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CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00506)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

KEY FINANCIAL INFORMATION

Following is a summary of the performance of China Foods Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014 (the "interim period") together with comparative figures for the corresponding period of last year.

- Our Revenue has decreased by 1.1% to HK$13,767 million.
- Our EBITDA^ has increased by HK$141.5 million to HK$446.1 million.
- Our Operating Profit* was HK$71.1 million, as compared to our Operating Loss* of HK$8.8 million for the same period last year.
- Our Loss attributable to Owners of the Parent decreased by 55.6% to HK$135 million, as compared to our Loss attributable to Owners of the Parent of HK$304 million for the same period last year. (note)

^ EBITDA represents earnings before finance costs, income tax expense, depreciation, amortisation of other intangible assets, recognition of prepaid land premiums, impairment related to goodwill, available-for-sale investments, items of property, plant and equipment and receivables, provision against inventories and share of profits of associates.

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

(Note): During the first half of 2013, our Loss attributable to Owners of the Parent includes a one-off impairment of deferred tax asset of approximately HK$94 million.

INTERIM RESULTS

The board of directors of (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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014	2013
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**13,767,100**	13,920,776
Cost of sales		**(10,570,187)**	(11,027,410)
Gross profit		**3,196,913**	2,893,366
Other income	*4*	**125,446**	89,853
Selling and distribution expenses		**(2,839,664)**	(2,532,589)
Administrative expenses		**(352,638)**	(392,099)
Other expenses and losses		**(10,278)**	(23,317)
Finance costs	*5*	**(35,272)**	(44,127)
Share of profits of associates		**69,914**	47,419
PROFIT BEFORE TAX	*6*	**154,421**	38,506
Income tax expense	*7*	**(128,639)**	(228,902)
PROFIT/(LOSS) FOR THE PERIOD		**25,782**	(190,396)
Attributable to:			
Owners of the parent		**(134,996)**	(304,219)
Non-controlling interests		**160,778**	113,823
		25,782	(190,396)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted		**HK(4.83) cents**	HK(10.88) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	**25,782**	(190,396)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(89,775)**	151,681
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(89,775)**	151,681
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(89,775)**	151,681
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(63,993)**	(38,715)
Attributable to:		
Owners of the parent	**(205,321)**	(182,291)
Non-controlling interests	**141,328**	143,576
	(63,993)	(38,715)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	Note	30 June 2014 HK$'000 (Unaudited)	31 December 2013 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,787,702**	4,881,318
Investment properties		**89,739**	90,597
Prepaid land premiums		**386,497**	396,276
Deposits for purchase of items of property, plant and equipment		**13,691**	23,887
Goodwill		**1,736,987**	1,746,432
Other intangible assets		**33,729**	40,138
Investments in associates		**776,384**	704,834
Available-for-sale investments		**213,991**	214,129
Deferred tax assets		**132,106**	134,770
Biological assets		**191,968**	190,798
Total non-current assets		**8,362,794**	8,423,179
CURRENT ASSETS			
Inventories		**3,700,417**	5,866,205
Accounts and bills receivables	*10*	**1,898,293**	1,694,757
Prepayments, deposits and other receivables		**1,105,863**	1,547,299
Due from fellow subsidiaries		**587,217**	704,968
Due from the ultimate holding company		**26,228**	38,363
Due from the immediate holding company		**171**	169
Due from non-controlling shareholders of subsidiaries		**29,792**	26,820
Due from associates		**36,652**	21,753
Prepaid tax		**27,844**	44,301
Equity investments at fair value through profit or loss		**12,805**	13,872
Restricted bank balances		**123**	165
Pledged deposits		**137,443**	133,655
Cash and cash equivalents		**1,475,291**	2,458,011
Total current assets		**9,038,139**	12,550,338

