Chinese Olympic Committee Official Partner
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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

KEY FINANCIAL INFORMATION

Following is a summary of the performance of China Foods Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2013 (the "interim period") together with comparative figures for the corresponding period of last year.

- Our Revenue has decreased by 10.6% to HK$13,921 million.
- Our EBITDA^ has decreased by 70.8% to HK$294 million.
- Our Operating Loss* was HK$9 million, while our Operating Profit* for the corresponding period of last year amounted to HK$694 million.
- Our Net Loss attributable to Owners of the Parent was HK$304 million, while our Net Profit attributable to Owners of the Parent for the corresponding period of last year amounted to HK$474 million.

Reference is made to the profit warning announcement dated 3 August 2013 issued by the Company in which, among other things, it was stated that the reduction in the Group's profitability raises the question as to whether there is a need to record an impairment in certain deferred tax assets as at 31 December 2012 and certain potential deferred tax assets arising in the first half of 2013. Having reviewed the situation, the board of directors of the Company (the "Board") has concluded on 27 August 2013 to recognize an impairment of certain deferred tax assets as at 31 December 2012 of approximately HK$94 million and not recognize certain potential deferred tax assets resulting from tax loss arising in the first half of 2013, on the grounds that it now appears unlikely that it will be possible to utilise the tax losses that were the basis of the deferred tax assets before their expiration.

The Board did not declare the payment of an interim dividend for the interim period.

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

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

INTERIM RESULTS

The Board of the Company announce the unaudited condensed consolidated interim results of the Group for the interim period together with the comparative figures of last year. The unaudited condensed consolidated interim results as at and for the six months ended 30 June 2013 (the "interim financial information") have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013

	Notes	**For the six months ended 30 June**	
		2013	2012
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**13,920,776**	15,578,616
Cost of sales		**(11,027,410)**	(12,122,310)
Gross profit		**2,893,366**	3,456,306
Other income and gains	*4*	**89,853**	102,016
Selling and distribution expenses		**(2,532,589)**	(2,390,450)
Administrative expenses		**(392,099)**	(402,368)
Other expenses and losses		**(23,317)**	(4,757)
Finance costs	*5*	**(44,127)**	(20,632)
Share of profits and losses of associates		**47,419**	15,523
PROFIT BEFORE TAX	*6*	**38,506**	755,638
Income tax expense	*7*	**(228,902)**	(163,497)
PROFIT/(LOSS) FOR THE PERIOD		**(190,396)**	592,141
Attributable to:			
Owners of the parent		**(304,219)**	474,191
Non-controlling interests		**113,823**	117,950
		(190,396)	592,141
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**HK(10.88) cents**	HK16.97 cents
Diluted		**HK(10.88) cents**	HK16.92 cents

Details of the dividend proposed for the period are disclosed in note 8 to the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	**(190,396)**	592,141
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**151,681**	(40,485)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**151,681**	(40,485)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(38,715)**	551,656
Attributable to:		
Owners of the parent	**(182,291)**	444,627
Non-controlling interests	**143,576**	107,029
	(38,715)	551,656

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

	Note	**30 June 2013** *HK$'000* **(Unaudited)**	31 December 2012 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,739,401**	4,574,405
Investment properties		**88,193**	86,637
Prepaid land premiums		**369,042**	348,629
Deposits for purchase of items of property, plant and equipment		**48,452**	34,881
Goodwill		**1,733,216**	1,727,752
Other intangible assets		**45,195**	50,382
Investments in associates		**684,432**	637,013
Available-for-sale investments		**201,923**	203,103
Deferred tax assets		**133,606**	229,853
Biological assets		**190,491**	184,427
Total non-current assets		**8,233,951**	8,077,082
CURRENT ASSETS			
Inventories		**4,277,164**	5,075,015
Accounts and bills receivables	*10*	**2,399,981**	2,516,325
Prepayments, deposits and other receivables		**1,323,565**	1,700,894
Due from fellow subsidiaries		**621,249**	588,635
Due from the ultimate holding company		**62,379**	78,961
Due from the immediate holding company		**165**	165
Due from non-controlling shareholders of subsidiaries		**21,209**	19,687
Due from associates		**1,182**	4,411
Prepaid tax		**90,173**	71,846
Equity investments at fair value through profit or loss		**13,002**	18,746
Restricted bank balances		**22,641**	22,199
Pledged deposits		**141,090**	136,921
Cash and cash equivalents		**1,144,770**	1,901,294
Total current assets		**10,118,570**	12,135,099

