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 2017

FINANCIAL HIGHLIGHTS

The following table shows the comparison of the interim results for the six months ended 30 June 2017 (the "**interim period**") of China Foods Limited (the "**Company**") and its subsidiaries (together the "**Group**") with the corresponding interim results for 2016:

	For the six months ended 30 June 2017 ***(HK$' million)***	**For the six months ended 30 June 2016** *(HK$' million)*	**Changes** *(Note ii)*
Continuing operations *(Note i)*:			
• Revenue	**15,628.2**	14,590.6	+7.1%
• EBITDA^	**883.6**	768.1	+15.0%
Profit attributable to the owners of the parent	**756.1**	616.7	+22.6%

The Board did not declare the payment of an interim dividend for the interim period (six months ended 30 June 2016: HK1.2 cent per ordinary share).

^ EBITDA from continuing operations represents:

(HK$' million)	**For the six months ended 30 June 2017**	For the six months ended 30 June 2016
Profit before tax from continuing operations	**1,762.7**	1,011.3
Add:		
Finance costs	**41.7**	21.6
Depreciation	**282.7**	243.5
Amortisation of other intangible assets	**1.6**	2.3
Recognition of prepaid land premiums	**6.9**	6.9
Impairments (mainly related to impairment of goodwill, refer to Note 6 of financial information)	**562.8**	13.0
Provision against inventories	**12.0**	18.8
Less:		
Share of profits of associates	**(26.4)**	(26.3)
Gains on disposal of a discontinued operation *(Note i)*	**–**	(523.0)
Gains on disposals of Public Sale Bottling Interests other than Shen-Mei Interest *(Note iii)*	**(1,760.4)**	–
EBITDA from continuing operations	**883.6**	768.1

(Note i): Revenue and EBITDA^ exclude relevant figures of the confectionery business segment, a business segment categorized as a discontinued operation pursuant to the Hong Kong Financial Reporting Standard 5. Details are disclosed in Note 8 of financial information.

The disposal of the discontinued operation was successfully completed on 31 May 2016. One-off gain on disposal of subsidiaries (attributable to a discontinued operation) was recorded in the corresponding interim results for 2016. Details are disclosed in Note 14 of financial information.

(Note ii): The results in RMB for the interim period of the Group were translated at the average exchange rate of first half of 2017 of HK$1: RMB0.88122, while the 2016 comparative results in RMB were translated at the average exchange rate of HK$1: RMB0.84623.

The results reported in HKD terms, when compared to the 2016 comparative results, include 4.1% translation effect in relation to the depreciation of RMB.

(Note iii): One-off gains on disposal of certain subsidiaries, associates and an available-for-sale investment of approximately HK$1,760.4 million in aggregate (Note 4 of financial information) were recorded, in relation to the disposals of equity interests in certain bottling plants, which were completed on 1 April 2017 (together "**Public Sale Bottling Interests other than Shen-Mei Interest**"), other than the disposal of the interest in The Coca-Cola Bottling Unit of Shanghai Shen-Mei Beverage and Food Co., Ltd which was completed on 1 July 2017.

INTERIM RESULTS

The Board is pleased to 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 2017 (the "**interim financial information**") have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	**For the six months ended 30 June 2017** *HK$'000* **(Unaudited)**	2016 *HK$'000* (Unaudited)
CONTINUING OPERATIONS			
REVENUE	*4*	**15,628,243**	14,590,646
Cost of sales		**(11,723,731)**	(11,134,307)
Gross profit		**3,904,512**	3,456,339
Other income and gains	*4*	**1,961,212**	667,760
Selling and distribution expenses		**(3,100,313)**	(2,761,856)
Administrative expenses		**(420,361)**	(341,042)
Other expenses and losses		**(567,094)**	(14,507)
Finance costs	*5*	**(41,654)**	(21,605)
Share of profits of associates		**26,430**	26,254
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	*6*	**1,762,732**	1,011,343
Income tax expense	*7*	**(607,013)**	(193,627)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**1,155,719**	817,716
DISCONTINUED OPERATION			
Loss for the period attributable to a discontinued operation	*8*	**–**	(43,518)
PROFIT FOR THE PERIOD		**1,155,719**	774,198
Attributable to:			
Owners of the parent		**756,111**	616,677
Non-controlling interests		**399,608**	157,521
		1,155,719	774,198