	Note	30 June 2014 HK$'000 (Unaudited)	31 December 2013 HK$'000 (Audited)
CURRENT LIABILITIES			
Accounts and bills payables	*11*	**1,570,155**	1,191,702
Other payables and accruals		**2,636,623**	3,626,343
Due to fellow subsidiaries		**774,282**	2,343,573
Due to the ultimate holding company		**69,167**	67,027
Due to related companies		**166,745**	799,229
Due to non-controlling shareholders of subsidiaries		**58,820**	56,292
Due to associates		**257,160**	248,369
Interest-bearing bank and other borrowings		**1,161,221**	2,537,555
Tax payable		**42,263**	79,496
Total current liabilities		**6,736,436**	10,949,586
NET CURRENT ASSETS		**2,301,703**	1,600,752
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,664,497**	10,023,931
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,300,000**	1,600,000
Due to non-controlling shareholders of subsidiaries		**28,271**	28,541
Deferred income		**141,001**	138,134
Deferred tax liabilities		**58,120**	59,031
Total non-current liabilities		**2,527,392**	1,825,706
Net assets		**8,137,105**	8,198,225
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**279,722**	279,722
Reserves		**5,663,805**	5,866,253
		5,943,527	6,145,975
Non-controlling interests		**2,193,578**	2,052,250
Total equity		**8,137,105**	8,198,225

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 June 2014

1. CORPORATE INFORMATION

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

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

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

- 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 2013.

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 2013, 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 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures of Non-Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

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/(loss) 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.

Six months ended 30 June 2014

	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	**6,897,063**	**1,084,042**	**5,375,740**	**217,403**	**192,852**	**13,767,100**
Other revenue	**48,061**	**23,670**	**1,672**	**3,407**	**–**	**76,810**
	6,945,124	**1,107,712**	**5,377,412**	**220,810**	**192,852**	**13,843,910**
Segment results	**391,253**	**(55,885)**	**(61,207)**	**(74,004)**	**9,459**	**209,616**
Reconciliation:						
Interest income						**11,538**
Dividend income						**37,098**
Finance costs						**(35,272)**
Share of profits of associates						**69,914**
Corporate and other unallocated expenses						**(138,473)**
Profit before tax						**154,421**
30 June 2014						
Segment assets	**5,760,582**	**5,059,436**	**3,017,230**	**402,947**	**317,950**	**14,558,145**
Reconciliation:						
Investments in associates						**776,384**
Corporate and other unallocated assets						**2,066,404**
Total assets						**17,400,933**
Segment liabilities	**3,008,743**	**629,254**	**2,005,944**	**42,684**	**2,108**	**5,688,733**
Reconciliation:						
Corporate and other unallocated liabilities						**3,575,095**
Total liabilities						**9,263,828**

Six months ended 30 June 2013

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

31 December 2013

	Beverage	Wine	Kitchen food	Confectionery	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Segment assets	6,490,675	5,522,341	4,435,623	439,698	308,131	17,196,468
Reconciliation:						
Investments in associates						704,834
Corporate and other unallocated assets						3,072,215
Total assets						20,973,517
Segment liabilities	2,979,624	602,601	4,825,242	66,454	2,204	8,476,125
Reconciliation:						
Corporate and other unallocated liabilities						4,299,167
Total liabilities						12,775,292

4. REVENUE AND OTHER INCOME

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 is as follows:

	For the six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Gross rental income	**6,197**	4,636
Bank interest income	**10,647**	8,083
Interest income from financial products	**891**	–
Dividend income from available-for-sale investments	**37,033**	35,823
Dividend income from equity investments at fair value through profit or loss	**65**	106
Government grants*	**38,427**	22,855
Compensation income	**3,988**	6,513
Sale of by-products and scrap items	**8,183**	7,838
Others	**20,015**	3,999
	125,446	89,853

* 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	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans wholly repayable within five years	**34,019**	32,412
Loans from a fellow subsidiary and a non-controlling shareholder of subsidiaries	**1,253**	11,715
	35,272	44,127

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**10,517,527**	11,022,429
Provision against inventories	**52,660**	4,981
Cost of sales	**10,570,187**	11,027,410
Depreciation	**253,740**	237,044
Amortisation of other intangible assets	**5,687**	5,353
Recognition of prepaid land premiums	**6,293**	4,917
Loss on disposal/write-off of items of property, plant and equipment*	**1,292**	446
Fair value losses on equity investments at fair value through profit or loss*	**1,067**	5,744
Impairment of items of property, plant and equipment*	**6,280**	–
Impairment of goodwill*	**–**	11,609
Impairment of available-for sale investments*	**–**	1,306
Impairment of receivables*	**1,639**	4,212
Foreign exchange differences, net	**15,390**	9,611

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

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong during the interim period. Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2013. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Pursuant to the approvals issued by the State Administration of Taxation of the PRC during 2013, the Company and certain of its subsidiaries are regarded as Chinese Resident Enterprises (collectively the "CREs") and relevant enterprise income tax policies of the PRC are applicable to the CREs commencing from 1 January 2013.