	Note	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
CURRENT LIABILITIES			
Accounts and bills payables	*11*	**1,902,618**	1,791,806
Other payables and accruals		**2,276,550**	3,149,028
Due to fellow subsidiaries		**1,270,776**	2,093,245
Due to the ultimate holding company		**41,798**	58,211
Due to related companies		**510,449**	769,944
Due to non-controlling shareholders of subsidiaries		**68,223**	37,728
Due to associates		**259,542**	256,618
Interest-bearing bank and other borrowings		**2,105,886**	2,000,720
Tax payable		**56,941**	61,736
Total current liabilities		**8,492,783**	10,219,036
NET CURRENT ASSETS		**1,625,787**	1,916,063
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,859,738**	9,993,145
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,000,000**	1,100,000
Due to non-controlling shareholders of subsidiaries		**28,171**	27,675
Deferred income		**72,310**	71,378
Deferred tax liabilities		**95,342**	96,106
Total non-current liabilities		**1,195,823**	1,295,159
Net assets		**8,663,915**	8,697,986
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**279,722**	279,719
Reserves		**6,347,766**	6,525,416
		6,627,488	6,805,135
Non-controlling interests		**2,036,427**	1,892,851
Total equity		**8,663,915**	8,697,986

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 six months ended 30 June 2013, 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated 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 2012.

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial information are the same as those used in the annual financial statements for the year ended 31 December 2012, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") that affect the Group and are adopted for the first time for the current period's financial information:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*

HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of the above new and revised HKFRSs has no material impact on the accounting policies of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the nature of 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 and losses 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.

Six months ended 30 June 2013

	Beverage *HK$'000* (Unaudited)	Wine *HK$'000* (Unaudited)	Kitchen food *HK$'000* (Unaudited)	Confectionery *HK$'000* (Unaudited)	Others *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue:						
Sales to external customers	**5,994,933**	**1,131,214**	**6,410,972**	**251,980**	**131,677**	**13,920,776**
Other revenue	**30,280**	**9,924**	**2,259**	**3,298**	**–**	**45,761**
	6,025,213	**1,141,138**	**6,413,231**	**255,278**	**131,677**	**13,966,537**
Segment results	**325,841**	**(86,279)**	**(125,957)**	**(70,514)**	**19,656**	**62,747**
Reconciliation:						
Interest income						**8,083**
Dividend income						**35,929**
Finance costs						**(44,127)**
Share of profits of associates						**47,419**
Corporate and other unallocated expenses						**(71,545)**
Profit before tax						**38,506**
30 June 2013						
Segment assets	**6,057,714**	**5,327,119**	**3,905,629**	**469,708**	**99,090**	**15,859,260**
Reconciliation:						
Investments in associates						**684,432**
Corporate and other unallocated assets						**1,808,829**
Total assets						**18,352,521**

Six months ended 30 June 2012

	Beverage *HK$'000* (Unaudited)	Wine *HK$'000* (Unaudited)	Kitchen food *HK$'000* (Unaudited)	Confectionery *HK$'000* (Unaudited)	Others *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue:						
Sales to external customers	6,133,568	1,955,822	7,085,097	308,428	95,701	15,578,616
Other revenue	20,528	10,615	545	3,586	–	35,274
	6,154,096	1,966,437	7,085,642	312,014	95,701	15,613,890
Segment results	311,018	449,817	46,267	(12,927)	49	794,224
Reconciliation:						
Interest income						18,001
Dividend income						48,949
Finance costs						(20,632)
Share of profits and losses of associates						15,523
Corporate and other unallocated expenses						(100,427)
Profit before tax						755,638

31 December 2012

	Beverage *HK$'000* (Audited)	Wine *HK$'000* (Audited)	Kitchen food *HK$'000* (Audited)	Confectionery *HK$'000* (Audited)	Others *HK$'000* (Audited)	Total *HK$'000* (Audited)
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

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 period.

