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CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- The revenue for the six months ended 30 June 2010 (the "interim period") was approximately HK$8,444 million, representing an increase of 3.1% over the corresponding period of last year.
- Profit attributable to owners of the parent for the interim period amounted to approximately HK$179 million, 40.6% less than that in the corresponding period of last year.
- Basic earnings per share for the interim period were HK6.40 cents, a decrease of 40.6% compared with HK10.77 cents per share in the corresponding period of last year.
- The board of directors recommended the payment of an interim dividend of HK2.30 cents per share for the interim period to shareholders of the Company whose names appear on the register of members of the Company on 8 October 2010.

INTERIM RESULTS

The board of directors (the "board") of China Foods Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the "Group") for the interim period together with comparative figures for the corresponding period of last year. The unaudited condensed consolidated interim results as at and for the six months ended 30 June 2010 (the "interim financial information") have been reviewed by Ernst & Young, the auditors of the Company, 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") and by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2010

	Notes	For the six months ended 30 June 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
REVENUE	3	**8,444,231**	8,191,014
Cost of sales	6	**(6,152,885)**	(5,853,341)
Gross profit		**2,291,346**	2,337,673
Other income and gains	4	**110,106**	61,351
Selling and distribution costs		**(1,703,657)**	(1,650,998)
Administrative expenses		**(318,339)**	(261,521)
Other expenses and losses		**(2,820)**	(503)
Finance costs	5	**(23,914)**	(47,976)
Share of profits of associates		**12,898**	66,623
PROFIT BEFORE TAX	6	**365,620**	504,649
Income tax expense	7	**(104,598)**	(110,808)
PROFIT FOR THE PERIOD		**261,022**	393,841
Attributable to:			
Owners of the parent		**178,735**	300,759
Non-controlling interests		**82,287**	93,082
		261,022	393,841
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	9		
Basic		**HK6.40 cents**	HK10.77 cents
Diluted		**HK6.39 cents**	HK10.77 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**261,022**	393,841
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**57,068**	4,867
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**57,068**	4,867
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**318,090**	398,708
Attributable to:		
Owners of the parent	**223,940**	304,093
Non-controlling interests	**94,150**	94,615
	318,090	398,708

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2010

	Notes	**30 June 2010 *HK$'000* (Unaudited)**	31 December 2009 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**3,157,557**	3,100,717
Investment properties		**20,289**	20,103
Prepaid land premiums		**233,023**	213,551
Deposits for purchase of items of property, plant and equipment		**137,520**	14,239
Goodwill		**1,650,026**	1,641,854
Other intangible assets		**42,489**	43,257
Interests in associates		**436,972**	446,952
Available-for-sale investments		**205,802**	206,596
Held-to-maturity investments		**57,841**	98,252
Deferred tax assets		**24,451**	26,811
Biological assets		**94,258**	92,242
Total non-current assets		**6,060,228**	5,904,574
CURRENT ASSETS			
Inventories		**2,555,305**	2,846,497
Accounts and bills receivables	*11*	**852,307**	1,080,537
Prepayments, deposits and other receivables		**915,520**	646,955
Due from fellow subsidiaries		**51,388**	4,417
Due from the ultimate holding company		**6,855**	5,314
Due from the immediate holding company		**165**	355
Due from associates		**4**	993
Tax recoverable		**21,235**	17,022
Equity investments at fair value through profit or loss		**15,498**	16,728
Held-to-maturity investments		**25,616**	–
Pledged deposits		**22,554**	29,345
Cash and cash equivalents		**1,506,314**	1,943,103
Total current assets		**5,972,761**	6,591,266
CURRENT LIABILITIES			
Accounts and bills payables	*12*	**1,247,566**	916,302
Other payables and accruals		**1,636,267**	2,288,087
Due to fellow subsidiaries		**405,791**	794,141
Due to the ultimate holding company		**31,943**	34,352
Due to related companies		**200,982**	455,766
Due to non-controlling shareholders		**972**	5,679
Due to associates		**163,261**	102,291
Interest-bearing bank and other borrowings		**654,359**	303,092
Tax payable		**37,035**	29,330
Total current liabilities		**4,378,176**	4,929,040
NET CURRENT ASSETS		**1,594,585**	1,662,226
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,654,813**	7,566,800

