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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

Following is a summary of the performance of China Foods Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2012 (the "year") as compared with 2011.

Our Revenue	reached HK$30,878 million, up 10.2%.
Our Operating Profit*	reached HK$707 million, down 36.4%.
Our EBITDA^	reached HK$1,264 million, down 20.8%.
Our Bottom Line#	reached HK$382 million, down 40.8%.
Our Basic Earnings Per Share	reached HK13.67 cents, down HK9.45 cents.

The board of directors (the "Board") of the Company did not recommend any final dividend for the year.

* Operating Profit of the Group represents the aggregation of segment results less corporate and other unallocated expenses.

^ EBITDA represents earnings before finance cost, income tax expense, depreciation, amortisation of other intangible assets, recognition of prepaid land premiums and share of profits of associates.

\# Bottom Line represents the profit attributable to owners of the parent.

CONSOLIDATED RESULTS

The Board of the Company is pleased to announce the consolidated results of the Group for the year ended 31 December 2012 together with the comparative figures for the year ended 31 December 2011. The consolidated results as at and for the year ended 31 December 2012 (the "financial information") have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	**2012** ***HK$'000***	2011 *HK$'000*
REVENUE	*4*	**30,878,390**	28,010,761
Cost of sales		**(24,388,576)**	(21,348,376)
Gross profit		**6,489,814**	6,662,385
Other income and gains	*4*	**338,387**	238,524
Selling and distribution expenses		**(5,148,884)**	(4,767,225)
Administrative expenses		**(874,443)**	(939,583)
Other expenses and losses		**(17,930)**	(14,393)
Finance costs	*6*	**(70,241)**	(37,043)
Share of profits of associates		**67,319**	65,437
PROFIT BEFORE TAX	*5*	**784,022**	1,208,102
Income tax expense	*7*	**(191,864)**	(340,811)
PROFIT FOR THE YEAR		**592,158**	867,291
Attributable to:			
Owners of the parent		**381,931**	645,609
Non-controlling interests		**210,227**	221,682
		592,158	867,291
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**HK13.67 cents**	HK23.12 cents
Diluted		**HK13.61 cents**	HK23.10 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**592,158**	867,291
OTHER COMPREHENSIVE INCOME		
Share of other comprehensive income of associates	**–**	(1,357)
Exchange differences on translation of foreign operations	**9,569**	331,395
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**9,569**	330,038
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**601,727**	1,197,329
Attributable to:		
Owners of the parent	**391,615**	913,544
Non-controlling interests	**210,112**	283,785
	601,727	1,197,329

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Note	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,574,405**	3,889,400
Investment properties		**86,637**	82,361
Prepaid land premiums		**348,629**	308,078
Deposits for purchase of items of property, plant and equipment		**34,881**	52,802
Goodwill		**1,727,752**	1,727,793
Other intangible assets		**50,382**	60,389
Investments in associates		**637,013**	567,934
Available-for-sale investments		**203,103**	203,104
Deferred tax assets		**229,853**	46,893
Biological assets		**184,427**	165,833
Total non-current assets		**8,077,082**	7,104,587
CURRENT ASSETS			
Inventories		**5,075,015**	5,701,744
Accounts and bills receivables	*10*	**2,516,325**	1,944,607
Prepayments, deposits and other receivables		**1,700,894**	1,446,782
Due from fellow subsidiaries		**588,635**	69,390
Due from the ultimate holding company		**78,961**	22,056
Due from the immediate holding company		**165**	165
Due from related companies		**–**	4,076
Due from non-controlling shareholders of subsidiaries		**19,687**	9,510
Due from associates		**4,411**	1,551
Prepaid tax		**71,846**	23,653
Held-to-maturity investments		**–**	58,044
Equity investments at fair value through profit or loss		**18,746**	15,016
Restricted bank balances		**22,199**	–
Pledged deposits		**136,921**	139,005
Cash and cash equivalents		**1,901,294**	1,789,797
Total current assets		**12,135,099**	11,225,396

	Note	**2012**	2011
		HK$'000	*HK$'000*
CURRENT LIABILITIES			
Accounts and bills payables	*11*	**1,791,806**	1,558,708
Other payables and accruals		**3,149,028**	3,939,495
Due to fellow subsidiaries		**2,093,245**	1,057,344
Due to the ultimate holding company		**58,211**	41,031
Due to related companies		**769,944**	884,130
Due to non-controlling shareholders of subsidiaries		**37,728**	30,818
Due to associates		**256,618**	292,150
Interest-bearing bank and other borrowings		**2,000,720**	1,516,936
Tax payable		**61,736**	75,230
Total current liabilities		**10,219,036**	9,395,842
NET CURRENT ASSETS		**1,916,063**	1,829,554
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,993,145**	8,934,141
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**1,100,000**	300,000
Due to non-controlling shareholders of subsidiaries		**27,675**	27,680
Deferred income		**71,378**	42,532
Deferred tax liabilities		**96,106**	50,132
Total non-current liabilities		**1,295,159**	420,344
Net assets		**8,697,986**	8,513,797
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**279,719**	279,289
Reserves		**6,525,416**	6,271,636
Proposed final dividend		**–**	118,698
		6,805,135	6,669,623
Non-controlling interests		**1,892,851**	1,844,174
Total equity		**8,697,986**	8,513,797

NOTES TO FINANCIAL INFORMATION

31 December 2012

1. CORPORATE INFORMATION

China Foods Limited (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.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- processing, bottling and distribution of sparkling beverage and distribution of still beverage;
- production, sale and trading of grape wine and other wine products;
- distribution of retail packaged cooking oil and seasoning products;
- production and distribution of chocolate and other related products; and
- distribution of other consumer food and beverage products that are not categorised under the aforementioned activities.