	For the six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current charge for interim period:		
Hong Kong	**–**	301
Mainland China	**127,449**	131,396
Deferred	**1,190**	97,205
Total tax charge for interim period	**128,639**	228,902

The share of tax attributable to associates amounting to HK$17,856,000 (six months ended 30 June 2013: HK$17,799,000) is included in "Share of profits of associates" in the condensed consolidated statement of profit or loss.

8. DIVIDEND

No dividend has been paid or declared by the Company during the interim period (six months ended 30 June 2013: Nil).

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

The calculation of basic loss per share amount for the interim period is based on the loss for interim period attributable to ordinary equity holders of the parent of HK$134,996,000 (six months ended 30 June 2013: HK$304,219,000), and the weighted average number of ordinary shares of 2,797,223,396 (six months ended 30 June 2013: 2,797,212,479) in issue during interim period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2013 and 2014 in respect of the dilution as the impact of the Company's share options outstanding had no dilutive effect on the basic loss per share amount presented.

10. ACCOUNTS AND BILLS RECEIVABLES

	30 June	31 December
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Accounts and bills receivables	**1,946,153**	1,741,047
Impairment	**(47,860)**	(46,290)
	1,898,293	1,694,757

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. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivable balances. Accounts and bills receivables are non-interest-bearing.

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 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**1,304,421**	1,476,198
3 to 12 months	**572,842**	204,526
1 to 2 years	**18,717**	6,857
Over 2 years	**2,313**	7,176
	1,898,293	1,694,757

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 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**1,482,809**	1,073,196
3 to 12 months	**38,010**	92,656
1 to 2 years	**43,706**	18,356
Over 2 years	**5,630**	7,494
	1,570,155	1,191,702

At 30 June 2014, certain of the Group's bills payable were secured by the Group's bank deposits amounting to HK$21,171,000 (31 December 2013: HK$17,382,000).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2014, the Group was successful in achieving a turnaround from an operating loss in the first half of 2013 to an operating profit. A comparison of the 2014 interim results and that of the same period of 2013 is as below:

- Our Revenue decreased by 1.1% to HK$13,767 million.

- Our EBITDA^ increased by HK$141.5 million to HK$446.1 million.

- Our Operating Profit* was HK$71.1 million, as compared to our Operating Loss* of approximately HK$8.8 million for the same period last year.

- Our Loss attributable to Owners of the Parent decreased by 55.6% to HK$135 million, as compared to HK$304 million for the same period last year. (note)

^ EBITDA represents earnings before finance costs, income tax expense, depreciation, amortisation of other intangible assets, recognition of prepaid land premiums, impairment related to goodwill, available-for-sale investments, items of property, plant and equipment and receivables, provision against inventories and share of profits of associates.

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

(Note): During the first half of 2013, our Loss attributable to Owners of the Parent includes a one-off impairment of deferred tax asset of approximately HK$94 million.

Despite the positive revenue growth in the beverage business, our wine, kitchen food and confectionery businesses all recorded a decline in revenue, resulting in a slight decrease in the overall revenue of the Group. In addition to the promising increase in the operating profit of the beverage business, our wine and kitchen food businesses also recorded an improvement in profitability, which led to a turnaround in operating profit of the Group in the first half of 2014.

Due to weak economic growth in China and increasing competition, there was no significant improvement in the first half of 2014 in the business environment in which the Group's businesses operate. Apart from this, the wine industry continued to be affected by the Government's stringent control on official spending and banquet expenses, and the continued destocking by wine distributors, and by the increasing popularity and the competitiveness of imported wines sold through emerging e-commerce channels. As a result, a number of domestic players in the wine industry in China continued to experience negative growth.

In response to such unfavourable conditions, the Group has taken the measures that it mentioned in the 2013 annual report to induce positive growth by optimizing the product portfolio, improving packaging, and developing new product series that meet market demand under current trading conditions, thus improving our competitiveness. Maintaining its core strategy of "Value Chain and Good Products", the Group actively pushed ahead brand communication activities which were innovative and consumer focused in order to enhance brand image and facilitate sales in the market. For channel building activities, the Group continued to strengthen the strategic relationship with its distributors, improve channel penetration, increase channel coverage and focus on the development of new channels.

