank loans	12	**200,000**		207,341	
Obligations under finance leases		**1,521**		2,134	
Employee retirement benefit liabilities		**29,384**		28,033	
Deferred tax liabilities		**62,132**		65,075	
			293,037		302,583
NET ASSETS			**2,576,929**		2,411,863
CAPITAL AND RESERVES					
Share capital			**764,877**		733,722
Reserves			**1,602,528**		1,466,013
Total equity attributable to equity shareholders of the Company			**2,367,405**		2,199,735
Non-controlling interests			**209,524**		212,128
TOTAL EQUITY			**2,576,929**		2,411,863

Notes:

1. Independent review

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

2. Basis of preparation

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015/2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016/2017 annual financial statements.

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

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

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

The financial information relating to the financial year ended 31st March 2016 that is included in this announcement results for the six months ended 30th September 2016 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 2016 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

3. Revenue

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

4. Segment reporting

(a) Segment results, assets and liabilities

The Group disposed of the majority of the assets and liabilities of Vitasoy USA Inc. on 9th May 2016 ("the Disposal"). After the Disposal, Vitasoy USA Inc. engages only in importing beverage products from Hong Kong for sale in North America which is not significant to the Group. Accordingly, the results, assets and liabilities in connection with such business are presented under the Hong Kong Operation segment for the six months ended 30th September 2016. The corresponding gain on disposal of the major business of Vitasoy USA Inc. is excluded from reportable segment profit/(loss) from operations due to its non-recurrent nature.

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**		**North America**		**Total**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Six months ended 30th September												
Revenue from external customers	**1,618,770**	1,513,212	**1,110,829**	1,076,709	**236,542**	211,445	**47,042**	52,641	**-**	262,649	**3,013,183**	3,116,656
Inter-segment revenue	**58,173**	62,098	**23,042**	139,659	**136**	127	**1,027**	584	**-**	-	**82,378**	202,468
Reportable segment revenue	**1,676,943**	1,575,310	**1,133,871**	1,216,368	**236,678**	211,572	**48,069**	53,225	**-**	262,649	**3,095,561**	3,319,124
Reportable segment profit/(loss) from operations	**282,470**	262,704	**189,335**	194,066	**50,162**	36,213	**5,033**	4,597	**-**	(12,126)	**527,000**	485,454
Additions to non-current segment assets during the period	**79,107**	305,018	**33,969**	45,053	**2,921**	12,325	**1,070**	1,603	**-**	4,100	**117,067**	368,099
	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000	**At 30th September 2016 HK$'000**	At 31st March 2016 HK$'000	**At 30th September 2016 HK$'000**	At 31st March 2016 HK$'000	**At 30th September 2016 HK$'000**	At 31st March 2016 HK$'000	**At 30th September 2016 HK$'000**	At 31st March 2016 HK$'000	**At 30th September 2016 HK$'000**	At 31st March 2016 HK$'000
Reportable segment assets	**2,229,217**	2,125,058	**2,904,264**	2,868,189	**363,805**	350,193	**101,463**	102,129	**-**	263,671	**5,598,749**	5,709,240
Reportable segment liabilities	**1,427,647**	1,394,335	**767,397**	774,536	**124,337**	116,569	**12,730**	16,988	**-**	385,193	**2,332,111**	2,687,621

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

	Six months ended 30th September	
	2016	2015
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**3,095,561**	3,319,124
Elimination of inter-segment revenue	**(82,378)**	(202,468)
Consolidated revenue	**3,013,183**	3,116,656

	Six months ended 30th September	
	2016	2015
	HK$'000	HK$'000
Profit or loss		
Reportable segment profit/(loss) from operations	**527,000**	485,454
Finance costs	**(1,392)**	(1,953)
Net gain on disposal of assets and liabilities classified as held for sale (note 10)	**189,857**	-
Unallocated head office and corporate expenses	**(67,411)**	(61,167)
Consolidated profit before taxation	**648,054**	422,334

4. Segment reporting (continued)

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

	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000
Assets		
Reportable segment assets	**5,598,749**	5,709,240
Elimination of inter-segment receivables	**(1,250,016)**	(1,635,884)
	4,348,733	4,073,356
Deferred tax assets	**76,552**	101,290
Current tax recoverable	**4,700**	8,072
Unallocated head office and corporate assets	**2,301**	2,108
Consolidated total assets	**4,432,286**	4,184,826