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 of the Company is COFCO Corporation ("COFCO"), which is a state-owned enterprise registered in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

This financial information is prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

This financial information is prepared under the historical cost convention, except for investment properties, biological assets and equity investments at fair value through profit or loss, which have been measured at fair value. This financial information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial information.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKFRS 7 and HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on this financial information.

The HKFRS 7 Amendments require additional disclosures about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognised with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, such involvement. The Group has adopted the amendments in the current year. Apart from the additional disclosures requirements for transactions involving the transfer of financial assets in order to provide greater transparency of risk exposures when financial assets are transferred, the adoption of the amendments did not have any impact in the financial position or performance of the Group.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale has been rebutted by the Group as the Group's investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly deferred tax has been determined on the basis of recovery through use. The adoption of the amendments did not have any impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into businesses based on their products and has five reportable operating segments as follows:

(a) the beverage segment is engaged in the processing, bottling and distribution of sparkling beverage products and the distribution of still beverage products;

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

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

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

(e) the "others" segment is engaged in the distribution of other consumer food and beverage products that are not categorised under the aforementioned segments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, dividend income, finance costs, share of profits of associates, as well as unallocated head office and corporate results are all excluded from such measurement.

Segment assets exclude deferred tax assets, prepaid tax, restricted bank balances, pledged deposits, cash and cash equivalents, available-for-sale investments, equity investments at fair value through profit or loss, investments in associates and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2012

	Beverage	Wine	Kitchen food	Confectionery	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	**11,109,622**	**3,886,116**	**14,974,813**	**725,660**	**182,179**	**30,878,390**
Other revenue	**112,492**	**77,638**	**15,773**	**9,614**	**38,235**	**253,752**
	11,222,114	**3,963,754**	**14,990,586**	**735,274**	**220,414**	**31,132,142**
Segment results	**579,364**	**535,678**	**(229,724)**	**(56,612)**	**3,783**	**832,489**
Reconciliation:						
Interest income						**30,861**
Dividend income						**49,041**
Finance costs						**(70,241)**
Share of profits of associates						**67,319**
Corporate and other unallocated expenses						**(125,447)**
Profit before tax						**784,022**
Segment assets	**6,236,463**	**5,027,310**	**5,078,243**	**501,327**	**78,967**	**16,922,310**
Reconciliation:						
Investments in associates						**637,013**
Corporate and other unallocated assets						**2,652,858**
Total assets						**20,212,181**

Year ended 31 December 2012

	Beverage	Wine	Kitchen food	Confectionery	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment liabilities	**2,621,639**	**866,786**	**4,516,513**	**141,335**	**–**	**8,146,273**
Reconciliation:						
Corporate and other unallocated liabilities						**3,367,922**
Total liabilities						**11,514,195**
Other segment information:						
Net impairment losses recognised in the income statement	**1,024**	**2,643**	**1,351**	**2,011**	**–**	**7,029**
Loss on disposal of items of property, plant and equipment	**9,782**	**420**	**62**	**637**	**–**	**10,901**
Loss on disposal of biological assets	**–**	**265**	**–**	**–**	**–**	**265**
Fair value gains on biological assets	**–**	**(5,741)**	**–**	**–**	**–**	**(5,741)**
Provision/(write-back of provision) against inventories	**9,543**	**(5,378)**	**4,355**	**2,519**	**–**	**11,039**
Depreciation and amortisation	**311,388**	**117,296**	**7,189**	**23,666**	**–**	**459,539**
Unallocated amounts						**17,162**
						476,701
Capital expenditure	**698,631**	**440,326**	**49,253**	**30,148**	**–**	**1,218,358**
Unallocated amounts						**9**
						1,218,367*

* Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land premiums.

Year ended 31 December 2011

	Beverage *HK$'000*	Wine *HK$'000*	Kitchen food *HK$'000*	Confectionery *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment revenue:						
Sales to external customers	10,517,250	3,693,489	13,140,573	659,449	–	28,010,761
Other revenue	78,653	67,459	14,572	9,818	–	170,502
	10,595,903	3,760,948	13,155,145	669,267	–	28,181,263
Segment results	531,411	633,110	162,273	(94,612)	–	1,232,182
Reconciliation:						
Interest income						30,397
Dividend income						37,269
Finance costs						(37,043)
Share of profits of associates						65,437
Corporate and other unallocated expenses						(120,140)
Profit before tax						1,208,102
Segment assets	7,097,198	5,516,375	3,105,889	537,171	–	16,256,633
Reconciliation:						
Elimination of intersegment receivables						(5,837,810)
Investments in associates						567,934
Corporate and other unallocated assets						7,343,226
Total assets						18,329,983

Year ended 31 December 2011

	Beverage *HK$'000*	Wine *HK$'000*	Kitchen food *HK$'000*	Confectionery *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment liabilities	5,063,433	2,804,015	3,276,207	484,544	–	11,628,199
Reconciliation:						
Elimination of intersegment payables						(5,837,810)
Corporate and other unallocated liabilities						4,025,797
Total liabilities						9,816,186
Other segment information:						
Net impairment losses recognised/(reversed) in the income statement	447	1,817	816	(142)	–	2,938
Loss on disposal of items of property, plant and equipment	5,340	1,713	14	205	–	7,272
Provision/(write-back of provision) against inventories	6,569	7,905	(1,211)	14,062	–	27,325
Loss on disposal of biological assets	–	14,073	–	–	–	14,073
Fair value gains on biological assets	–	(33,510)	–	–	–	(33,510)
Depreciation and amortisation	239,914	128,840	5,001	25,872	–	399,627
Unallocated amounts						16,210
						415,837
Capital expenditure	368,828	224,337	2,057	3,147	–	598,369
Unallocated amounts						5,235
						603,604*

* Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land premiums.