In terms of management, the Group further rationalized its organization structure so as to clearly identify the authority and management relationships between product category management and distribution regions in order to delegate authority appropriately. Additionally, in order to ensure efficient execution and management of operational risks, the business management work flow was further optimized, while audit supervision and marketing audit were strengthened to further enhance efficiency in the decision-making process. Furthermore, the Group has worked hard to foster an entrepreneurial culture, and to monitor costs so that sales and administrative expenses were effectively controlled.

In the second half of 2014, in terms of business operations, we intend to enhance sales in the market by improving our product innovation and competiveness, optimizing our product portfolio and achieving sales growth with new products. In addition, we will focus on our star products, increase advertising expenditures as well as online and offline promotional activities, and improve the in-store display of our products. In order to strengthen sales management, we will enhance the accuracy of sales forecasting as part of sales planning, maintain healthy customer relationships, promote channel penetration and increase coverage. Meanwhile, we will seize growth opportunities in emerging sales channels such as e-commerce channel to effectively increase sales volume. Furthermore, we will continue to strengthen warehousing, logistics management and production management in order to further save costs and expenses.

The Group will adhere to the management philosophy of "delegation of authority, comprehensive supervision and collaboration to operate an efficient management system". We will focus on rationalizing the organization structure in order to fully utilize the expertise of both product category management and the distribution regions, and to achieve synergy between them. In addition, we aim to strengthen our management system by benchmarking with industry best practice, and continue to foster our entrepreneurial culture and enhance our execution capability.

By implementing the above initiatives, we hope for improved segment results in each of our businesses, and through this, and the unremitting effort of our staff, we will endeavour to improve the final results for full year 2014.

BEVERAGE BUSINESS

Business Overview

- The beverage business of the Company is primarily carried out by COFCO Coca-Cola Beverages Limited ("CCBL"), an entity jointly 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 (Zhanjiang and Maoming). CCBL has minority equity 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 with the most admired professional team, to build the most valuable sales and distribution network, and to become the most efficient beverage industry player in each region in which we operate. To this end, CCBL has been implementing the following strategies:

- Insist on commitment to food safety and quality;

- Continue to improve our product portfolio, nurture the sustainable development of the sparkling beverages category, introduce new products with higher margin, develop strategic relationships and offer better margins to distributors, and speed up the inventory turnover at point-of-sale;

- Strengthen our relationship with participants in our outlet delivery partners program, and provide support for the growth of customers through product category management, and the application of route-to-market strategies in the sales and distribution network;

- Focus on further improving retail execution as it is the contact point with consumers;

- Constantly and effectively control costs and improve efficiency; and

- Encourage creative concepts and innovative ideas in business processes, marketing and management systems.

Industry Overview

We operate in an industry which we define as that for non-alcoholic ready-to-drink beverages. We subdivide this industry into a number of categories. According to industry data for the first half of 2014 supplied by Canadean, a market research firm, the principal categories and their relative share of the overall market in China are Sparkling (13.4% share), Sports and Functional Beverages (4.3% share), Juice (11.2% share), Tea (11.3% share), and Packaged Water (32.1% share). Growth rates vary by category, with the fastest growth nationally currently occurring in Water (21.1% growth), and Sports and Functional (33.8% growth). The two principal categories in which our beverage business operates are Sparkling, which grew at an estimated 4.7% nationally, and Juice, which grew at 5.7% nationally.

2014 Interim Results

The business performed well overall under difficult and highly competitive market conditions, and it was successful in growing segment profit by 20% from HK$326 million to HK$391 million. Despite the intense market competition, the growth of sales revenue, mainly driven by volume growth of 13%, was achieved by introducing new marketing programs and improving packaging mix. Furthermore, we captured the opportunities afforded by a decline in raw materials prices in the first half of 2014, and as a result, gross profit margin increased by 1.7 percentage points. The overall expenses to revenue ratio rose

1.6 percentage points compared to the same period last year. This was attributable to increased marketing expenses which were mainly due to intense market competition, and increased delivery costs which were largely due to wider channel penetration.

Outlook

In the second quarter of 2014, certain competitors launched larger-size packages at competitive prices. This development is likely to exert pressure on our sales revenue. In addition. the prices of key raw materials are showing an upward trend, and our costs in the second half 2014 are expected to be higher than in the first half of 2014. This will put pressure on our gross profit margin.