	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000
Liabilities		
Reportable segment liabilities	**2,332,111**	2,687,621
Elimination of inter-segment payables	**(695,282)**	(1,049,399)
	1,636,829	1,638,222
Employee retirement benefit liabilities	**29,384**	28,033
Deferred tax liabilities	**62,132**	65,075
Current tax payable	**102,169**	16,675
Unallocated head office and corporate liabilities	**24,843**	24,958
Consolidated total liabilities	**1,855,357**	1,772,963

5. Profit before taxation

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

	Six months ended 30th September	
	2016 HK$'000	2015 HK$'000
(a) Finance costs:		
Interest on bank loans	**2,969**	2,180
Finance charges on obligations under finance leases	**111**	149
	3,080	2,329
Less: interest expense capitalised into property, plant and equipment *	**(1,688)**	(376)
	1,392	1,953

* The borrowing costs have been capitalised at a rate of 1.43% per annum (six months ended 30th September 2015: 1.44%).

5. Profit before taxation (continued)

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

	Six months ended 30th September	
	2016	2015
	HK$'000	HK$'000
(b) Other items:		
Interest income	**(1,484)**	(689)
Depreciation of investment properties	**263**	263
Amortisation of interests in leasehold land held for own use under operating leases	**774**	817
Depreciation of other property, plant and equipment	**115,981**	104,321
Amortisation of intangible assets	**187**	185
Net gain on forward exchange contracts not designated as hedging instruments	**(697)**	(1,330)
Net gain on disposal of assets and liabilities classified as held for sale (note 10)	**(189,857)**	-
Cost of inventories	**1,406,932**	1,563,714

6. Income tax

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

	Six months ended 30th September	
	2016	2015
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax	**26,977**	25,082
Current tax – Outside Hong Kong	**116,308**	76,032
Deferred taxation	**20,452**	(7,953)
	163,737	93,161

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30th September 2015: 16.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

7. Dividends

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

	Six months ended 30th September	
	2016	2015
	HK$'000	HK$'000
Interim dividend declared after the interim period of HK3.8 cents per ordinary share (six months ended 30th September 2015: HK3.8 cents per ordinary share)	**39,927**	39,656

The interim dividend proposed after the end of the reporting period is based on 1,050,705,500 ordinary shares (six months ended 30th September 2015: 1,043,409,500 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 during the interim period

	Six months ended 30th September	
	2016	2015
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK26.5 cents per ordinary share (six months ended 30th September 2015: HK21.2 cents per ordinary share)	**278,400**	221,111

The final dividend approved during the interim period is based on the total number of issued shares on 26th September 2016.

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$459,989,000 (six months ended 30th September 2015: HK$309,594,000) and the weighted average number of 1,049,269,000 ordinary shares (six months ended 30th September 2015: 1,040,829,000 ordinary shares) in issue during the period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30th September	
	2016	2015
	Number of shares	Number of shares
	'000	'000
Issued ordinary shares at 1st April	**1,047,330**	1,039,516
Effect of share options exercised	**1,939**	1,313
Weighted average number of ordinary shares at 30th September	**1,049,269**	1,040,829

(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$459,989,000 (six months ended 30th September 2015: HK$309,594,000) and the weighted average number of 1,057,804,000 ordinary shares (six months ended 30th September 2015: 1,051,474,000 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	
	2016	2015
	Number of shares	Number of shares
	'000	'000
Weighted average number of ordinary shares at 30th September	**1,049,269**	1,040,829
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	**8,535**	10,645
Weighted average number of ordinary shares (diluted) at 30th September	**1,057,804**	1,051,474

9. Trade and other receivables

	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000
Trade debtors and bills receivable	**910,572**	637,940
Less: allowance for doubtful debts	**(3,892)**	(1,227)
	906,680	636,713
Other debtors, deposits and prepayments	**243,869**	190,914
	1,150,549	827,627

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

	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000
Within three months	**896,180**	620,989
Three to six months	**9,051**	14,154
Over six months	**1,449**	1,570
	906,680	636,713

Trade receivables are due within one to three months from the date of billing. Management has a credit policy in place and the exposure to the credit risk is monitored on an ongoing basis. The credit terms given to the customers vary and are generally based on the financial strength of the individual customer. In order to effectively manage the credit risks associated with customers, credit evaluations of customers are performed periodically. Normally, the Group does not obtain collateral from customers.