Geographical information

Over 90% of the Group's revenue is derived from customers operating in Mainland China and over 90% of the Group's non-current assets, other than financial instruments and deferred tax assets, are situated in Mainland China.

Information about a major customer

During the year, there was no customer which individually accounted for 10% or more of the Group's revenue (2011: Nil).

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's other income and gains is as follows:

	2012	2011
	HK$'000	*HK$'000*
Other income		
Gross rental income	**9,475**	7,104
Bank interest income	**22,587**	24,442
Interest income from held-to-maturity investments	**2,269**	5,955
Interest income from financial products	**6,005**	–
Dividend income from available-for-sale investments	**48,807**	36,926
Dividend income from equity investments at fair value through profit or loss	**234**	343
Government grants *	**106,318**	62,240
Compensation income	**23,733**	28,823
Sale of by-products and scrap items	**20,697**	10,194
Commission income	**82,304**	44,520
Others	**3,459**	13,367
	325,888	233,914
Gains		
Foreign exchange differences, net	**4,477**	–
Fair value gains on equity investments at fair value through profit or loss	**3,730**	–
Fair value gains on investment properties	**4,292**	4,610
	12,499	4,610
	338,387	238,524

* Various government grants have been received for investments in certain provinces in Mainland China in which the Company's subsidiaries operate. There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

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

	2012	2011
	HK$'000	*HK$'000*
Cost of inventories sold	**24,383,013**	21,340,488
Provision against inventories	**11,039**	27,325
Loss on disposal of biological assets	**265**	14,073
Fair value gains on biological assets	**(5,741)**	(33,510)
Cost of sales	**24,388,576**	21,348,376
Auditors' remuneration	**2,652**	2,744
Depreciation	**457,031**	397,672
Amortisation of other intangible assets	**11,777**	10,585
Recognition of prepaid land premiums	**7,893**	7,580
Minimum lease payments under operating leases in respect of land and buildings	**251,369**	119,262
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**1,453,483**	1,155,288
Equity-settled share option expense	**12,211**	10,357
Pension schemes contributions *	**152,985**	116,037
	1,618,679	1,281,682
Foreign exchange differences, net	**(4,477)**	5,292
Other expenses include the followings:		
Loss on disposal of items of property, plant and equipment	**10,901**	7,272
Impairment of an available-for-sale investment	**–**	322
Fair value losses on equity investments at fair value through profit or loss	**–**	4,183
Impairment of accounts receivable	**8,210**	2,372
Impairment/(reversal of impairment) of other receivables	**(1,181)**	244

* At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2012	2011
	HK$'000	*HK$'000*
Interest on:		
Bank loans wholly repayable within five years	**42,180**	20,844
Loans from a fellow subsidiary	**23,514**	756
Others	**4,547**	15,443
	70,241	37,043

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2012	2011
	HK$'000	*HK$'000*
Group:		
Current-Hong Kong		
Charge for the year	**1,106**	335
Current-Mainland China		
Charge for the year	**321,113**	339,701
Underprovision in prior years	**4,669**	1,702
Current-Elsewhere		
Charge for the year	**2,330**	753
Deferred	**(137,354)**	(1,680)
Total tax charge for the year	**191,864**	340,811

The share of tax attributable to associates amounting to HK$19,609,000 (2011: HK$18,881,000) is included in "Share of profits of associates" in the consolidated income statement.

Since 2009, the Ministry of Finance and the State Administration of Taxation have issued a series of regulations and rules, with retroactive effect on 1 January 2008, concerning group restructuring (collectively, the "Group Restructuring Tax Rules"). During the year ended 31 December 2008, the Group undertook certain intra-group restructuring activities (the "Restructuring"). Should the basis set forth in the Group Restructuring Tax Rules be adopted, there might be relevant tax exposure to the Group. After giving due consideration of key factors including the relevant legal interpretation and opinion about the Group Restructuring Tax Rules and the prevailing tax practices, the Company considers that it is more likely than not that the Restructuring will not give rise to the relevant tax exposure to the Group, if any. Accordingly, no provision thereon has been made in this financial information.

8. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Interim – HK6.11 cents (2011: HK4.07 cents) per ordinary share	**170,764**	113,673
Proposed final – Nil (2011: HK4.25 cents) per ordinary share	**–**	118,698
	170,764	232,371

At a meeting held on 26 March 2013, the Board did not recommend any final dividend for the year.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK$381,931,000 (2011: HK$645,609,000), and the weighted average number of ordinary shares of 2,794,663,465 (2011: 2,792,666,792) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, 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:

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**381,931**	645,609

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**2,794,663,465**	2,792,666,792
Effect of dilution – weighted average number of ordinary shares:		
Share options	**10,572,983**	2,129,258
	2,805,236,448	2,794,796,050

10. 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 one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department 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. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivable balances.

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

	2012	2011
	HK$'000	*HK$'000*
Within 3 months	**2,097,276**	1,336,664
3 to 12 months	**352,725**	597,316
1 to 2 years	**65,999**	7,735
Over 2 years	**325**	2,892
	2,516,325	1,944,607

11. ACCOUNTS AND BILLS PAYABLES

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

	2012	2011
	HK$'000	*HK$'000*
Within 3 months	**1,685,228**	1,288,808
3 to 12 months	**93,914**	263,213
1 to 2 years	**10,067**	5,972
Over 2 years	**2,597**	715
	1,791,806	1,558,708

MANAGEMENT DISCUSSION AND ANALYSIS

2012 was the year in which the Company and its subsidiaries (collectively the "Group") began operating under its new organizational structure.