WINE BUSINESS

Business Overview

- The wine business of the Group is based on its famous Greatwall brand, which has a fine tradition and has long been a leader in the middle- to high-end wine markets. Various types of wines are produced from a number of high quality grapes, which include Cabernet Sauvignon, Merlot, Pinot Noir, Cabernet, Cabernet Franc, Shiraz for red wines; and Chardonnay, Riesling, Sauvignon Blanc for white wines. We also produce brandies and sparkling wines.

- The Group offers single varietal wines as well as blended wines with different grape varieties. The majority of the grapes that we use come from vineyards that are either managed by us, or from sources with whom we have cooperative agreements. Production, storage and aging are carried out at our five wineries and plants in China, namely Huaxia Wine Manor in Huaxia, Chateau Sungod in Shacheng, Chateau Junding in Yantai, Chateau YunMo in Ningxia and Xinjiang Tianlu winery in Xinjiang. There are also two overseas wineries: Sas du Chateau de Viaud in France and Viña Santa Andrea Ltda in Chile.

- The Group also imports wines in collaboration with numerous international famous wine companies, and distributes these wines in China.

Development Strategy

The Group will systematically raise the competitiveness of its products, brands and sales channels as below.

- Brand – to advocate healthy lifestyles and focus on the communication of the Greatwall brand.

- Promotion – to integrate online and offline marketing resources, promote marketing activities such as wine tasting events, winery tours and showroom visits in order to strengthen direct communication with consumers.

- Products – to emphasize the special features of the different source regions and varieties of wine products.

- Distributors – to establish closer relationship and cooperation with distributors under jointly developed distribution plans.

- Channels – to promote comprehensive channel development and actively explore new channels.

- Regions – to increase the distribution and coverage in under-developed regions.

Industry Overview

During January to May 2014, the aggregate sales value of the wine industry in China declined since the industry was affected by the government controls over its official spending and banquet expenses, the continued destocking by wine distributors, and by the fact that high-end on-trade consumption remained weak and the prices of high-end wines continued to fall. Consumers tended to pay more attention to value-for-money wine products, and as a result, middle-end and low-end products became more popular.

2014 Interim Results

Sales volume in the first half of 2014 grew by 11.7% whereas sales revenue was down by 4.2% due to an adverse change in sales mix as consumers traded down, a fall in contribution from high-end products, and as we reacted to competitors' promotional sales activities in the market. As a result, gross profit margin fell by 11.6 percentage points year-on-year. Despite the fall in the gross profit margin, the segment loss decreased by HK$30.4 million, or 35% to HK$55.9 million, mainly as a result of reduced selling and administration expenses.

Outlook

Our target is to increase sales in the second half of the year, through cooperation with distributors under jointly developed distribution plans, grasp the opportunities available in different sales and distribution channels; through marketing activities such as show room visits, wine tasting events and winery tours to strengthen direct communication with consumers; and develop new products which meet consumers' needs. It is expected that the revenue and results of the wine business will show modest improvement in the full year 2014 against full year 2013.

KITCHEN FOOD BUSINESS

Business Overview

The Kitchen Food business covers the sale, distribution and marketing of edible oil, sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals. "Fortune" brand is a leading consumer-pack edible oil brand in China and is ranked number two nationwide in terms of market share.

Development Strategy

The Group's strategic objective in the Kitchen Food business is to maintain its position as a strong player in the market. To this end, we will pursue the following strategies:

- Focus on top-tier, high-margin oil types, promote the "Fortune" brand name, monitor in-outlet availability and merchandising, enhance channel penetration, improve market share, and increase overall gross profit margin by benchmarking with key competitors so as to improve business performance;

- Increase efficiency of the supply chain and reduce operating costs, control marketing and promotion costs, and enhance promotional efficiency, improve the efficiency of the workforce, and reduce administrative expenses.

Industry Overview

While the commodity price of bulk oil, our key raw material, fluctuated at relatively low price levels, selling prices of consumer-pack edible oils trended downwards during the first half of 2014. With regard to sales volume, blended oils continued to decline, soybean oils experienced some growth, and sunflower seed and corn oils grew relatively faster. Sales trends reflected a growing consumer preference for more nutritious oil products such as corn oil.

To avoid the risk of being left with over-priced inventory, distributors were more cautious in replenishing stocks. In addition, our competitors increased their marketing expenditures which resulted in more intense market competition.