10. Disposal group held for sale

The assets and liabilities of Vitasoy USA Inc. attributable to the Disposal had been classified as a disposal group held for sale and were presented separately in the consolidated statement of financial position as at 31st March 2016. The Disposal was completed on 9th May 2016 as a consideration which was revised to US$51.4 million (equivalent to approximately HK$398.9 million). All the assets and liabilities held for sale were derecognised upon completion and a gain of US$24.5 million (equivalent to approximately HK$189.9 million) was recognised as other income for the six months ended 30th September 2016.

As at 30th September 2016, there was a balance of the consideration of US$5 million (equivalent to HK$38.8 million) held in an escrow account, of which US$2.5 million (equivalent to HK$19.4 million) and US$2.5 million (equivalent to HK$19.4 million) were recorded in other receivables and other non-current assets, respectively.

Vitasoy USA Inc. continues to import beverage products from Hong Kong for sale in North America after the Disposal.

The details of the Disposal are as follows:

	30th September 2016 HK$'000
Net assets of disposal group as at the date of disposal	
Consideration received and receivable	**398,871**
Carrying amount of property, plant and equipment	**(118,028)**
Carrying amount of Inventories	**(40,046)**
Carrying amount of trade and other receivables	**(54,897)**
Carrying amount of trade and other payables	**25,544**
Transaction costs	**(21,587)**
Net gain on disposal of assets and liabilities classified as held for sale (notes 4(b) and 5(b))	**189,857**
Total consideration satisfied by cash	**398,871**
Cash to be received	**(42,715)**
	356,156
Transaction costs	**(21,587)**
Net cash inflow on disposal of assets and liabilities held for sale	**334,569**

11. Trade and other payables

	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000
Trade creditors and bills payable	**477,398**	416,294
Accrued expenses and other payables	**914,273**	868,395
Derivative financial instruments	**1,493**	2,190
	1,393,164	1,286,879

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

	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000
Within three months	**473,794**	401,024
Three to six months	**1,805**	14,364
Over six months	**1,799**	906
	477,398	416,294

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

12. Bank loans

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

	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000
Within one year or on demand	**65,818**	139,652
After one year but within two years	**100,000**	107,341
After two years but within five years	**100,000**	100,000
	200,000	207,341
	265,818	346,993

12. Bank loans (continued)

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

	At 30th September 2016 HK$'000	At 31st March 2016 HK$'000
Bank loans		
- Secured	**16,984**	27,986
- Unsecured	**248,834**	319,007
	265,818	346,993

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

INTERIM DIVIDEND

The Board of the Company has declared an interim dividend of HK3.8 cents per ordinary share for the six months ended 30th September 2016 (six months ended 30th September 2015: HK3.8 cents per ordinary share), to shareholders whose names appear on the Register of Members at the close of business on Wednesday, 14th December 2016. Dividend warrants will be sent to shareholders on or about Thursday, 29th December 2016.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on Thursday, 15th December 2016. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 14th December 2016.

MANAGEMENT REPORT

Business Highlights

During the first half of FY2016/2017, the Vitasoy Group kept growing above market average - though at a slower pace - cycling the high growth of the same period last year. This performance was in line with our determination to deliver "Sustainable Growth" through execution, expansion and innovation that we have communicated, against the context of deteriorating and increasingly volatile market conditions in our core markets, rising competitive pressure and the significant capital investments made in past years.

Due to the recent divestiture of the North American Mainstream and SAN SUI Business (the "divestiture"), the Group registered a net sales decrease of 3% (-1% net of currency depreciations). Specifically, the Group sold certain assets of our North American business to Pulmuone Foods Group, a leading South Korean food manufacturer, for a consideration of US$51.4 million. The Group recorded a net gain of approximately US$24.5 million (before relevant taxes), most of which will be re-invested into development of the Group's core operating markets. As a result of the divestiture, Vitasoy USA ceased to be a local manufacturing business, and the post-divestiture business now falls under our Hong Kong Operation, focusing on driving sales growth of its business in beverages imported from Hong Kong.