	Note	For the six months ended 30 June **2017** ***HK$'000*** **(Unaudited)**	2016 *HK$'000* (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic			
– For the profit for the period		**HK27.03 cents**	HK22.05 cents
– For the profit from continuing operations		**HK27.03 cents**	HK23.60 cents
Diluted			
– For the profit for the period		**HK27.03 cents**	HK22.05 cents
– For the profit from continuing operations		**HK27.03 cents**	HK23.60 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**1,155,719**	774,198
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences related to foreign operations	**223,339**	(188,544)
Share of other comprehensive loss of an associate	**(1,054)**	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**222,285**	(188,544)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**222,285**	(188,544)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,378,004**	585,654
Attributable to:		
Owners of the parent	**900,928**	449,090
Non-controlling interests	**477,076**	136,564
	1,378,004	585,654

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	**30 June 2017 *HK$'000* (Unaudited)**	31 December 2016 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**7,361,900**	4,012,050
Investment properties		**33,644**	32,644
Prepaid land premiums		**627,804**	472,574
Prepayments for items of property, plant and equipment		**21,238**	54,304
Goodwill		**3,344,141**	1,522,354
Other intangible assets		**9,854**	11,272
Investments in associates		**751,787**	726,412
Available-for-sale investments		**12,690**	12,975
Deferred tax assets		**230,580**	154,964
Total non-current assets		**12,393,638**	6,999,549
CURRENT ASSETS			
Inventories		**3,946,489**	4,007,825
Accounts and bills receivables	*11*	**1,852,177**	1,319,672
Prepayments, deposits and other receivables		**1,826,108**	1,269,455
Due from fellow subsidiaries		**291,749**	321,552
Due from the immediate holding company		**162**	162
Due from the ultimate holding company		**13,411**	13,037
Due from non-controlling shareholders of subsidiaries		**1,896**	946
Due from associates		**40,969**	26,297
Prepaid tax		**14,730**	26,722
Pledged deposits		**45,260**	51,607
Cash and cash equivalents		**1,292,843**	1,120,224
		9,325,794	8,157,499
Assets of a disposal group classified as held for sale	*8*	**101,010**	958,220
Total current assets		**9,426,804**	9,115,719

	Notes	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
CURRENT LIABILITIES			
Accounts and bills payables	12	**2,418,582**	1,199,220
Other payables and accruals		**3,865,860**	3,146,051
Due to fellow subsidiaries		**1,368,965**	1,885,271
Due to the ultimate holding company		**24,805**	23,989
Due to related companies		**6,605**	6,232
Due to non-controlling shareholders of subsidiaries		**66,393**	64,612
Due to associates		**77,866**	124,753
Interest-bearing bank and other borrowings		**2,208,481**	820,000
Tax payable		**510,106**	78,371
		10,547,663	7,348,499
Liabilities directly associated with the assets of a disposal group classified as held for sale	8	**–**	329,299
Total current liabilities		**10,547,663**	7,677,798
NET CURRENT ASSETS/(LIABILITIES)		**(1,120,859)**	1,437,921
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,272,779**	8,437,470
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**2,042,170**	825,086
Deferred income		**329,963**	294,719
Deferred tax liabilities		**37,177**	25,545
Total non-current liabilities		**2,409,310**	1,145,350
Net assets		**8,863,469**	7,292,120
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**279,722**	279,722
Reserves		**6,047,561**	5,181,359
		6,327,283	5,461,081
Non-controlling interests		**2,536,186**	1,831,039
Total equity		**8,863,469**	7,292,120

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 June 2017

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 2017, 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;
- 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 have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of HK$1,120,859,000 at the end of the reporting period. In preparing this condensed consolidated interim financial information, the directors have given careful consideration to the current and anticipated future liquidity of the Group. Taking into account, inter alia, (i) the expected net cash inflows generated from the Group's operations for the next twelve months; and (ii) the unutilised loan facilities at the end of the reporting period, the directors are of the opinion that the Group will be able to meet its liabilities as and when they fall due. Accordingly, the directors consider that the preparation of this condensed consolidated interim financial information on a going concern basis is appropriate.

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 2016.