2014 Interim Results

The overall volume of all edible oil sold by the company fell by 8.7%, whereas the sales volume of "Fortune" brand consumer-pack edible oil was down by only 3.6% during the first half of 2014. However, sales revenue declined by 16.1% due to falling selling prices. Nevertheless, gross profit margin rose 3.4 percentage points due to reduced raw material costs. The segment loss decreased by HK$64.8 million, or 51% to HK$61.2 million.

Outlook

Due to the changes in the international supply and domestic demand of bulk oil, it is expected that the price of bulk oil will continue to fall in the second half of 2014 but, at the same time, selling prices for consumer-pack edible oils are also expected to decline. Thus, there will be pressure on our sales revenue and business results in the second half of 2014 compared with the first half of 2014.

CONFECTIONERY BUSINESS

Business Overview

The confectionery business covers the development, production, marketing and distribution of a range of snack foods including chocolates, candies and nuts. The Company operates two brands, namely Leconté and Merveille.

Development Strategy

The strategic objective of the confectionery business is to become a major player in the confectionery industry in China and provide consumers with high quality and delicious confectionery and snack products. To this end, we will pursue the following strategies;

- Commit to obtain more in-depth understanding of consumers, offer innovative products and through effective brand communication to create optimal value for consumers;

- Expand into other confectionery product types gradually, leveraging our own competitive edge to offer imported foods, lower fixed cost per unit, grow revenue and enhance profitability;

- Continue to enhance and improve the productivity and efficiency of the supply chain, sales management and distribution systems to effectively reduce operating and marketing costs, and improve competitiveness.

Industry Overview

The chocolate industry maintained rapid growth, with a growth rate of approximately 12% in the first half of 2014. The competition in the industry was intense, with the major brands increasing their marketing expenditures and spending on media. Meanwhile, imported chocolates made inroads into the PRC market. The candy category maintained its growth momentum. Chocolates and candies continued to penetrate into the second-and third-tier cities and counties, which posed new requirements and challenges to sales and distribution, warehousing and logistics systems.

2014 Interim Results

Both sales volume and revenue fell 13.7% year-on-year, primarily due to the pressure from increased marketing expenditures by competitors. In addition, destocking by distributors continued, resulting in a decrease in our production volume, and an increase in unit cost per tonne. This, together with the impact of promotional sales discounts, led to a decline of 11.4 percentage points in gross margin. Even though the costs of promotion, marketing, transportation and storage were under control, the segment loss for the period was HK$74.0 million as against HK$70.5 million for 2013.

Outlook

We will continue to strive to solve existing problems, reverse the declining sales trend, and increase profitability. We will continue to improve our existing products, develop new differentiated products, cooperate with overseas companies in product innovation and production, and increase the competitiveness of our products. Besides, we will focus on core regions and channels in order to enhance our competitive advantage, reinforce channel penetration and raise the effectiveness of the channels.

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	
	2014	2013
	%	%
Growth of revenue by Segment:		
– Beverage	**15.0**	-2.3
– Wine	**-4.2**	-42.2
– Kitchen Food	**-16.1**	-9.5
– Confectionery	**-13.7**	-18.3
– Others	**46.5**	37.6
Segment results to revenue ratio:		
– Beverage	**5.7**	5.4
– Wine	**-5.2**	-7.6
– Kitchen Food	**-1.1**	-2.0
– Confectionery	**-34.0**	-28.0
– Others	**4.9**	14.9

REVENUE

The Group's total revenue for the interim period amounted to HK$13,767 million, down by 1.1% from HK$13,921 million in the same period last year.

Despite the positive revenue growth in beverage segment of 15.0%, our wine, kitchen food and confectionery businesses still recorded revenue decline of 4.2%, 16.1% and 13.7% respectively, resulted in a slight decrease in the overall revenue of the Group.

"Others" segment reported positive growth of 46.5% given it's low-base comparative number as it started its cross sales of products since 2012.

GROSS PROFIT MARGIN

The overall gross profit margin increased from 20.8% in the corresponding period last year to 23.2% during the interim period, mainly attributable to the Beverage segment and Kitchen Food segment, which offset the drop in gross profit margin of Wine segment and Confectionery segment.

With respect to the Beverage segment, the improvement in gross profit margin was attributable to improving packaging mix and lowered raw material costs in the first half of 2014.