Since 1 January 2012, the Group has been operating in accordance with the new organizational structure adopted in 2011 with nine-sales regions across the country, managed via a central headquarter, each operating an integrated sales and distribution system across our range of products. Systems and procedures have been set up based upon the new organizational structure and are being regularly assessed and improved.

During the year, we added four regional management centers between the central headquarter and the nine regions with the objective of enhancing management response time. In order to further strengthen our product strategy and execution, we recruited additional talent and established a centralized brand management department and product specific management departments for each product category.

These changes were successfully completed, albeit with room for further improvement. By the end of 2012, an improvement plan had been formulated and is now being implemented.

2012 was a challenging year for the Group, particularly during the second half, with the downturn in the macroeconomic environment giving rise to a marked fall in consumer demand for our products. Further significant challenges were the volatility of bulk edible oil prices, together with additional marketing and promotional expenses under keen competition. These had a severe adverse impact on our Kitchen Food business. These challenges gave rise to disappointing results for the year but, importantly, we generally performed well in terms of revenue growth relative to the industries in which we operate, and against key competitors.

Review of 2012 Annual Results

The principal features of our results for 2012 as compared with 2011 were:

- Revenue was HK$30,878 million, up 10.2%.
- Operating profit* amounted to HK$707 million, down 36.4%.
- EBITDA^ was HK$1,264 million, down 20.8%.
- Bottom Line# was HK$382 million, down 40.8%.
- Earnings per share reached HK13.67 cents, down HK9.45 cents.

* The Group's operating profit represents the aggregation of segment results less corporate and other unallocated expenses.

^ EBITDA represents earnings before finance costs, income tax expense, depreciation, amortization of other intangible assets, recognition of prepaid land premiums and share of profits of associates.

\# Bottom Line represents the profit attributable to owners of the parent company.

Overall, our results for 2012 recorded a substantial decline compared with those for 2011, mainly due to the following principal factors:

- Despite the fact that sales revenue growth of the Kitchen Food business was substantially higher than our key competitors, and the market share of our star product "Fortune Corn Oil" increased significantly, the performance of the Kitchen Food business was unsatisfactory and a loss was incurred due to our inability to pass on raw material cost increases, together with additional marketing and promotional expenses under keen competition. In addition, performance was affected by an adverse change in product mix as consumers traded down.

- Due to the unfavourable macroeconomic environment, the demand for middle-end and high-end wine products declined, giving rise to fierce price competition in the wine industry, and consequential margin erosion. This, coupled with increased bulk wine costs and higher promotional expenses, resulted in reduced profitability for our Wine business.

- During the initial stages of the introduction of our new organizational structure, our staff took time to adapt and the management system needed further fine tuning, which had a short-term impact on the efficiency of daily business operations.

In 2012, our Beverage and Confectionery businesses performed satisfactorily. With respect to our Beverage business, notwithstanding the significant impact of the downturn in the macroeconomic environment, and changes in consumer preferences, we achieved growth in our core products. This, coupled with effective expense control, resulted in the delivery of stable growth in our operating results. Our Confectionery business delivered a substantial reduction in its operating loss, and improved gross profit margin through effective raw material procurement, improved product mix, and price increases of some popular products in the second half of 2012.

Beverage Business

Our revenue amounted to approximately HK$11,110 million in 2012, representing an increase of 5.6% compared to 2011. Overall sales volume increased by 7.4% compared to 2011. As mentioned above, despite an unfavourable change in product mix, the continuing growth of our core products, coupled with effective expense control, delivered segment profit of approximately HK$579.4 million, up by 9.0%.

The key initiatives in product innovation and development included the following:

- We improved the taste, packaging, cost management and concept of some products;

- We launched environmental friendly lightweight bottled water and expanded the contract-pack production capacity;

- We launched a 300 ml PET bottle package in both sparkling and juice in order to recruit new drinkers, thus driving single-serve volume;

- We introduced new juice and tea products in various flavors, such as "Minute Maid Guoqingxin" which targeted the non-pulp juice market share, and "Yuanye New Green Tea", which further promoted the "Yuanye" green tea brand.

The key brand building activities included the following:

- We continued to invest in the consumer marketing of core brands such as Coca-Cola, Sprite, and Minute Maid;

- In order to boost market share and brand presence, we promoted the brands through employee participation in the Coca-Cola Ambassador campaign, and through marketing activities such as Olympic Games China Beat, Sprite basketball competition and the Minute Maid "Everyone Loves Pulp" marketing events;

- We successfully implemented an "Under the Cap" bonus-drink award promotional campaign to promote our star products.

According to market research conducted by ACNielsen at the end of December 2012, our market share by volume of sparkling beverages was higher than that in the previous year and continued to outperform the competition. While market share by volume in the juice category in 2012 fell, "Minute Maid" brand products gradually rebounded on a month by month basis during the second half of 2012 and recorded half-to-half growth compared to the second half of 2011.

Wine Business

Our revenue amounted to approximately HK$3,886 million in 2012, representing an increase of 5.2% compared to 2011. Overall sales outperformed our key competitors. As mentioned above, due to the unfavourable macroeconomic environment, the demand for middle-end and high-end wine products declined, giving rise to fierce price competition in the wine industry, and consequential margin erosion. This, coupled with increased bulk wine costs and higher promotional expenses, resulted in reduced profitability for our Wine business. Segment profit was approximately HK$535.7 million, down by 15.4%.

The principal innovation and development initiatives included the following:

- We undertook further rationalization of our product range by structuring it in an orderly way according to grade and price point and discontinuing products that were making an inadequate contribution. In addition, we improved the packaging graphics of our products in order to achieve easier recognition and clear differentiation of the product portfolio from high-end to low-end wine, and introduced visual identity standards for our product lines.