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

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income		
Gross rental income	**4,636**	4,237
Bank interest income	**8,083**	10,415
Interest income from financial products	**–**	5,317
Interest income from held-to-maturity investments	**–**	2,269
Dividend income from available-for-sale investments	**35,823**	48,807
Dividend income from equity investments at fair value through profit or loss	**106**	142
Government grants*	**22,855**	11,264
Compensation income	**6,513**	848
Sale of by-products and scrap items	**7,838**	1,047
Others	**3,999**	17,421
	89,853	101,767
Gains		
Foreign exchange differences, net	**–**	249
	–	249
	89,853	102,016

* 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. FINANCE COSTS

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

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans wholly repayable within five years	32,412	10,172
Loans from a fellow subsidiary	11,715	5,895
Others	–	4,565
	44,127	20,632

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**11,022,429**	12,118,540
Provision against inventories	**4,981**	3,770
Cost of sales	**11,027,410**	12,122,310
Depreciation	**237,044**	237,942
Amortisation of other intangible assets	**5,353**	5,317
Recognition of prepaid land premiums	**4,917**	3,521
Loss on disposal of items of property, plant and equipment*	**446**	3,362
Fair value losses on equity investments at fair value through profit or loss*	**5,744**	194
Impairment of goodwill*	**11,609**	–
Impairment of available-for sale investments*	**1,306**	–
Impairment of receivables*	**4,212**	1,201
Foreign exchange differences, net	**9,611**	(249)

* These items are included in "other expenses and losses" on the face of the condensed consolidated income statement.

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Under the PRC income tax laws, enterprises are subject to corporate income tax ("CIT") at a rate of 25%. However, certain of the Group's subsidiaries are operating in specific development zones in Mainland China, and the relevant authorities have granted these subsidiaries a preferential CIT rate of 15%.

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current charge for the period:		
Hong Kong	**301**	51
Mainland China	**131,396**	212,584
Deferred	**97,205**	(49,138)
Total tax charge for the period	**228,902**	163,497

The share of tax attributable to associates amounting to HK$17,799,000 (six months ended 30 June 2012: HK$5,350,000) is included in "Share of profits and losses of associates" in the condensed consolidated income statement.

8. DIVIDEND

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim – Nil (six months ended 30 June 2012: HK6.11 cents) per ordinary share	**–**	170,764

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amount for the period ended 30 June 2013 is based on the loss for the period attributable to ordinary equity holders of the parent of HK$304,219,000 (six months ended 30 June 2012: profit of HK$474,191,000), and the weighted average number of ordinary shares of 2,797,212,479 (six months ended 30 June 2012: 2,793,634,575) in issue during the period.

The calculation of diluted earnings/(loss) per share amount for the period is based on the profit/(loss) for the period 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 period, as used in the basic earnings/(loss) 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. For the six months ended 30 June 2013, as the impact of the Company's share options outstanding had no dilutive effect on the basic loss per share amount presented, they were not accounted for in the calculation of the diluted loss per share amount.

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	**(304,219)**	474,191

	Number of shares	
	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings/(loss) per share calculation	**2,797,212,479**	2,793,634,575
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	8,952,186
	2,797,212,479	2,802,586,761

10. ACCOUNTS AND BILLS RECEIVABLES

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Accounts and bills receivables	**2,438,615**	2,550,398
Impairment	**(38,634)**	(34,073)
	2,399,981	2,516,325

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:

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**2,018,407**	2,097,276
3 to 12 months	**301,617**	352,725
1 to 2 years	**78,224**	65,999
Over 2 years	**1,733**	325
	2,399,981	2,516,325

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:

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**1,670,492**	1,685,228
3 to 12 months	**203,375**	93,914
1 to 2 years	**23,487**	10,067
Over 2 years	**5,264**	2,597
	1,902,618	1,791,806

At 30 June 2013, certain of the Group's bills payable were secured by the Group's bank deposits amounting to HK$24,817,000 (31 December 2012: HK$20,648,000).

MANAGEMENT DISCUSSION AND ANALYSIS

The slowdown of China's macroeconomic growth in the first half of 2013 with gross domestic product growth slipping from 7.9% in the fourth quarter of 2012 to 7.7% in the first quarter of 2013, and further declining to 7.5% in the second quarter of 2013 had a direct impact on purchasing power of consumers and negatively impacted all business segments of China Foods. While operating conditions varied from industry to industry, all our key business segments experienced declining sales revenue.

China Foods interim results for 2013 compared with the same period of 2012 were:

- Our Revenue has decreased by 10.6% to HK$13,921 million.

- Our EBITDA^ has decreased by 70.8% to HK$294 million.

- Our Operating Loss* was HK$9 million, while our Operating Profit* for the corresponding period of last year amounted to HK$694 million.