	Notes	**30 June 2010** *HK$'000* **(Unaudited)**	31 December 2009 *HK$'000* (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,654,813**	7,566,800
NON-CURRENT LIABILITIES			
Due to the ultimate holding company		**–**	22,715
Due to non-controlling shareholders		**11,463**	128,508
Interest-bearing bank borrowings		**480,000**	500,000
Deferred income		**17,137**	13,334
Deferred tax liabilities		**15,073**	17,104
Total non-current liabilities		**523,673**	681,661
Net assets		**7,131,140**	6,885,139
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**279,246**	279,151
Reserves		**5,280,308**	5,107,408
Proposed dividends	*8*	**64,227**	96,340
		5,623,781	5,482,899
Non-controlling interests		**1,507,359**	1,402,240
Total equity		**7,131,140**	6,885,139

NOTES TO INTERIM FINANCIAL INFORMATION
30 June 2010

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is a subsidiary of COFCO (Hong Kong) Limited, a company incorporated in Hong Kong. Based on the confirmation of the board, the ultimate holding company is COFCO Corporation, which is a state-owned enterprise registered in the People's Republic of China (the "PRC").

During the interim period, the Group was involved in the following principal activities:

- production, sale and trading of grape wine and other wine products;
- processing, bottling and distribution of sparkling beverages and distribution of still beverages;
- distribution of retail packaged cooking oil and other consumer food products; and
- production and distribution of chocolate and other related products.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA.

The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2009.

The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements of the Group for the year ended 31 December 2009, except in relation to the following new Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, HKASs and Interpretations) that affect the Group and are adopted by the Group for the first time for the current period's financial information:

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – *Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 18 Amendments	*Revenue*
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: *Presentation – classification of Rights Issues*
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: *Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2009* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments are effective for annual periods beginning on or after 1 January 2010 although there is separate transitional provision for each standard.

* *Improvements to HKFRSs 2009 contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9.*

The adoption of the above HKFRSs has had no impact on the accounting policies of the Group and the methods of computation in the Group's interim financial information.

The Group has not applied the following new and revised HKFRSs and HKASs, that have been issued but are not yet effective, in these interim financial information:

- HKFRS 9 Financial Instruments[3]
- HKAS 24 (Revised) Related Party Disclosure[2]
- HK(IFRIC)-Int 14 Amendment Prepayment of a Minimum Funding Requirement[2]
- HK(IFRIC)-Int 19 Extinguishing Financial Liabilities with Equity Instruments[1]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2010[#] which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for the annual periods beginning on or after 1 July 2010, other amendments are effective for annual periods beginning on or after 1 January 2011 although there is separate transitional provision for each standard or interpretation.

[1] effective for annual periods beginning on or after 1 July 2010
[2] effective for annual periods beginning on or after 1 January 2011
[3] effective for annual periods beginning on or after 1 January 2013
[#] Improvements to HKFRSs 2010 contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-INT 13.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the nature of their products and services and has four reportable operating segments as follows:

(a) the wines segment is engaged in the production, sale and trading of grape wine and other wine products;

(b) the beverages segment is engaged in the processing, bottling and distribution of sparkling beverages and distribution of still beverages;

(c) the kitchen foods segment is engaged in the distribution of retail packaged cooking oil and other consumer food products; and

(d) the confectionery segment is engaged in the production and distribution of chocolate and other related products.

Management monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment result. Segment result is measured consistently with the Group's profit before tax except that interest income, dividend income, finance costs as well as unallocated head office and corporate expenses are all excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Six months ended 30 June 2010

	Wines *HK$'000* **(Unaudited)**	**Beverages** *HK$'000* **(Unaudited)**	**Kitchen foods** *HK$'000* **(Unaudited)**	**Confec-tionery** *HK$'000* **(Unaudited)**	**Total** *HK$'000* **(Unaudited)**
Segment revenue:					
Sales to external customers	**1,455,518**	**3,951,931**	**2,853,834**	**182,948**	**8,444,231**
Other revenue	**9,097**	**32,950**	**8,370**	**1,137**	**51,554**
	1,464,615	**3,984,881**	**2,862,204**	**184,085**	**8,495,785**
Segment results	**165,474**	**212,104**	**9,501**	**(32,497)**	**354,582**
Reconciliation:					
Share of profits of associates	**–**	**12,898**	**–**	**–**	**12,898**
Interest income					**14,060**
Dividend income and unallocated gains					**44,492**
Finance costs					**(23,914)**
Corporate and unallocated expenses					**(36,498)**
Profit before tax					**365,620**
30 June 2010					
Segment assets	**3,788,117**	**5,182,593**	**1,113,450**	**390,741**	**10,474,901**
Reconciliation:					
Elimination of intersegment receivables					**(4,493,859)**
Corporate and unallocated assets					**6,051,947**
Total assets					**12,032,989**