- We successfully launched a number of new products, including the "Michel Rolland Chief Winemaker Series" and "Greatwall Huaxia Chateau Series" under the premium high-end product range of "Greatwall International Chateau Alliance." We further reinforced the image of "Greatwall Chateau Sungod", as a star product line under "Greatwall International Chateau Alliance" in order to satisfy consumer demand for high-end chateau wine that has been honored by being the wine of choice for state banquets, and launched new products such as "Chateau Sungod Greatwall, Boao Premium Series", "Chateau Sungod Greatwall, Long Yan Dry White Wine Reserve" and "Chateau Sungod Greatwall, Gewurztraminer Sweet White Wine Reserve"; We further reinforced the image of another star product line, "Greatwall Terroir", with the adoption of a specially designed artist label to strengthen the brand link to a premium lifestyle, by launching the limited edition "Greatwall Terroir, Arts Impression" product, as well as new products from France and Chile under the "Greatwall Terroir" product line.

The key work of brand building included the following:

- We reinforced the international brand image of Greatwall and elevated consumer awareness through advertising and promotion during the National People's Congress of the PRC and the Chinese People's Political Consultative Conference in March, the 18th National Congress of the Communist Party of the PRC in November, the Boao Forum in Asia, the London Olympic Games and by organizing promotional events such as "Greatwall Cup Wine Tasting Competition", "Greatwall Terroir Art Journey 2012", opening ceremony of the Junding Huayue Club, prize award at the International Wine Fair in Paris, France and Michel Rolland's China Tour.

- We also explored more channels for our brand communication with consumers by using new marketing media such as Weibo, web search engine and web group sharing. We capitalised on promotional opportunities during the Mid-Autumn festival, National Day, and the London Olympic Games. We also launched 360-degree new media promotional campaigns for "Cheer for Greatwall Terroir in the Year of Dragon" and "Greatwall Cheer for London Olympic Games";

- Through promotional events at chateaux with wine tasting, new wine launch campaigns, and free gifts, we effectively communicated with target high-end consumers. Through the Greatwall Terroir Wine Label DIY promotional campaign, we managed to promote its brand image of "Quality Wine selected from the Finest Wine Regions in the World" to our targeted consumers. We also promoted the new products of "Greatwall Cabernet" series with the brand proposition of "Better Cabernet Incorporating the Essence of Cabernet Sauvignon, Cabernet Franc and Cabernet Gemischt" by impressive point of sale displays, and through sampling.

According to market research conducted by ACNielsen at the end of December 2012, with the combined effects of powerful brand and channel execution, the Greatwall brand retained its market share by sales value, and maintained its position as market leader.

Kitchen Food Business

Kitchen Food revenue amounted to approximately HK$14,975 million in 2012, representing an increase of 14.0% compared to 2011. As mentioned above, despite the fact that sales revenue growth was substantially higher than our key competitor, the performance of the Kitchen Food business was unsatisfactory and a loss of HK$229.7 million was reported due to our inability to pass on raw material cost increases, together with additional marketing and promotional expenses incurred under conditions of keen competition. In addition, performance was affected by an adverse change in product mix as consumers traded down.

The key work of product innovation and development included the following:

- "Fortune Golden Origin Corn Oil", with its emphasis on premium and high quality ingredients, performed exceptionally well, achieving a 66% volume increase;

- "Natural Grain Blended Oil" was reformulated so as to increase the high-end oil content, and was renamed as "Daily Five-Grain Blended Oil" with enhanced product competitiveness. The formulation for DHA Algal Oil Grain Blended Oil was upgraded to use non-genetically modified soy bean oil content. The formulation of "Balanced Fatty Acid Blended Oil" was optimized and then renamed as "Jiu Tiao (九調) Balanced Blended Oil" with a lower unit cost with the objective of driving sales volume growth and improving margins.

The brand building activities included the following:

- We continued to pursue the brand strategy of "Safe Quality, Happy Life" and conducted marketing and promotional activities for our three core oil types that further reinforced the "Fortune" brand concept;

- We undertook a series of event marketing activities, including "Fortune Corn Oil Olympic Marketing", "Fortune Scholarship & Charity Marketing", "Aerospace Quality of Fortune Blended Edible Oil & Successful Aerospace Flight Shenzhou-9 Marketing" and "China Fortune Grandpa's Fortune Cultural Marketing" under "Fortune" brand;

- Meanwhile, we undertook a series of national and regional promotions to drive sales volume. The national activities included the "Take Fortune Home" during the Spring Festival, the "Healthy Corn Oil from Golden Corn Origin" during Labour Day and the Dragon Boat Festival, and "Bring Fortune Blended Oil Back Home" during the Mid-Autumn Festival and National Day. We promoted our Fortune Rapeseed Oil through "Fortune Rapeseed Oil, Your Home Flavour" regional promotional activities.

- With the effective implementation of the above activities, "Fortune" brand was granted the "China Food Safety Tenth Annual Conference Outstanding Contribution Award" by the eight ministries including the Ministry of Agriculture. After assessment and verification by Millward Brown, "Fortune" brand received a prestigious award as one of the "Top 50 Most Valuable China Brand Z" with progressively higher ranking in each of the past three years. Moreover, "Fortune" brand was also awarded more than ten honors by various industry publications.

According to market research conducted by ACNielsen at the end of December 2012, "Fortune" brand consumer-pack edible oil had secured No. 2 position in the market and continued to narrow the gap with the market leader. The market share of "Fortune Corn Oil" in terms of sales value increased significantly compared with 2011, thus securing its position as a strong challenger in the market.