With respect to the Kitchen Food segment, the improvement in gross profit margin was attributable to the decline in the cost of bulk oil, our key raw material, which was more than the decrease in price of consumer-pack edible oil in the first half of 2014.

With respect to the Wine segment, the decline in gross profit margin was attributable to an adverse change in sales mix as consumers traded down, the fall in contribution from high-end products, and promotional sales activities in the market.

With respect to the Confectionery segment, the decline in gross profit margin was attributable to an increase in unit cost per tonne given a decrease in our production volume, and together with the impact of promotional sales discount.

SELLING AND DISTRIBUTION EXPENSES

During the interim period, selling and distribution expenses were HK$2,840 million, up 12.1% year-on-year. The increase was almost solely due to the increase in marketing expenses of Beverage segment, with new marketing programs introduced in order to drive revenue growth under highly competitive market conditions.

ADMINISTRATIVE EXPENSES

During the interim period, administrative expenses were HK$353 million, down 10% year-on-year, mainly attributable to more stringent expense control as the Group has worked hard to foster an entrepreneurial culture.

FINANCE COSTS

During the interim period, finance costs were HK$35 million, down 20% year-on-year, mainly due to the use of loans in Hong Kong to refinance the domestic loans in China, which lowered the weighted average borrowing interest rate.

SHARE OF PROFITS OF ASSOCIATES

Share of profits of associates were HK$70 million, up 47% year-on-year, attributable to an increase in profitability of associates of Beverage segment.

INCOME TAX EXPENSES

Income tax expense was HK$129 million, down 44% year-on-year, mainly due to a one-off impairment of deferred tax asset of approximately HK$94 million during the first half of 2013.

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 2014, the Group's unpledged cash and cash equivalents totalled approximately HK$1,475 million (31 December 2013: approximately HK$2,458 million), and the Group's net current assets were approximately HK$2,302 million (31 December 2013: approximately HK$1,601 million).

During the interim period, EBITDA increased by HK$141.5 million, mainly due to improvement in the overall profitability of the Group.

Having considered the expected cash flow from operating activities according to budget, existing financial resources, gearing and banking facilities available to the Group and loan repayment schedules, the management believes that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations and committed capital expenditures.

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 overall downside risk exposure of the Group in relation to exchange rate risk and interest rate risk is limited.

CAPITAL STRUCTURE

As at 30 June 2014 and for the interim period, the total number of issued shares of the Company remained unchanged at 2,797,223,396.

As at 30 June 2014, the Group had certain interest-bearing bank borrowings of approximately HK$3,417.3 million (31 December 2013: approximately HK$4,092.4 million) and other borrowing of approximately HK$43.9 million (31 December 2013: approximately HK$45.2 million).

Bank borrowings carried annual interest rates ranging between 0.68% and 6% (31 December 2013: between 0.62% and 6%). Other borrowing carried an annual interest rate of 5.60% (31 December 2013: 5.60%).

As at 30 June 2014, net assets attributable to owners of the parent were approximately HK$5,944 million (31 December 2013: approximately HK$6,146 million) and net borrowing position of the Group (interest-bearing bank and other borrowings less unpledged cash and cash equivalents) was approximately HK$1,986 million (31 December 2013: approximately HK$1,680 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 33.4% (31 December 2013: approximately 27.3%).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2014, the Group has no significant contingent liabilities at the end of the reporting period.

As at 30 June 2014, 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$318 million (31 December 2013: approximately HK$324 million).

HUMAN RESOURCES

As at 30 June 2014, the Group employed 17,893 staff in Mainland China and Hong Kong (31 December 2013: 17,933). 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 2013.

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 2014, a total of 35,929,400 share options of the Company remained outstanding. During the interim period, a total of 310,000 share options lapsed. Accordingly, as at 30 June 2014, a total of 35,619,400 share options of the Company remained outstanding.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the interim period (30 June 2013: Nil).

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.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information of the Group for the interim period has been reviewed by the Audit Committee of the Board.

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 2014 interim report of the Company 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
Jiang Guojin
Managing Director

Hong Kong, 26 August 2014

As at the date of this announcement, the Board comprises: Mr. Yu Xubo as the chairman of the Board and a non-executive director; Mr. Jiang Guojin, Ms. Wu Wenting and Mr. Lu Xiaohui as executive directors; Mr. Ning Gaoning, Ms. Liu Ding, Mr. Chi Jingtao and Mr. Ma Jianping 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.