Six months ended 30 June 2009

	Wines	Beverages	Kitchen foods	Confec- tionery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:					
Sales to external customers	1,570,602	3,861,041	2,587,868	171,503	8,191,014
Other revenue	12,154	14,139	12,042	2,242	40,577
	1,582,756	3,875,180	2,599,910	173,745	8,231,591
Segment results	309,534	212,044	6,994	(37,654)	490,918
Reconciliation:					
Share of profits of associates	–	66,623	–	–	66,623
Interest income					9,954
Dividend income and unallocated gains					10,820
Finance costs					(47,976)
Corporate and unallocated expenses					(25,690)
Profit before tax					504,649

31 December 2009

	Wines	Beverages	Kitchen foods	Confec- tionery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Segment assets	3,700,619	5,109,329	1,477,517	456,873	10,744,338
Reconciliation:					
Elimination of intersegment receivables					(4,114,915)
Corporate and unallocated assets					5,866,417
Total assets					12,495,840

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income		
Gross rental income	**748**	2,924
Bank interest income	**10,408**	9,954
Interest income from held-to-maturity investments	**3,652**	–
Dividend income from available-for-sale investments	**43,918**	6,013
Dividend income from equity investments at fair value through profit or loss	**60**	–
Government grants	**14,885**	7,494
Compensation income	**5,305**	6,012
Sale of by-products and scrap items	**6,843**	3,071
Tax refunds	**–**	1,396
Others	**23,399**	20,865
	109,218	57,729
Gains		
Foreign exchange differences, net	**888**	–
Fair value gains on equity investments at fair value through profit or loss	**–**	3,579
Others	**–**	43
	888	3,622
	110,106	61,351

5. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**13,435**	19,104
Loans from a fellow subsidiary	**835**	5,761
Loans from non-controlling shareholder of subsidiaries	**1,043**	1,525
Others*	**8,601**	21,611
Total interest expense on financial liabilities not at fair value through profit or loss	**23,914**	48,001
Less: Interest capitalised	**–**	(25)
	23,914	47,976

* *For the six months ended 30 June 2009, others included a cash discount of HK$15,531,000 offered to certain customers if their payment are made within a stipulated period.*

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**6,143,297**	5,831,211
Provision against inventories	**9,588**	22,130
Cost of sales	**6,152,885**	5,853,341
Depreciation	**157,312**	132,006
Recognition of prepaid land premiums	**3,010**	2,089
Amortisation of other intangible assets	**2,624**	2,091
Reversal of impairment of receivables	**(5)**	(1,293)
Fair value loss on equity investments at fair value through profit or loss	**1,230**	–
Loss on disposal of items of property, plant and equipment	**1,142**	717
Loss on disposal of available-for-sale investments	**453**	–

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current – Mainland China		
Charge for the period	**104,127**	108,455
Deferred	**471**	2,353
Total tax charge for the period	**104,598**	110,808

On 30 April 2009, the Ministry of Finance and the State Administration of Taxation issued the Circular on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business – Cai Shui [2009] No. 59, which is effective from 1 January 2008. During the year ended 31 December 2008, the Group undertook certain intra-group restructuring activities (the "Restructuring"). Based on the above circular and other relevant tax regulations, the tax base and the tax exposure related to the Restructuring, if any, cannot be determined reliably in the view of the board. Consequently, no provision thereon has been made in the interim financial information.

8. DIVIDENDS

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim – HK2.30 cents (2009: HK3.88 cents) per ordinary share	**64,227**	108,306

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic earnings per share amounts for the period is based on the profit for the period attributable to owners of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts for the period is based on the profit for the period attributable to owners of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the parent	**178,735**	300,759

	Number of shares	
	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,792,409,248**	2,791,383,356
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,288,427**	–
	2,795,697,675	2,791,383,356

10. PROPERTY, PLANT AND EQUIPMENT

During the interim period, the Group acquired items of property, plant and equipment at a total cost of HK$214,493,000 (2009: HK$212,048,000) and disposed of items of property, plant and equipment with a total net carrying amount of HK$7,473,000 (2009: HK$1,749,000).

11. ACCOUNTS AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivables are non-interest-bearing.

An aged analysis of the accounts and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	30 June 2010	31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**698,360**	797,080
3 to 12 months	**142,327**	279,216
1 to 2 years	**8,785**	2,653
Over 2 years	**2,835**	1,588
	852,307	1,080,537

12. ACCOUNTS AND BILLS PAYABLES

An aged analysis of accounts and bills payables at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2010	31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**1,035,425**	797,101
3 to 12 months	**210,203**	104,573
1 to 2 years	**1,326**	13,925
Over 2 years	**612**	703
	1,247,566	916,302

Accounts and bills payable are non-interest-bearing.