Confectionery Business

Confectionery revenue amounted to approximately HK$726 million in 2012, representing an increase of 10.0% compared to 2011. We endeavored to optimize the product mix and started to raise the prices of some popular products in the second half of the year. This, coupled with on-going raw material cost control, and effective spending and control of marketing expenses, gave rise to a significant reduction in the segment operating loss by 40.2% to approximately HK$56.6 million, and established a good foundation for further improvement in 2013.

The key product innovation and development work included the following:

- We upgraded the packaging for the majority of "Le conte" chocolate products and Merveille jelly candies by adding the Olympic Games logo, and also launched the green apple flavoured Merveille jelly candy during 2012.

- By upgrading the formula for the classic series of milk chocolate and dark chocolate, our products have exceeded or maintained comparable quality when benchmarked with competitive products. Also, Vitamin C was added to Merveille Jelly Candy. Overall sales were boosted;

- We have developed and launched the innovative true love photo-frame gift box into the market.

The key brand building work included the following:

- We continued to implement our dual-brand: “Le conte” and “Merveille” strategy. Consolidation of various product series under the “Le conte” brand was completed. The positioning and visual identity of various product series was clarified and improved. The “Merveille” brand continued to adhere to the brand positioning of “Tasty” and “Happy” throughout the various brand communication and promotional activities;

- During the Olympic Games, we launched Olympic Games marketing and promotional campaigns including Weibo marketing, below-the-line marketing, Beijing Metro advertising, and interactive sampling activities with “Le conte” brand gold medal chocolate;

- Throughout the year, the basic communication theme of “Rich flavor and emotion, only for the people you truly love” was maintained. Important festival events were opportunities for sales promotion and brand communication. For Chinese Valentine’s Day and Western Valentine’s Day, the communication emphasis was on expressing love. The theme promoting family love was applied to the Mid-Autumn Festival, Christmas and Spring Festival. The true love gift box and the newly introduced jelly candy were mainly promoted in major cities, shops and offices nation-wide by means of LED display, coupled with consumer sampling.

REVIEW OF SALES NETWORK BUILDING

We have formulated a sustainable overall Route-To-Market (“RTM”) strategy. Under this RTM plan, we improved the distribution network by converting individual single product type distributors into multiple product type distributors, and individual single product type multi-channel distributors into channel focused multiple product type distributors. We see these moves as leading to improved coordination with distributors, an ability to develop previously untapped opportunities, and an increase in outlet coverage and the number of points of sale for our products.

In terms of channel consolidation, we have actively promoted the development of core capabilities of distributors by assessing network profitability, network distribution coverage and network controllability in our sales network building process. We have begun to establish a special distributor system targeting specific large corporations and organizations, by recruiting distributors at trade fairs in the nine-sales regions across China. For our beverage business, we have gradually enhanced our relationships with customers by promoting a business partner relationship management program.

We continued to work with our distributors who have installed our Distributor Management System in order to improve data accuracy and timeliness of transmission, so as to provide enhanced management information in relation to inventory levels in the distribution system, and retail prices.

In addition, our Mobile Customer Management System, which is a tool designed to enhance the performance of frontline promoters through standardised procedures and information feedback, has been put into operation in the Beijing sales region. This system will be further deployed to the key cities of the nine-sales regions.

Since the establishment of the integrated sales and distribution system across our range of products, we have successively carried out a series of themed promotional activities at major cities across the nine-sales regions during Labour Day, the Dragon Boat Festival, the Olympic Games, the Mid-autumn Festival and National Day, under the “COFCO Island” concept characterised by “combined showcasing at point of sales + free tasting + free gifts with purchase.” In addition, we organized cross-product category stacks/specific display shelves in medium-and small-sized supermarkets to further enhance effectiveness of cross product category sales promotion.

REVIEW OF SYSTEM

(1) Supply Chain System

We passed all the food quality and production safety audits, and 100% of the product sample tests, conducted during the year by the various regulatory and inspection authorities. We also achieved the highest quality scores among the Coca-Cola bottling groups in China as measured by the Coca-Cola product quality system. We further improved the product tracking system and overall quality management of our plants. No quality, safety or environmental incidents were reported in 2012.

Our plants continued to make progress in improving production efficiency, manufacturing cost control, and overall productivity through enhanced management processes and equipment upgrades. Meanwhile, in terms of energy saving, and efficiency, our plants recorded improvements, coupled with decreased levels of emissions of Sulfur Dioxide, and improved standards in relation to waste water discharges.

In respect of long-term production capacity planning, construction of the new beverage plant in Hebei was completed during the year. A project to expand the Chateau Sungod winery has recently been completed, and wineries are under construction in each of Ningxia and Xinjiang, both of which are already partially operational. Furthermore, we have submitted proposals to upstream suppliers of consumer-pack edible oil regarding production capacity planning and expansion with the objective of raising the order fulfilment rate of our Kitchen Food business.

(2) Information System

The Company's Project I506, an integrated enterprise-wide information technology system, was launched as scheduled at the beginning of 2012 to handle the new organisational structure, the change in business requirements and the necessary adjustments to internal approval processes. Project I506 was selected as a best case study by IBM Institute for Business Value because of its six prominent features including "difficulty, urgency, large scope, changes, numerous workflows and a large number of users". Thus, it was also marked as the best industry practice for business reform of "new state-owned enterprises". This project was also recognized as a best case study of SAP Business Transformation Study given that this project facilitated the business transformation of the Company.

(3) Internal Control, Compliance and Legal System

The Company consolidated various systems and workflows after the restructuring. We continued to ensure the efficient and orderly completion of all operational activities. In addition, we adjusted the organizational structure of the audit department by establishing a market audit department which is responsible for the audit of marketing activities and marketing expense with the aim of improving cost management.