- Our Net Loss attributable to Owners of the Parent was HK$304 million, while our Net Profit attributable to Owners of the Parent for the corresponding period of last year amounted to HK$474 million.

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

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

Reference is made to the profit warning announcement dated 3 August 2013 issued by the Company in which, among other things, it was stated that the reduction in the Group's profitability raises the question as to whether there is a need to record an impairment in certain deferred tax assets as at 31 December 2012 and certain potential deferred tax assets arising in the first half of 2013. Having reviewed the situation, the Board has concluded on 27 August 2013 to recognize an impairment of certain deferred tax assets as at 31 December 2012 of approximately HK$94 million and not to recognize certain potential deferred tax assets resulting from tax loss arising in the first half of 2013, on the grounds that it now appears unlikely that it will be possible to utilize the tax losses that were the basis of the deferred tax assets before their expiration.

Beverage Business: Despite the slight decrease in sales volume caused by intense industry competition, profit margins improved through effective cost and expense controls. As a result, the segment's profit increased slightly.

Wine Business: Industry factors which posed severe challenges to the wine business, and a decline in demand for high-end wine, included stringent government's controls on official spending, alcoholic consumption restrictions at official government functions, and competition from imported wines. As a result, sales of the wine business recorded a significant decline. The gross profit margin also declined due to deterioration in product mix and the relatively fixed nature of certain sales related operating expenses which resulted in loss for the period.

Kitchen Food Business: Early in the period a declining trend in the market price of edible oil led distributors to defer replenishing stocks in the expectation of further price reductions, thus adversely affecting our sales volume, and leaving us with high inventories. The fact that the cost of some of these inventories was high relative to selling prices put pressure on gross profit margins and negated the beneficial effect of an improvement in product mix. Warehousing, logistics, sales related operating costs remained relatively stable while there was an increase in marketing expenses due to intense competition. As a result of the above factors, the performance of kitchen food business was not satisfactory and resulted in loss for the period.

Confectionery Business: Although there was a slowdown in this business, there was an improvement in product mix through the launch of new products, together with the effective cost controls, resulted in an improved gross profit margin. The segment operating loss increased, however, due to an increase in marketing expenses, attributable to market competition.

Given the uncertain operating conditions, certain expansion projects have been delayed, reducing capital expenditures by approximately 42% year-on-year.

Because of the dramatically worsening economic and operating environment, management will make necessary changes to the operating system and channel strategy of each business. Such initiatives will be implemented in the second half of 2013 and benefits from which are expected to be reflected in the annual report.

Beverage Business

Business Overview

- The beverage business of the Company is mainly carried out by COFCO Coca-Cola Beverages Limited ("CCBL"), a joint venture established by the Company and The Coca-Cola Company, in which the Company holds a 65% interest.

- CCBL has the exclusive right to manufacture, market and distribute Coca-Cola products in 15 provinces, municipalities and regions including Tianjin, Hebei, Beijing, Shandong, Hunan, Jiangxi, Guizhou, Hainan, Gansu, Ningxia, Qinghai, Tibet, Inner Mongolia, Xinjiang and Guangdong (Zhanmao). In addition, CCBL has minority stakes in Coca-Cola bottling companies located in Guangdong, Zhejiang and Jiangsu.

Development Strategy

The strategic goal of CCBL is to build a world-class bottling system and become a recognized fist-class employer, business partner, and corporate citizen within its franchise territory. As such, we implement the following business strategies:

- Insist on our commitment to food safety and quality;

- Work with The Coca-Cola Company to gain more insight into consumer behavior and thus create optimal value for both customers and consumers;

- Focus on managing retail execution effectively as they are the point of contact with consumers;

- Boost sales volume and optimize pricing and product mix, to effectively manage revenues; and

- Effectively manage costs by improving the productivity and efficiency of the supply chain, and sales and distribution.

Industry Overview

In the first half of 2013, the sales volume of non-alcoholic beverages grew at a similar rate to the corresponding period in 2012. This was mainly attributable to bottled water that grew at a faster rate than the industry average. Sales of sparkling beverages, fruit juice and tea increased only slightly. The market is evolving such that food safety and health concerns are increasingly important to Chinese consumers, and this is reflected in the development of new products that seek to capture these emerging trends. The Coca-Cola system has continued to invest and innovate in line with these needs in addition to growing our core sparkling and juice categories.