MANAGEMENT DISCUSSION & ANALYSIS

WINE BUSINESS

The Group's wine business is principally engaged in the production, marketing and sales of wine under the "長城" and "Greatwall" brands, in addition to importing wine and the production and marketing of yellow rice wine.

During the interim period, the sales revenue of the wine business amounted to approximately HK$1,456 million, a decrease of approximately 7.3% compared to the corresponding period last year. Such decrease was mainly attributable to the strategic restructuring of the sales and distribution model of our wine business.

In order to facilitate the change of the sales and distribution model from a channel-driven to brand-driven model, and realise a dynamic balance between brands, products and channels, we have adopted various measures to achieve this including rationalizing the existing multi-layered sales and distribution structure, optimally reducing the existing distribution territories of certain distributors and focusing sales resources, improving the cooperation terms with distributors, focusing on branding activities of middle to high-end major product types, enhancing the product mix portfolio, improving the effectiveness of sales and marketing resources as well as gaining greater control over retail sales terminals. We believe that this strategic restructuring exercise will be beneficial to the long-term development of our wine business, setting a solid foundation for sustainable profit growth.

During the interim period, the sales of the newly launched product range, "Greatwall" Chateau Sungod, maintained its substantial growth and recorded sales revenue over HK$80 million or an increase of approximately 5.7 times compared to the same period last year. This strong growth momentum under our brand-driven sales and distribution model of "Greatwall" Chateau Sungod provided us with greater confidence on the outcome of the strategic restructuring exercise.

We greatly strengthened our brand promotional activities during the interim period. Capitalising on the prestige of our "Greatwall" wine being designated as "The Only Official Wine of Expo 2010 Shanghai China ("Expo")" and "Greatwall" wine being served in state banquets, we have taken proactive steps to promote our brand through different types of promotional programs, so as to maximize our brand exposure and raise the brand's reputation.

During the interim period, with respect to product types, we have developed and launched special edition, souvenir and gift packages of wine product types especially designed for Expo. Meanwhile, our wine business is actively planning a nationwide launch of its middle to high-end product series in the fourth quarter of this year. In order to streamline our product mix portfolio and further strengthen the competitiveness of our products, we eliminated a number of marginal products which made negligible contribution to sales revenue. In addition, the imported wine business has achieved strong growth through accelerating the establishment of imported wine distribution networks. The sales of imported wine reached approximately HK$21 million during the interim period, representing an increase of approximately 40% compared to the corresponding period of last year.

With respect to the construction of sales channel, leveraging on the marketing activities related to Expo, our wine business sought inspiration from the “China Pavilion” of Expo and applied it to our display designs in shopping malls and supermarkets and carried out related promotional campaign accordingly. We launched display design optimization at shopping malls and supermarkets in Beijing and Shanghai. Currently, we have completed more than a few hundred projects relating to promotion of our brand image in various stores and improved our retail point of sale displays.

In respect of the expansion of vineyards, we continue to plan for the expansion of our vineyards. Besides Ningxia and Xinjiang, we are also activately pursuing acquisition opportunities of targeted vineyards overseas.

BEVERAGES BUSINESS

The Group’s Coca-Cola beverages bottling group is one of the three principal Coca-Cola beverages bottling groups in the PRC. We currently operate a total of eleven bottling plants and hold minority interests in another nine bottling plants. The eleven bottling plants are engaged in the bottling production, sales and distribution of Coca-Cola sparkling beverages, as well as the sale and distribution of Coca-Cola still beverages, such as juices, tea and water, in sixteen provinces, cities and autonomous regions in the PRC under franchise agreements with The Coca-Cola Company.

During the interim period, the sales revenue of our beverages business was approximately HK$3,952 million, representing an increase of approximately 2.4% over the corresponding period of last year. Due to the unusually cold weather in the first four months of this year, the sales volume only recorded modest growth during the interim period. With the weather becoming warmer, sales of beverages have picked up. It is expected that a better performance will be achieved for the year.

With respect to new products, “Sprite Tea” was launched earlier this year. As an extension of the Sprite brand, Sprite Tea combines top-selling Sprite with green tea, the popular drink in China, and we expect this product to attract new and young customers and provide new growth momentum for sparkling beverages. Meanwhile, we launched various new flavours and new products under the “Minute Maid” brand, such as the high value-added “Minute Maid 10 Super V” juice, to further strengthen the market position of the “Minute Maid” brand. According to the market research of ACNielsen at the end of June 2010, the “Minute Maid” brand secured a market share of more than 25% in the juice beverages category in the PRC, with a No.1 ranking.