Excluding the impact of the above divestiture, the Group achieved a year-on-year sales increase of 3% in HK dollars, and 5% on a constant currency basis. The Mainland China business maintained its growth momentum. Hong Kong was slightly down on a comparable basis due to some manufacturing issues in the first quarter (now resolved) that caused us to lose important promotional slots; however Hong Kong registered sales growth after re-clustering its exports to North America under it. Australia delivered a very strong performance, further entrenching Vitasoy's leading position in the plant milk category. Singapore continued to extend its tofu leadership through strong execution whilst reducing imported beverage volume in preparation for a change to a new, more suitable distributor. Our infrastructure projects in Mainland China, including the Wuhan plant and the installation of a state-of-the-art IT system, have been completed smoothly and are operational.

The Group recorded an increase of 48% in profit attributable to equity shareholders of the Company (+40% for FY2015/2016 interim and +22% for FY2014/2015 interim). Whilst the significant increase was mostly due to the net gain from the sale of a substantial part of the North American business, the underlying profit attributable to equity shareholders of the Company still grew 15% net of the divestiture as a result of enhanced manufacturing efficiency and careful cost management, which contributed to an improvement in operating and net finance costs.

In view of the Group's solid financial performance, the Board of Directors has declared an interim dividend of HK3.8 cents per ordinary share for the six months ended 30th September 2016 (six months ended 30th September 2015: HK3.8 cents per ordinary share), payable on 29th December 2016.

Financial Highlights

The financial position of the Group remained solid and healthy. Below is an analysis of our key financial indicators including revenue, gross profit margin and return on capital employed, which reflected the solid performance of the business.

Revenue

- For the six months ended 30th September 2016, the Group's revenue decreased 3% to HK$3,013 million (FY2015/2016 interim: HK$3,117 million) due to the divestiture of the Mainstream Business and SAN SUI Business in North America. Excluding the impact of the North American divestiture, the Group achieved an increase of 3% against last year in Hong Kong dollars, equivalent to +5% on a constant currency basis.

  - **Mainland China: +7% (+13% in local currency)**
    The Mainland China business has become the Group's biggest market, driven by the dedicated execution of our 'Go Deep Go Wide' strategy. We remained focused on enhancing our brand equity, supported by strong marketing and in-store execution. The 5% average depreciation of the Renminbi during the year has negatively impacted growth rates when reported in Hong Kong dollars.

- **Hong Kong Operation (Hong Kong, Macau and Exports): +3%**
  The Hong Kong Operation registered growth after re-clustering the post-divestiture business of North America under it. Excluding the post-divestiture North America business, the Hong Kong Operation recorded a drop in revenue of 3%. The Hong Kong Operation was affected by decreasing consumer traffic and also unstable provision of inventory to customers during the first quarter due to machinery issues – which have now been fully resolved.

- **Australia and New Zealand: +12% (+11% in local currency)**
  The Australia and New Zealand business recorded strong sales growth with expanded market share in the Soya segment and consolidated its leadership position in Australia. Our plant milk business continued to grow with an effective marketing campaign focused on our use of home-grown soy and almond.

- **Singapore: -11% (-12% in local currency)**
  Our Singapore Tofu business maintained a steady increase in sales, driven by strong execution in key accounts and vibrant export sales. However, overall performance was affected by lower sales in the Imported Beverage business as we deliberately reduced existing distributor inventories ahead of the upcoming on-boarding of a new, more suitable distributor.

Gross Profit and Gross Profit Margin

- The Group's gross profit for the interim period was HK$1,611 million, up 1% (FY2015/2016 interim: HK$1,598 million), driven by an increase in sales and improvement in gross profit margin. Excluding the impact of the North American divestiture, gross profit increased by 3%.
- Gross profit margin has improved to 53% in the first half of FY2016/2017 (FY2015/2016 interim: 51%), attributed to improved manufacturing efficiency resulting from increased volume as well as non-recurring favourable commodity prices, particularly for milk powder, soya beans, packaging materials and crude oil. Excluding the impact of the North American divestiture, gross profit margin maintained at 54%.

Operating Expenses

- Total operating expenses decreased 1% to HK$1,172 million (FY2015/2016 interim: HK$1,186 million) due to stringent cost management.
- Marketing, selling and distribution expenses decreased 1% to HK$802 million (FY2015/2016 interim: HK$812 million) as a result of careful cost management and savings in transportation costs. The location of the Wuhan plant has shortened product delivery distances to our customers in Central China, leading to savings in fuel and shipping costs.
- Administrative expenses decreased 2% to HK$232 million (FY2015/2016 interim: HK$236 million), reflecting various effective cost control measures to offset inflationary adjustment.
- Other operating expenses were maintained at last year's level of HK$138 million.