Results for the 2013 Interim Period

Sales volume of the beverage business decreased by 4.5%. This was mainly due to an effort to improve margins and profitability by changing the product mix to deemphasize low margin water.

With reduced raw material costs and improved pack mix, the overall gross profit margin delivered a year-on-year growth of 2.8 percentage points. Notwithstanding that the distribution cost to revenue ratio increased by 2.5 percentage points due to higher customer discounts to combat for fierce market competition, and increased labor costs, the operating margin improved.

Outlook

We are cautiously optimistic about the growth of the beverage market in the second half of 2013, and expect to continue to achieve growth. Given rising labor costs, we will continue to adopt a Route to Market ("RTM") approach that achieves effectiveness in the market at an optimal cost. In terms of marketing strategy, we will drive the sale of sparkling products through the Coke Summer Nickname program in order to retain our leadership in the market. We will develop new juice products to grasp the business opportunities and initiate further promotion of juice products in order to strengthen our core products.

Wine Business

Business Overview

- The sales volume and market share of Greatwall wine has ranked number one in the industry for many years.

- Greatwall has operations in major wine producing regions in China: Shacheng, Changli, Penglai, Ningxia Helanshan and Xinjiang Tianshan. The Greatwall International Chateau Alliance has been established via the acquisition of overseas wineries in Chile and France.

- Greatwall Chateau Sungod series has been the wine of choice for the highest level state banquets for a number of years.

Development Strategy

The strategic goal of Greatwall wine is to enhance its leadership position in China's wine industry by systematically improving the competitiveness of its products, its brand image, and its sales channel coverage.

- Continue implementation of the Greatwall International Chateau Alliance strategy, with Greatwall Chateau Sungod as the core product, and develop group purchase and online sales channels;

- Focus on promoting the brand image and product competitiveness of our main strategic products, namely Greatwall Terroir and Greatwall Classic series;

- Shift focus from high-end to mass consumption market;

- Formulate a branding strategy for imported wines; and

- Introduce Chinese consumers to wines from different producing regions around the world, and offer consumers a diversified wine experience.

Industry Overview

The growth of China's economy slowed in the first half of 2013, which directly impacted the overall purchasing power of consumers. As of June 2013, China's total wine consumption witnessed a year-on-year decline for the first time for five years.

The middle-end to high-end catering and wine industry remains weak primarily due to strict government controls over official spending, and restrictions on alcoholic consumption at official government functions. In addition, intense competition between domestic and imported wines, as overseas competitors seized market share through competitive pricing and higher quality products, exerted pressure on the domestic wine industry.

Results for the 2013 Interim Period

For the reasons stated above, sales volume of the wine business decreased by 34% year-on-year.

Due to trading down in product mix, the gross profit margin decreased by 9.6 percentage points year-on-year. For the period under review, the sales contribution of wine products with a gross profit margin of 50% or below increased by 13.4 percentage points year-on-year, while the sales contribution of wine products with a gross profit margin of 70% above decreased by 10.9 percentage points year-on-year.

With the bursting of the high-end wine bubble and normalization of consumer consumption, wine consumption has now shifted from dependency on official government functions to middle-end and low-end mass consumption. As a result, we have adopted measures to reposition selected brands and shifted the focus from high-end to daily consumption. Specifically, we launched the affordable Greatwall Classic series which offers the mass consumption market better value-for-money products. Over the longer term, we continue to believe the middle-end and high-end market has good potential.

Outlook

From a macroeconomic perspective, we expect the negative factors will continue to exist in the second half of 2013. Middle-end and high-end wine consumption for official and business functions, and for business gifts, will continue to be restrained. However, we expect the development of the mass consumption market for wine to partially offset these negative trends.

Kitchen Food Business

Business Overview

- Kitchen food business is engaged in sales, distribution, marketing and promotion of consumer-pack edible oil, rice and noodle, sugar, soy sauce, vinegar, MSG, and seasoning sauce. Fortune brand is a leading consumer-pack edible oil brand in China and ranks consistently number two nationwide in terms of market share.

Development Strategy

Fortune consumer-pack edible oil aims to narrow the market share gap with the number one brand by:

- Promoting the image of Fortune brand as being safe, high quality, and for a happy life; fulfill our social responsibility as a state-owned enterprise and ensure the grain and oil safety of the country;

- Strengthening existing products and developing new and leading products; and

- Expanding when appropriate into other kitchen food categories in accordance with industry development and consumption trends, in order to build a more comprehensive kitchen food product line.