Currently the annual production capacity of our beverages business is approximately 607 million unit cases. With the newly-built bottling plant in Inner Mongolia ready to commence production in the second half this year, a further annual production capacity of approximately 21 million unit cases will be added, which is expected to help extend our sales coverage and enhance our operation efficiency.

KITCHEN FOODS BUSINESS

The kitchen foods business is mainly engaged in the sales and distribution of consumer-pack edible oil, seasoning sauces and related products in the PRC under the "福臨門", "Fortune", "四海", "五湖" and "家禾" brands.

During the interim period, the sales revenue of our kitchen foods business was approximately HK$2,854 million, representing an increase of approximately 10.3% over the corresponding period of last year.

During the interim period, we applied more effort to promote "Fortune" brand by leveraging the opportunity of the Expo. All consumer-pack edible oil under the "Fortune" brand used the label of "The Only Official Oil Products of Expo 2010 Shanghai China" in advertising. We supplied "Fortune" edible oil to 27 restaurants in a number of national pavilions within the venue of Expo, including Canada, Italy, Denmark, Finland, Australia and USA and thus effectively raised the reputation of our "Fortune" brand.

Meanwhile, we will continue to dedicate more effort on the extension and penetration of our sales channels. With the acceleration of urbanization, we are focusing on building sales channels in the third-tier and fourth-tier cities by strengthening our cooperation with domestic distributors. Currently, the number of retail points of sale approximated to 214,000.

Taking advantage of increasing health awareness among consumers, we are continuously pursuing product innovation and the launch of delicious, nutritious and healthy edible oils. Among the new products, "Fortune" DHA Grain Blended Oil has been successfully launched during the interim period and is now sold in 7,900 stores in 100 cities, which has effectively enhanced the brand image and enriched the product mix portfolio of our high-end healthy oil product category.

In addition, we foresee that our kitchen foods business will be continued to benefit from the expansion of the edible oil crushing and processing capacity of our parent company. It is expected that the parent company will complete the capacity expansion in Shandong, Guangxi, Tianjin and Jiangxi by 2011. We will fully leverage on the cost advantages to be derived from the extended production footprint to develop new sales regions and increase market share, and thus providing additional growth momentum to our kitchen foods business.

CONFECTIONERY BUSINESS

The confectionery business is mainly engaged in the production and distribution of chocolates and confectionery products in the PRC under the "金帝" and "Le Conte" brands.

During the interim period, the sales revenue reached approximately HK$183 million, representing an increase of approximately 6.7% over the corresponding period of last year even though the two festivals, Chinese New Year and Valentine's Day, overlapped.

With respect to brand strategy, we put greater effort to enhance the reputation of "金帝" brand and its sub-brand "Merveille" through traditional advertisements, product placement, internet advertisements and promotional campaigns with specific themes. According to the information compiled by a media monitoring agency, the rate of trial of our products increased from 79% to 94%, which was mainly attributable to the effective brand promotion. At the same time, we have collaborated with a Hunan TV station for placement of our products in the program "花兒朵朵" to promote our "Merveille" brand. Through sponsoring this program, we carried out promotional campaigns with specific themes in all media to capture greater publicity.

With respect to product strategy, we continue to reformulate our recipes to improve the quality of our products, in response to market research and taste tests of our products conducted by research agencies. We have also developed new product types such as aerated chocolate, chocolate drinks and jellies. It is expected that the new products will be launched to the market in the second half of this year. Moreover, in respect of sales channels, we will continue to develop new channels and points of sales as well as exploring the possibility in sales through the internet.

Through the launch of new products and strengthening our brand and sales channels establishment, we expect that the results of our confectionery business will gradually improve.

FINANCIAL REVIEW

Supplemental information to segment results of the Group for the interim period with comparative figures for the corresponding period of last year, are set out below:

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	%	%
Growth of revenue by segment:		
– Wines	**-7.3**	5.2
– Beverages	**2.4**	57.6
– Kitchen Foods	**10.3**	-36.9
– Confectionery	**6.7**	53.0
Contribution of revenue by segment:		
– Wines	**17.2**	19.2
– Beverages	**46.8**	47.1
– Kitchen Foods	**33.8**	31.6
– Confectionery	**2.2**	2.1
Gross profit margin by segment (excluding Beverages):		
– Wines	**58.7**	57.9
– Kitchen Foods	**8.8**	11.9
– Confectionery	**48.6**	44.1
Selling and distribution costs to revenue ratio by segment (excluding Beverages):		
– Wines	**42.1**	34.1
– Kitchen Foods	**7.7**	11.3
– Confectionery	**57.4**	58.1
Segment result to revenue ratio:		
– Wines	**11.4**	19.7
– Beverages	**5.4**	5.5
– Kitchen Foods	**0.3**	0.3
– Confectionery	**-17.8**	-22.0
Effective tax rate of the Group *(Note 1)*	**29.7**	25.3

Note:

1. The calculation of effective tax rate of the Group is based on tax divided by adjusted profit before tax after excluding the contributions by share of profits of associates.