EBITDA (Earnings Before Interest Income, Finance Costs, Income Tax, Depreciation and Amortisation)

- EBITDA for the interim period was HK$765 million, up 45%. Before the net gain on the North American divestiture, EBITDA increased by 9%. The increase of EBITDA was mainly driven by higher gross profit and cost savings.
- EBITDA to revenue margin for the interim period was 25%. Before the net gain on the North American divestiture, EBITDA to revenue margin was 19%.

Profit Before Taxation

- Profit before taxation improved by 54% to HK$648 million (FY2015/2016 interim HK$422 million). Before the net gain on the North American divestiture, profit before taxation improved by 9%. The improvement was due to a reduction in net finance costs as a result of prudent cash flow management, in spite of a moderate increase in depreciation and amortisation charges.

Taxation

- Income tax charged for the interim period was HK$164 million, compared to HK$93 million in the last interim period. The increase was in line with the improvement in operating profit, with an effective tax rate of 25% versus last year's 22%.

Profit Attributable to Equity Shareholders of the Company

- Profit attributable to equity shareholders of the Company was HK$460 million, representing an increase of 48% compared to the last interim period (FY2015/2016 interim: HK$310 million). Profit attributable to equity shareholders of the Company before the net gain on the North American divestiture increased 15%, mainly due to improvements in operating profit and reduction in net finance costs.

Financial Position

- We finance our operations and capital expenditure primarily through internally generated cash flows as well as banking facilities provided by our principal bankers. As at 30th September 2016, our cash and bank deposits amounted to HK$516 million (31st March 2016: HK$273 million). 7%, 53% and 35% of our cash and bank deposits were denominated in HKD, RMB and USD respectively (31st March 2016: 14%, 69% and 9%). As of 30th September 2016, the Group had a net cash balance of HK$247 million (31st March 2016: net borrowing balance of HK$77 million). Available banking facilities amounted to HK$788 million (31st March 2016: HK$1,036 million) to finance future cash flow needs.
- The Group's borrowings (including obligations under finance leases) amounted to HK$269 million (31st March 2016: HK$350 million). The borrowings comprised HK$227 million in HKD denominated borrowings and HK$42 million in AUD denominated borrowings. Fixed rate borrowings amounted to HK$69 million, with an effective interest rate of 1.84% and 7.50% for bank loans and obligations under finance lease respectively.
- The gearing ratio (total borrowings/total equity attributable to equity shareholders of the Company) decreased to 11% (31st March 2016: 16%) as various capital expenditure projects were completed during the last year and the Group started to repay the borrowings using internally generated cash.
- The Group's return on capital employed (ROCE) (EBITDA for the interim period/average non-current debt and equity as at 30th September 2016 and 31st March 2016) for the first half of FY2016/2017 was 28% (FY2015/2016 interim: 23%). The increase in ROCE was due to the one-off gain from the US divestiture and employment of capital efficiently to generate higher shareholder value.
- Capital expenditure incurred during the period decreased to HK$116 million (FY2015/2016 interim: HK$366 million), which was invested in the construction of our new plant in Wuhan, Mainland China, as well as the upgrade of existing production machinery in both Hong Kong and Mainland China.
- Assets with a carrying value of HK$68 million (31st March 2016: HK$71 million) were pledged under certain loans and lease arrangements.

Non-financial Key Performance Indicators

- The Group has already disclosed various non-financial key performance indicators (KPIs) in the "Sustainability Report FY2015/2016", which was released in July 2016 and dispatched to shareholders together with the Annual Report FY2015/2016. The KPIs focused on the areas of product enhancements in plant-based nutrition and compatibility with healthy lifestyle; energy and water management and environmental impact reduction for packaging and waste materials. There were no material changes to the non-financial KPIs during the interim period of FY2016/2017.

Financial Risk Management

- The Group's overall financial management policy focuses on controlling and managing risks, with 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 the subsidiaries. Borrowings are normally taken out in local currencies by the operating subsidiaries to fund and partially hedge their investments.