Industry Overview

The growth of China's macro economy slowed, and consumption of consumer edible oil recorded a negative growth in the first half of 2013. In accordance with the ACNielsen industry review for the period January to June 2013, the consumer-pack edible oil business of the Company and our major rival brand both suffered setbacks, while other small competitive brands performed relatively well.

Results for the 2013 Interim Period

Early in the period a declining trend in the market price of edible oil led distributors to defer replenishing stocks in the expectation of further price reductions, thus adversely affecting our sales volume by 6.2% year-on-year, and leaving us with high inventories. The fact that the cost of some of these inventories was high relative to selling prices put pressure on gross profit margins and negated the beneficial effect of an improvement in product mix.

Operating losses were primarily due to the decline in gross profit margin by 0.5 percentage point year-on-year. Warehousing, logistics, sales and operating costs remained relatively stable, however, marketing expenses increased due to intense competition. As a result of the above factors, the kitchen food business posted a loss for the period.

Upon mutual agreement reached with our key upstream supplier, effective from second quarter 2013 we amended the terms under which we purchase edible oil from them in order to mitigate our inventory holding risk. We expect our results will improve accordingly.

Outlook

The market is expected to stabilize in the second half of the year and will be boosted by two major peak seasons which include Mid-Autumn Festival and the National Day and pre-stocking for New Year's Day and the Spring Festival. We will strive to increase sales and market share by leveraging on theme marketing programs and campaigns for festival sales, fully utilizing the peak season to capture sales opportunities and boost sales of basic products.

Confectionery Business

Business Overview

- The confectionery business manufactures and markets a range of high quality chocolate confectionery products under the Le conte brand name, as well as soft candies under the Merveille brand name.

Development Strategy

The strategic goals of the confectionery business are to build a first class confectionery production, sales and distribution systems and provide consumers with high quality delicious snacks by:

- Obtaining more in-depth understanding of consumers, offering innovative products, and continuing to communicate our brand values;

- Effectively managing costs through improvements in the productivity and efficiency of the supply chain, and sales and distribution channels; and

- Upholding our commitment to safety and quality.

Industry Overview

According to market research conducted by ACNielsen for the period of January to June 2013, the pace of industry growth for chocolate slowed down compared with the first half of 2012.

Results for the 2013 Interim Period

Year-on-year sales volume declined 11.8%. This was mainly due to the fact that this year the Spring Festival overlapped with Valentine's Day, and competitors increased their marketing and promotion efforts.

Unit prices fell compared with the same period last year, in part because it proved necessary to grant higher discounts in order to clear high inventories.

Nevertheless, the gross profit margin grew 0.9 percentage points year-on-year, mainly due to cost savings, and a decline in the cost of sugar, milk powder and cocoa butter. However, selling and promotional expenses also increased due to market competition which negatively impacted operating margins.

Outlook

Currently, the primary task of the confectionery business is to rationalize sales channels, increase retail coverage and enhance retail displays and services. In addition, we expect to launch differentiated products, and devote resources to brand promotion in markets where Le conte has strong potential.

FINANCIAL REVIEW

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

	For the six months ended 30 June	
	2013	2012
	%	%
Growth of revenue by Segment:		
– Beverage	**-2.3**	15.4
– Wine	**-42.2**	11.6
– Kitchen Food	**-9.5**	14.8
– Confectionery	**-18.3**	26.6
– Others	**37.6**	N/A
Contribution to revenue by Segment:		
– Beverage	**43.1**	39.4
– Wine	**8.1**	12.6
– Kitchen Food	**46.1**	45.5
– Confectionery	**1.8**	2.0
– Others	**0.9**	0.5
Segment results to revenue ratio:		
– Beverage	**5.4**	5.1
– Wine	**-7.6**	23.0
– Kitchen Food	**-2.0**	0.7
– Confectionery	**-28.0**	-4.2
– Others	**14.9**	0.1

REVENUE

The Group's total revenue for the interim period amounted to HK$13,921 million, down by 10.6% from HK$15,579 million in the same period last year. All business segments reported negative growth of revenue except for "Others" segment given its low-base comparative number, as this segment started its cross products sales and distribution of certain food and beverage products since the beginning of 2012.

Among the Group's business segments, the contribution to revenue from kitchen food segment, beverage segment and "Others" segment increased while the contribution to revenue from wine segment and confectionery dropped.