REVENUE

The Group's revenue for the interim period grew by approximately 3.1% over the same period of the previous year, as the combined effects of:

- approximately -7.3% revenue growth rate of wines segment, primarily caused by the fact that wines segment has been in the process of a strategic restructuring exercise on its sales and distribution model. Consequently, orders from certain distributors involved in the restructuring have decreased resulting in decline in sales volume;

- approximately 2.4% revenue growth rate of beverages segment, due to the cold weather during January to April of the current year;

- approximately 10.3% revenue growth rate of kitchen foods segment, with continuing growth in sales volume attributable to more coverage of distribution terminals and general increase in market price of edible oil products;

- approximately 6.7% revenue growth rate of confectionery segment, with normalized growth under the effort of its management team.

GROSS PROFIT MARGIN

Overall gross profit margin dropped from approximately 28.5% to approximately 27.1%, with slight improvements of gross profit margin in wines segment, beverages segment and confectionery segment for the interim period over the same period of the previous year but the aggregate effects of improvements were entirely offset by the drop in gross profit margin of kitchen foods segment under the raw material cost pressure and intensified market competition of edible oil products.

SELLING AND DISTRIBUTION COSTS

Overall selling and distribution costs rose by approximately 3.2% for the interim period over the same period of the previous year, mainly driven by the approximately 8 percentage point increment of selling and distribution costs to revenue ratio of wines segment. As wines segment has been in the process of a strategic restructuring exercise on its sales and distribution model, the related costs invested for more regional sales platforms, together with the increase in promotion and marketing expenses related to "Greatwall" brand, especially "Greatwall" Chateau Sungod and the relevant products were incurred as scheduled under the committed objective of continuing optimization of product mix portfolio.

ADMINISTRATIVE EXPENSES

Overall administrative expenses increased by approximately 21.7% for the interim period over the same period of the previous year which was driven by the increase in number of administrative headcounts and office expenditures.

FINANCE COSTS

Overall finance costs cut by approximately 50.2% for the interim period over the same period of the previous year which was mainly due to less cash discount to certain customers of wines segment recorded.

SHARE OF PROFITS OF ASSOCIATES

Share of profits of associates dropped by approximately 80.6% for the interim period over the same period of the previous year which was due to sharp fluctuations in profitability of certain associates.

INCOME TAX EXPENSE

Effective tax rate of the Group increased from approximately 25.3% to approximately 29.7%, which was mainly due to non-deductibility of expenses related to certain prolonged loss-making subsidiaries.

LIQUIDITY AND FINANCIAL RESOURCES

The Company's treasury function formulated financial risk management procedures, which are also subject to periodic review by the senior management of the Company. This treasury function operates as a centralized service for managing financial risks, including interest rate and foreign exchange rate risks, centralization of surplus financial resources, procuring cost-efficient funding and targeting yield enhancement opportunities. The treasury function regularly and closely monitors its overall cash and debt positions, reviews its funding costs and maturity profiles to facilitate refinancing, if appropriate.

As at 30 June 2010, the Group's unpledged cash and cash equivalents totalled approximately HK$1,506 million (31 December 2009: approximately HK$1,943 million), and the Group's net current assets were approximately HK$1,595 million (31 December 2009: approximately HK$1,662 million). Due to working capital changes during the interim period, the net cash outflow from operating activities of approximately HK$160 million (2009 comparative interim period: net cash inflow from operating activities of approximately HK$627 million) was recorded whereas the earnings before finance cost, income tax expense, depreciation, amortization of other intangible assets, recognition of prepaid land premium and share of profits of associates amounted to approximately HK$540 million (2009 comparative interim period: approximately HK$622 million).

Having considered the normalized cash flow from operating activities, unpledged cash and bank deposits and current bank and other borrowings and banking facilities available to the Group, the management believes that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations, capital expenditures and several business development projects.

Held-to-maturity investments represented corporate bonds with expected redemption dates falling within the coming two years or three years at dates of purchase. The Company has no exposure in mortgage-backed securities, collateralized debt obligations or similar asset classes.

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. The management is of the view that the exchange rate risk exposure of the Group is limited.