In terms of compliance and legal matters, a contract approval system was launched in 2012. Moreover, we formulated and modified legal policies, established a contract database, provided legal training and analyzed litigation and arbitration cases on a regular basis. Improvements were made to address the problems identified with a view to avoiding undue risk exposure.

(4) Organisation and Talent Management System

The Company has established a unified human resources policy and system following the organisational restructuring, and established a standardised electronic workflow within human resources management system. We further optimised our performance appraisal P2W system. We have completed the assessment of job positions in accordance with unified principles and established labour cost and productivity management systems. Overall sales revenue per capita has increased significantly when compared to 2011.

With regard to our talent training, we have implemented a talent development plan, established a channel for staff career development, formulated a position qualification system, set up a talent development committee, defined key positions in the Company, set up the China Foods Business School with the objective of developing professional skills in the fast-moving consumer goods industries.

With respect to corporate cultural development, we organised team integration and corporate cultural activities with the theme of "You are always here", and established an in-house sharing platform.

In terms of incentive and retention programs, on top of the existing share option inventive scheme, we formulated the "Incentive Program based on Benchmarking Market Capitalisation with Benchmark Enterprises" (與市值掛鈎並與標杆企業對標的激勵計劃), the "Above-Target Profit Sharing Program" for sales teams (營銷團隊超額利潤分享計劃) and the "New Product Development Incentive Scheme (新產品開發激勵計劃) for the research and development team.

(5) Financial Management System

To cope with new organisational structure, the Company has established and continuously improved the financial information platform. With respect to financing, we continued to improve funds management by way of allocating internal funds through a centralized treasury function, taking advantage of lower financing costs. We also continued to promote supply chain financing for distributors and then further support business growth. As a result of the changed organization structure, our effective income tax rate significantly declined through the utilisation of headquarter expenses as a tax credit.

PREPARATION FOR FUTURE EXTERNAL EXPANSION

In 2012, we continued to carry out our plan of securing high-quality wine resources overseas. We are in the process of researching and selecting potential acquisition targets in Australia and the United States. We have identified and preliminarily investigated potential acquisitions by engaging investment banks.

With respect to expansion into other product types, priority will be given to categories such as Chinese liquors and seasonings in accordance with the Company's selection criteria. We have conducted negotiations with several potential working partners.

In consideration of future expansion into other product types and potential acquisition of strong regional brands of consumer-pack edible oil, we will continue to conduct feasibility studies and investigations.

CONCLUSION

Our 2012 result was impacted by the downturn in the macro-economy of China in 2012 and the operating environment remained full of challenges. Going forward, we will continue to improve our organisational structure and enhance our professionalism in our business management, and our management team will endeavour to capture opportunities to deliver a reasonable return to our shareholders in 2013.

FINANCIAL REVIEW

Supplemental information of segment results of the Group for the year ended 31 December 2012 with comparative figures, are set out below:

	For the year ended 31 December	
	2012	2011
	%	%
Growth of revenue by segment:		
– Beverage	**5.6**	32.8
– Wine	**5.2**	18.6
– Kitchen Food	**14.0**	57.5
– Confectionery	**10.0**	14.4
– Others	**N/A**	N/A
Segment results to revenue ratio:		
– Beverage	**5.2**	5.1
– Wine	**13.8**	17.1
– Kitchen Food	**-1.5**	1.2
– Confectionery	**-7.8**	-14.4
– Others	**2.1**	N/A

REVENUE

- The Group's total revenue for the year grew by approximately 10.2% over the previous year. The revenue growth contributors were the Kitchen Food and Beverage segments, with aggregate contribution of 84.5% to the Group's total revenue and with growth rates of 14.0% and 5.6% respectively.

- The revenue growth rate of the Wine segment was 5.2%, higher than the revenue growth rate of the key benchmarking competitor during the year.

- The revenue growth of the Confectionery segment reflects an improvement in product mix and price increases in relation to some popular products during the second half of 2012.

- Revenue of the Others segment was related to the sales and distribution of certain consumer food and beverage products under the master framework agreement of the Company with COFCO (after the implementation of the centralized sale of different products in sales regions).

GROSS PROFIT PERCENTAGE

Overall the gross profit percentage dropped from 23.8% to 21.0% mainly due to the decrease in gross profit percentage of the Kitchen Food segment during 2012 as Kitchen Food accounts for 48.5% of the Group's total revenue.

The decline in the gross profit percentage of the Kitchen Food segment was due to the incomplete pass through of raw material price increase of bulk edible oil, coupled with the effect of product mix changes.

For the Wine segment, the gross profit percentage dropped because the sales demand for the middle-end and high-end wine products declined given the downturn in the macroeconomic environment, together with higher raw material cost. As a result, the contribution from high margin wine declined.

For the Beverage segment, there was an increase in water sales relative to other products, which gave rise to an unfavourable change in the product mix. In addition, there were certain effects caused by the rising costs of raw materials.

For the Confectionery segment, gross profit percentage improved mainly due to good raw material procurement, improved product mix and price increase for some popular products during the second half of 2012.

SELLING AND DISTRIBUTION COSTS/ADMINISTRATIVE EXPENSES

Increased marketing and promotional expenses were spent in a highly competitive market but the implementation of the integrated sales and distribution system delivered scale benefits in terms of cost savings and, as a result of this, and rigorous expense control, aggregate selling and distribution costs grew by 8.0% and aggregate administrative expenses declined by 6.9% when the total revenue of the Group was up by 10.2%.

The selling and distribution costs to revenue ratio improved by 0.3 percentage points to 16.7% while the ratio of administrative expenses to revenue ratio improved by 0.5 percentage points to 2.8%.