- The financial risks faced by the Group were mainly connected with uncertainties in interest rates and exchange rate movements. At the close of the first six months ended 30th September 2016, the Group entered into foreign exchange contracts to hedge against foreign currency fluctuations for the receipt of royalty and dividend income in Australian dollars from its Australian operation.

General Review

Mainland China

- In spite of an increasingly challenging economic environment in Mainland China, Vitasoy China continued to deliver double-digit growth in sales and profit when reported in local currency.
- During the period under review, the country posted slower growth in gross domestic product (GDP) and food and beverages retail sales compared with the last three years, negatively affecting the results of many food and beverage producers. Against this backdrop, Vitasoy China continued to drive our brands in the areas where we compete, and extended our sales network to new markets and channels.
- On the innovation side, we drove awareness and explored the high-nutrition tier with VITASOY Health Plus Soya Milk, which is enriched with nutrients and protein. We are also engaged in small-scale learning regarding new VITASOY Plant-based products (similar to products offered in our other markets) to keep continuously satisfying shoppers' interest in healthy beverages.
- With the new plant in Wuhan operating smoothly, we accelerated sales and profit growth in the Central and Eastern regions of the country.
- Vitasoy China protected gross margins through a healthy product mix, internal cost controls and reasonable cost of raw materials. Profit growth was also driven by cost savings, improved manufacturing efficiencies and optimal capacity utilisation of our production facilities.
- During the period, we completed the upgrade of our IT system to Systems Application Programing (SAP) in our Wuhan and Foshan plants to help integrate and better plan the Group's resources, so that we can better serve our customers with enhanced operational efficiency across our functions. Subsequent to the period under review, on 5th October 2016, the Group implemented SAP at our facilities in Shanghai and Shenzhen – marking the completion of the SAP project in Mainland China.
- The average of 5% depreciation in Renminbi during the period has negatively impacted our results when reported in Hong Kong dollar.

Hong Kong Operation (Hong Kong, Macau and Exports)

- Hong Kong's economy remained sluggish during the first half of FY2016/2017, recording slight GDP growth against the same period last year. However, due to declining visitor numbers from Mainland China, consumer confidence and retail sales remained low.
- On a comparable basis, Vitasoy Hong Kong recorded a single-digit sales decline of 3%, which became a growth of 3% after re-clustering the post-divesture North American business under the Hong Kong Operation.
- During the period under review, the Hong Kong Operation had a difficult first quarter due to machinery issues, which were fully resolved in the second quarter. These manufacturing issues hindered deliveries, missing the opportunities to generate increased revenue during the important promotional period in the first quarter.
- The performance of our Macau business was significantly impacted by the continuous weakening of Macau's economy, compounded by a drop in tourist consumption. Sales growth in the second quarter did not completely offset the slowdown in the first quarter.
- The key driver of our growth was innovation, which will be critical for Hong Kong's growth going forward. We launched VITASOY Black Soya Milk with holistic marketing campaigns including aggressive advertising and social media initiatives to effectively reach target consumers. The product has received very positive market response. We also rebranded CALCI-PLUS Soya Milk under our flagship VITASOY brand in a total product packaging revamp, supported by TV advertising to highlight its nutritional value.

- In addition, we also rolled out VITA Coffee with Condensed Milk under the VITA Hong Kong Style range, enabling us to compete in the coffee segment while rounding out the product portfolio of our VITA Hong Kong Style range.
- After the divestiture of the Mainstream Business and SAN SUI Business in North America, the beverage business exported from Hong Kong has been reported under Hong Kong Operation. The Export business achieved good progress with steady growth in volume and value compared to the same period last year, building on initiatives to improve the export distributor’s performance.
- Underpinning these efforts is the strong focus on execution, aiming to enhance the way we work with customers through improved communication, efficiency and logistics.

Australia and New Zealand

- Fuelled by the ever-increasing consumer interest in functional health propositions and relevant product innovations, the plant milk market, especially the nut milk segment, continued to grow.
- The Vitasoy business in Australia and New Zealand continued to report good growth with strong increases in net sales and profit compared with the first six months of last year.
- During the period under review, Vitasoy consolidated its position as the market leader in Australia, widening the gap to our nearest competitor. This was driven by our strong core businesses and the success of our recently introduced VITASOY Almond Milk.
- With a strong management team in place and a firm focus on execution, the Group has maintained a strong market leadership position in the supermarket channel, with expanded market share in the soya segment. Our core Organic Soya Milk range continues to grow, with an ongoing TV campaign focusing on Australian grown soya beans as a “tasty way to start your day”.
- VITASOY Almond Milk has secured solid market share in this growing segment, supported by a TV advertising campaign focusing on our use of home grown whole almonds. Our new Almond Milk has helped VITASOY extend its number one market share in both Australia and New Zealand.
- To further drive our momentum, we have just launched a completely new product as part of our Organic range – the new VITASOY Protein Plus Soya Milk, which contains higher protein and is unsweetened, making it the ideal companion for a healthy breakfast.