The Company cautiously uses derivatives principally in the form of interest rate swaps as appropriate for financial risk management purpose only, in hedging future cash flows against the exposure caused by interest rate volatility. Entering into derivative transactions for speculative purposes and investing liquidity resources in financial products with significant underlying leverage or derivative exposure are absolutely prohibited.

CAPITAL STRUCTURE

During the interim period, the total number of issued shares of the Company increased by 947,680 shares as a result of certain employees of the Group exercising their share options granted in 2007. As at 30 June 2010, the total number of issued shares of the Company was 2,792,459,756.

As at 30 June 2010, the Group had certain interest-bearing bank borrowings of approximately HK$1,102 million (31 December 2009: approximately HK$788 million) and other borrowing of approximately HK$32 million (31 December 2009: approximately HK$15 million). A loan from a non-controlling shareholder of approximately HK$129 million was repaid during the interim period.

Bank borrowings carried annual interest rates ranging between 0.98% and 5.31% (31 December 2009: between 1.1% and 4.37%). Other borrowing carried annual interest rates ranging between 4.37% and 4.86% (31 December 2009: 4.86%). A loan from a non-controlling shareholder carried annual interest rate at 2.78% as at 31 December 2009 and during the outstanding period in the interim period.

As at 30 June 2010, net assets attributable to owners of the parent were approximately HK$5,624 million (31 December 2009: approximately HK$5,483 million) and net cash of the Group (unpledged cash and cash equivalents less interest-bearing bank and other borrowings and a loan from a non-controlling shareholder) was approximately HK$372 million (31 December 2009: approximately HK$1,011 million).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

Save as disclosed in note 7 to the interim financial information, the Group had no significant contingent liabilities at the end of the reporting period.

As at 30 June 2010, certain bank borrowings of the Group were secured by charges over certain investment properties, property, plant, equipment, prepaid land premiums and time deposits of the Group with net book value of approximately HK$183 million (31December 2009: approximately HK$109 million).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2010, the Group employed approximately 14,077 staff in mainland China and Hong Kong (31 December 2009: 13,160). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. Employees in Hong Kong are provided with retirement benefits, either under a Mandatory Provident Fund exempted ORSO scheme or under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in mainland China are provided with basic social insurance and housing fund in compliance with the requirements of the laws of China. Details concerning these employee benefit schemes are set out in note 2.4 "Employee benefits" under "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in the 2009 annual report of the Company.

The Company adopted a share option scheme on 21 November 2006 (the "Option Scheme") for a term of ten years and the purpose of the Option Scheme is to reward eligible employees of the Group (including executive directors and non-executive directors of the Company) based on individual merits.

As at 31 December 2009, a total of 18,054,780 share options of the Company remained outstanding. During the interim period, no share options were granted pursuant to the terms of the Option Scheme, while a total of 573,922 share options were cancelled and a total of 188,678 share options lapsed. In addition, a total of 947,680 shares were issued and allotted by the Company upon the exercise of share options by certain employees of the Group. Accordingly, as at 30 June 2010, the total number of outstanding share options of the Company was 16,344,500. Share options granted under the Option Scheme are valid for seven years, exercisable in five years after 24 months from the date on which they are granted subject to the satisfaction of certain requirements under the Option Scheme.

CHANGE IN THE STRUCTURE OF THE GROUP

During the interim period, the Group set up a wholly-owned subsidiary in Hebei Province by the name of 中糧酒業(懷來)銷售有限公司 (COFCO Wines & Spirits (Huailai) Sale and Distribution Co., Ltd.) which is engaged in the sale and distribution of wines, brandy and beverages.

In May 2010, COFCO Coca-Cola Beverages (China) Investment Limited ("COFCO Coca-Cola Investment"), a non-wholly owned subsidiary of the Company, disposed of an aggregate of 33% equity interest in COFCO Coca-Cola Beverages (Inner Mongolia) Limited ("COFCO Coca-Cola (Inner Mongolia)") to Tianjin Shifa Group Co., Ltd., China National Food Industry (Group) Co., Ltd. and China Light Industry Foreign Economic Technology Corporation at an aggregate consideration of RMB15,840,000. After completion of the disposal, COFCO Coca-Cola Investment holds a 67% equity interest in COFCO Coca-Cola (Inner Mongolia).

Save as the aforesaid, during the interim period, there were no material changes in the structure of the Group.

INTERIM DIVIDEND

The board of directors declared the payment of an interim dividend of HKD2.30 cents per share in respect of the interim period, which will be payable on Friday, 22 October 2010 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 8 October 2010 (the "Record Date").