FINANCE COSTS

Overall finance costs increased by 89.6% which was mainly due to an increase in outstanding loan balances. The weighted average borrowing interest rate also increased as a result of higher rates in relation to RMB denominated loans.

SHARE OF PROFITS OF ASSOCIATES

Share of profits of associates increased slightly by 2.9%.

INCOME TAX EXPENSE

The effective income tax rate decreased to 26.8% during 2012, a 3 percentage point improvement. (The calculation of the effective tax rate of the Group is based on tax divided by adjusted profit before tax after excluding the share of profits of associates)

The organisational restructuring made it possible to better utilize the Group's headquarters expenses to reduce the overall tax rate.

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. The treasury function operates as a centralized service for managing financial risks, including interest rate and foreign exchange rate risks, reallocating surplus financial resources within the Group, procuring cost-efficient funding and targeting yield enhancement opportunities. The treasury function regularly and closely monitors its overall cash and debt positions, proactively reviews its funding costs and maturity profiles to facilitate timely refinancing, if appropriate.

As at 31 December 2012, the Group's unpledged cash and cash equivalents totalled approximately HK$1,901 million (31 December 2011: approximately HK$ 1,790 million), and the Group's net current assets were approximately HK$ 1,916 million (31 December 2011: approximately HK$1,830 million).

During the year, due to working capital changes prior to the Chinese New Year peak season, coupled with the income tax paid, the net cash inflow from operating activities was approximately HK$371 million (2011: approximately HK$666 million) whereas the EBITDA amounted to approximately HK$1,264 million (2011: approximately HK$1,596 million).

Having considered the normalized cash flow from operating activities, existing financial gearing 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 prospective business development projects.

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 downside risk exposure of the Group is limited.

CAPITAL STRUCTURE

During the year, the total number of issued shares of the Company increased by 4,299,640 shares as certain employees of the Group exercised their share options granted in 2007. As at 31 December 2012, the total number of issued shares of the Company was 2,797,191,396.

As at 31 December 2012, the Group had certain interest-bearing bank borrowings of approximately HK$2,854 million (31 December 2011: approximately HK$1,761 million) and other borrowing of approximately HK$247 million (31 December 2011: approximately HK$56 million).

Bank borrowings carried annual interest rates ranging between 0.66% and 6% (31 December 2011: between 0.61% and 4.63%). Other borrowing carried an annual interest rate of 5.04% (31 December 2011: 6.1%).

As at 31 December 2012, net assets attributable to owners of the parent were approximately HK$6,805 million (31 December 2011: approximately HK$6,670 million) and the net borrowing position of the Group (unpledged cash and cash equivalents less interest-bearing bank and other borrowings) was approximately HK$1,199 million (31 December 2011: approximately HK$27 million) and the net gearing ratio (the ratio of net borrowing to net assets attributable to owners of the parent) was approximately 17.6% (31 December 2011: approximately 0.4%).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 31 December 2012, the Group had no material contingent liabilities.

As at 31 December 2012, certain bank borrowings of the Group were secured by charges over certain buildings, land use rights and time deposits of the Group with aggregate net book value of approximately HK$325 million (31 December 2011: approximately HK$118 million).

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2012, the Group employed 17,288 staff in Mainland China and Hong Kong (31 December 2011: 17,546). 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 of these benefit schemes are set out in the Annual Report 2012.

The Company's share option scheme (the "Option Scheme") was adopted on 21 November 2006 for a term of ten years for the purpose of rewarding eligible employees of the Group (including executive directors and non-executive directors of the Company) based on individual merit.

As at 1 January 2012, a total of 45,524,500 share options of the Company remained outstanding. During the year, a total of 2,849,380 share options lapsed and a total of 4,299,640 shares were issued and allotted by the Company upon the exercises of share options of the Company. Accordingly, as at 31 December 2012, a total of 38,375,480 share options of the Company remained outstanding.

FINAL DIVIDEND

The Board did not recommend any final dividend (2011: HK4.25 cents per share) for the year ended 31 December 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting from Monday, 3 June 2013 to Tuesday, 4 June 2013, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates must be lodged for registration 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, not later than 4:00 p.m. on Friday, 31 May 2013.

CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions (the "Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and came into full effect on 1 April 2012.

The Company has complied with the Code Provisions of the Former CG Code for the period from 1 January 2012 to 31 March 2012 and of the Revised CG Code for the period from 1 April 2012 to 31 December 2012, except that certain directors of the Company were unable to attend the annual general meeting of the Company held on 1 June 2012 as required under Code Provision A.6.7 due to their unavoidable business engagements and there was a delay in complying with the requirement under Code Provision C.1.2 in respect of the provision of monthly updates to members of the Board, but this has been rectified and the Company is now in compliance with the requirement.

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. Following specific enquiries by the Company, all directors of the Company confirmed that they have complied with the required standards set out in the Model Code throughout the year.

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 inside 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.

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 year.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKExnews website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.chinafoodsltd.com). The Annual Report 2012 will be published on the above websites and dispatched to the shareholders of the Company in due course.

By order of the Board
China Foods Limited
Luan Xiuju
Managing Director

Hong Kong, 26 March 2013

As at the date of this announcement, the Board comprises: Mr. Yu Xubo as the chairman of the Board and a non-executive director; Ms. Luan Xiuju, Mr. Ning Gaoning and Mr. Mak Chi Wing, William as executive directors; Mr. Chi Jingtao, Ms. Liu Ding, Mr. Ma Jianping and Ms. Wu Wenting as non-executive directors; and Messrs. Stephen Edward Clark, Paul Kenneth Etchells, Li Hung Kwan, Alfred and Yuen Tin Fan, Francis as independent non-executive directors.