Singapore

- The Government lowered Singapore’s growth forecast for the year as lacklustre domestic performance and weak global growth weighed on the economy.
- Operating in a slowing economic and retail environment, our Singapore Tofu business maintained a sales increase of 4.5%, driven by strong execution in key accounts and vibrant export sales. However, the overall performance was affected by decreased sales in the Imported Beverage business during the period of distributorship transition.
- Driven by strong execution in key accounts and vibrant export sales, we grew our Tofu business and developed the VITASOY and the UNICURD brands while maintaining our market leadership in the Tofu segment.
- The new VITASOY Premium Organic Tofu, combined with the strong Unicurd brand, is offering consumers a more sophisticated portfolio segmented by quality and by price. The VITASOY Tofu line also provides a brand equity platform in Singapore, enabling synergies with the VITASOY beverage business.
- With a goal of enhancing performance of our Imported Beverage segment, we have appointed a new distributor and lowered our imported beverage shipments during the transition period, which affected overall business performance.

General Outlook

As at the end of the first half of FY2016/2017, the Group remains confident about the business outlook for the remainder of the financial year. We will continue to work towards achieving sustainable growth through scaling up our business, growing our market share in core markets and categories where we compete, and building our capabilities and operational capacity. The Group is determined to stay focused on its core, strategy and growth model to deliver not only sustainable results but also a more cohesive and integrated business. We will continue investing in information systems to improve forecasting and management decision-making, and will expand our implementation of SAP beyond Mainland China and Hong Kong. Believing that our people make the difference, we also continue to invest in staff training and engagement programmes to bring out the best in our employees.

Mainland China

- Although general economic conditions are slowing, the Group continues to tap into organic growth through our 'Go Deep Go Wide' strategy – expanding coverage to new markets while enhancing the breadth and depth of our product offerings. We will stay focused on our equity and execution fundamentals, and in particular building manufacturing and commercial infrastructure. The Group's new plant in Wuhan has been operating smoothly, offering the scalability to increase production capacity as and when needed. Going forward, Vitasoy China is strengthening its capabilities in management, marketing and distribution to pave the way for sustainable and long-term growth.

Hong Kong Operation (Hong Kong, Macau and Exports)

- The economic outlook for Hong Kong and Macau remains slow. With a highly developed business, we will continue to execute with discipline on our core brands while driving innovation in the market. Vitasoy Hong Kong plans to launch a hot serve beverage campaign during the winter season to capture additional sales and business opportunities. Meanwhile, the Group will continue to expand our distribution network and enhance operational efficiency during the second half of the financial year.

Australia and New Zealand

- The strong results achieved during first six months of FY2016/2017 are expected to carry their momentum through the second half of the year. As plant milks continue to gain in popularity, Vitasoy Australia will leverage its market leading position in the segment to drive continued business performance. We are confident that the new VITASOY Protein Plus Soya Milk will meet customers' increasing demand for nutritious healthy plant-based milks.

Singapore

- Vitasoy Singapore is looking to achieve steady growth despite slow economic conditions foreseen for the remainder of the financial year. We will continue to drive sales growth through store excellence and scaling up VITASOY brand equity. We are also confident that, after the transition to the new distributorship, we will be in a stronger position to drive our combined Tofu and Beverage business to a new level.

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 2016, 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 2016.

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 2016.

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 2016 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, 29th November 2016

As at the date of this announcement, Mr. Winston Yau-lai LO and Mr. Roberto GUIDETTI are executive directors. Ms. Myrna Mo-ching LO and Ms. Yvonne Mo-ling LO are non-executive directors. Dr. the Hon. Sir David Kwok-po LI, Mr. Jan P. S. ERLUND, Mr. Anthony John Liddell NIGHTINGALE and Mr. Paul Jeremy BROUGH are independent non-executive directors.