According to the Notice Regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management dated 22 April 2009 issued by the State Administration of Taxation of the People's Republic of China, the Enterprise Income Tax Law of the People's Republic of China (the "Enterprise Income Tax Law") and the Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China, all implemented from 1 January 2008, since the Company is an offshore incorporated company and is, among others, controlled by a Chinese enterprise, the Company is likely to be regarded as a Chinese resident enterprise and, if so, it could be required to withhold a 10% enterprise income tax when it distributes the interim dividend to its enterprise shareholders other than those enterprises which are duly incorporated in the PRC or under the laws of foreign countries (or regions) but with PRC-based de facto management bodies (such enterprises are defined as resident enterprises in the Enterprise Income Tax Law). The withholding and payment obligation lies with the Company.

In respect of all shareholders whose names appear on the Company's register of members on the Record Date and who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organizations, which are all considered as enterprise shareholders), the Company will distribute the interim dividend after deducting the enterprise income tax of 10%. The Company will not withhold and pay income tax in respect of the interim dividend payable to any natural person shareholders whose names appear on the Company's register of members on the Record Date.

If any enterprise shareholder listed on the Company's register of members considers itself to be a resident enterprise and does not wish the Company to withhold the 10% enterprise income tax, it shall lodge with the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited, at 26/F. Tesbury Centre, 28 Queen's Road East, Hong Kong, documents from its governing tax authority confirming that the Company is not required to withhold and pay the enterprise income tax in respect of the dividend to which it is entitled no later than 4:00 p.m. on Tuesday, 5 October 2010.

If anyone would like to change the identity of the shareholders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government authorities and adhere strictly to the information set out in the Company's register of members on the Record Date.

In the event that the Company is not regarded as a Chinese resident enterprise and hence no enterprise income tax should have been withheld, to the extent that such tax remains in the custody of the Company and so far as it is legally able to do so, the Company will procure such tax to be refunded to the relevant enterprise shareholders in respect of whom enterprise income tax had been withheld pursuant to the arrangements set out above. The Company would make a further announcement in such event.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 6 October 2010 to Friday, 8 October 2010, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged at the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited, at 26/F. Tesbury Centre, 28 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Tuesday, 5 October 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the view of the directors, during the interim period, the Company complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviation:

Code Provision E.1.2

Code provision E.1.2 provides that the chairman of the board should attend the Company's annual general meeting. The chairman of the board was unable to attend the annual general meeting of the Company held on 8 June 2010 due to other commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Upon specific enquiries of all directors, each of them confirmed that he/she complied with the required standards set out in the Model Code during the interim period.

The Company has also adopted a code for securities transactions by relevant employees (the "Employees Trading Code") based on the Model Code concerning dealings by relevant employees in the securities of the Company. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are required to comply with the Employees Trading Code in respect of their dealings in the securities of the Company. The terms of the Employees Trading Code are no less exacting than the required standards set out in the Model Code. No non-compliance reports were received from any such employees during the interim period.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with specific written terms of reference in accordance with the requirements of the Code. The role of the remuneration committee is to review and make recommendations to the board on the Company's policy and structure for remuneration of directors and senior management. The remuneration committee is currently composed of two independent non-executive directors, namely, Mr. Stephen Edward Clark and Mr. Yuen Tin Fan, Francis and one executive director, namely, Mr. Qu Zhe. Mr. Yuen acts as chairman of the remuneration committee.

AUDIT COMMITTEE

The Company has established an audit committee with specific written terms of reference in accordance with the requirements of the Code. The role of the audit committee is to assist the board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control, risk management and external audit functions. The audit committee currently consists of three independent non-executive directors, namely, Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Yuen Tin Fan, Francis. Mr. Clark acts as chairman of the audit committee. All of them have extensive experience in the accounting, financial and commercial sectors.

The audit committee has reviewed the interim financial information of the Group for the interim period with the management and the external auditors of the Company and has reviewed the internal auditors' report for the interim period with the Company's internal auditor.

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

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

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (http://www.hkex.com.hk) and the website of the Company (http://www.chinafoodsltd.com). The 2010 interim report will be published on the websites of the Stock Exchange and the Company and dispatched to the shareholders of the Company in due course.

By Order of the Board
China Foods Limited
Qu Zhe
Managing Director

Hong Kong, 24 August 2010

As at the date of this announcement, our executive directors are Mr. Ning Gaoning, Mr. Qu Zhe, Mr. Wang Zhiying, Mr. Mak Chi Wing, William, Mr. Zhang Zhentao and Ms. Luan Xiuju; our non-executive directors are Mr. Ma Jianping and Ms. Wu Wenting; and our independent non-executive directors are Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Yuen Tin Fan, Francis.