GROSS PROFIT MARGIN

The overall gross profit margin decreased from 22.2% in the corresponding period last year to 20.8% during the interim period, mainly attributable to the Wine segment and Kitchen Food segment.

With respect to the Wine segment, its gross profit margin declined mainly due to deterioration in product mix as a result of industry factors including a decline in demand for high-end wine following more stringent government's controls on official spending, alcoholic consumption restrictions at official government functions, and competition from imported wine enterprises.

With respect to the Kitchen Food segment, it suffered from holding risk of its accumulated inventory. As a result, unit cost of inventory was periodically higher than our selling price of consumer pack edible oil which exerted pressure on its gross profit margin despite the improvement in product mix.

SELLING AND DISTRIBUTION EXPENSES

During the interim period, selling and distribution expenses were HK$2,533 million, up 5.9% year-on-year. The increase was mainly due to the increase in marketing expenses among the business segments due to intense market competition. The selling and distribution expenses to revenue ratio also increased from 15.3% to 18.2%, mainly due to the fact that certain warehousing, logistics and sales related operating costs remained relatively stable while there was an increase in marketing expenses.

ADMINISTRATIVE EXPENSES

During the interim period, administrative expenses were HK$392 million, down 2.6% year-on-year, mainly attributable to more stringent expense control.

FINANCE COSTS

For the six months ended 30 June 2013, finance costs were HK$44 million, up 114% year-on-year, mainly due to an increase in average loan balances during the interim period relative to the previous period.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

Share of profits and losses of associates were HK$47 million in profit, up 205.5% year-on-year, mainly attributable to an increase in profitability of an associate engaged in the production of still beverage.

INCOME TAX EXPENSE

Income tax expense was HK$229 million, up 40% year-on-year, mainly due to an impairment of certain deferred tax assets as at 31 December 2012 and non-recognition of certain potential deferred tax assets for certain tax loss arising during the interim period.

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, 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 30 June 2013, the Group's unpledged cash and cash equivalents totalled approximately HK$1,145 million (31 December 2012: approximately HK$1,901 million), and the Group's net current assets were approximately HK$1,626 million (31 December 2012: approximately HK$1,916 million).

During the interim period, mainly due to the net increases in working capital and income tax paid, net cash flows used in operating activities amounted to approximately HK$456 million while the EBITDA was approximately HK$294 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 interim period, the total number of issued shares of the Company increased by 32,000 shares as a result of certain employees of the Group exercised their share options granted in 2007. As at 30 June 2013, the total number of issued shares of the Company was 2,797,223,396.

As at 30 June 2013, the Group had certain interest-bearing bank borrowings of approximately HK$2,918 million (31 December 2012: approximately HK$2,854 million) and other borrowing of approximately HK$188 million (31 December 2012: approximately HK$247 million).

Bank borrowings carried annual interest rates ranging between 0.64% and 6% (31 December 2012: between 0.66% and 6%). Other borrowing carried an annual interest rate of 5.04% (31 December 2012: 5.04%).

As at 30 June 2013, net assets attributable to owners of the parent were approximately HK$6,627 million (31 December 2012: approximately HK$6,805 million) and net borrowing position of the Group (unpledged cash and cash equivalents less interest-bearing bank and other borrowings) was approximately HK$1,961 million (31 December 2012: approximately HK$1,199 million) and the net gearing ratio (ratio of net borrowing position of the Group to net assets attributable to owners of the parent) was approximately 29.6% (31 December 2012: approximately 17.6%).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2013, the Group has no significant contingent liabilities at the end of the reporting period.

As at 30 June 2013, 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 2012: approximately HK$325 million).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2013, the Group employed 17,892 staff in Mainland China and Hong Kong (31 December 2012: 17,288). 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 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 merits.

As at 1 January 2013, a total of 38,375,480 share options of the Company remained outstanding. During the interim period, a total of 32,000 shares were issued and allotted by the Company upon the exercises of share options by certain employees of the Company. Accordingly, as at 30 June 2013, a total of 38,343,480 share options of the Company remained outstanding.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the six months ended 30 June 2013 (30 June 2012: HK6.11 cents).

CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the interim period.

SECURITIES TRANSACTIONS BY DIRECTORS

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 interim period.

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 HKExnews website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.chinafoodsltd.com). The Interim Report 2013 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, 27 August 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.