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 2016, except in relation to the following 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:

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014-2016 cycle	Amendments to a number of HKFRSs

The adoption of the above 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 four 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; and

(d) 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 from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that interest income, dividend income, gain on disposal of subsidiaries, the equity interests in associates and available-for-sale investments, 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, 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 2017

	Beverage *HK$'000* (Unaudited)	Wine *HK$'000* (Unaudited)	Kitchen food *HK$'000* (Unaudited)	Others *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue:					
Sales to external customers	**7,568,150**	**1,381,176**	**6,645,655**	**33,262**	**15,628,243**
Other revenue	**66,304**	**36,263**	**1,327**	**37,411**	**141,305**
	7,634,454	**1,417,439**	**6,646,982**	**70,673**	**15,769,548**
Segment results	**421,664**	**(418,973)**	**(304)**	**26,572**	**28,959**
Reconciliation:					
Interest income					**9,572**
Dividend income					**49,944**
Gain on disposal of subsidiaries					**907,159**
Gain on disposal of the equity interests in associates					**493,679**
Gain on disposal of available-for-sale investments					**359,553**
Finance costs					**(41,654)**
Share of profits of associates					**26,430**
Corporate and other unallocated expenses					**(70,910)**
Profit before tax from continuing operations					**1,762,732**
30 June 2017					
Segment assets	**12,644,244**	**4,321,821**	**2,211,629**	**211,301**	**19,388,995**
Reconciliation:					
Investments in associates					**751,787**
Corporate and other unallocated assets					**1,578,650**
Assets of a disposal group classified as held for sale					**101,010**
Total assets					**21,820,442**
Segment liabilities	**5,123,739**	**1,221,672**	**2,183,323**	**–**	**8,528,734**
Reconciliation:					
Corporate and other unallocated liabilities					**4,428,239**
Total liabilities					**12,956,973**

Six months ended 30 June 2016

	Beverage *HK$'000* (Unaudited)	Wine *HK$'000* (Unaudited)	Kitchen food *HK$'000* (Unaudited)	Others *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue:					
Sales to external customers	6,156,482	1,285,220	6,987,176	161,768	14,590,646
Other revenue	59,368	14,997	4,838	8,310	87,513
	6,215,850	1,300,217	6,992,014	170,078	14,678,159
Segment results	455,430	110,985	45,079	318	611,812
Reconciliation:					
Interest income					7,566
Dividend income					48,689
Gain on disposal of subsidiaries					522,969
Finance costs					(21,605)
Share of profits of associates					26,254
Corporate and other unallocated expenses					(184,342)
Profit before tax from continuing operations					1,011,343

31 December 2016

	Beverage *HK$'000* (audited)	Wine *HK$'000* (audited)	Kitchen food *HK$'000* (audited)	Others *HK$'000* (audited)	Total *HK$'000* (audited)
Segment assets	5,532,300	4,296,663	2,987,885	251,826	13,068,674
Reconciliation:					
Investments in associates					726,412
Corporate and other unallocated assets					1,361,962
Assets of a disposal group classified as held for sale					958,220
Total assets					16,115,268
Segment liabilities	2,764,734	680,321	3,247,436	–	6,692,491
Reconciliation:					
Corporate and other unallocated liabilities					1,801,358
Liabilities directly associated with the assets classified as held for sale					329,299
Total liabilities					8,823,148

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 from continuing operations is as follows:

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income		
Gross rental income	**2,047**	2,062
Bank interest income	**9,572**	7,566
Dividend income from available-for-sale investments	**49,944**	48,689
Government grants*	**88,962**	38,876
Compensation income	**516**	554
Sale of by-products and scrap items	**15,627**	13,818
Others	**34,153**	32,203
	200,821	143,768
Gains		
Foreign exchange differences, net	**–**	1,023
Gain on disposal of subsidiaries *(Note 14)*	**907,159**	522,969
Gain on disposal of the equity interests in associates	**493,679**	–
Gain on disposal of available-for-sale investments	**359,553**	–
	1,760,391	523,992
	1,961,212	667,760

* Various government grants were granted for investments in certain provinces in Mainland China in which the Company's subsidiaries operate. Government grants for which related expenditure has not yet been undertaken are included in deferred income (non-current portion) and other payables and accruals (current portion) in the condensed consolidated statement of financial position, respectively. There are no unfulfilled conditions or contingencies relating to these grants.

5. FINANCE COSTS

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans wholly repayable within five years	**41,107**	19,654
Loans from non-controlling shareholders of subsidiaries	**547**	1,468
Others	**–**	483
	41,654	21,605

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**11,711,766**	11,115,545
Provision against inventories	**11,965**	18,762
Cost of sales	**11,723,731**	11,134,307
Depreciation	**282,662**	243,491
Amortisation of other intangible assets	**1,639**	2,270
Recognition of prepaid land premiums	**6,936**	6,874
Loss on disposal/write-off of items of property, plant and equipment*	**4,248**	1,493
Impairment of receivables*	**83,422**	13,014
Impairment of available-for sale investments*	**671**	–
Impairment of goodwill*	**478,753**	–
Foreign exchange differences, net	**3,431**	(1,023)

* 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 profits arising in Hong Kong during the period (six months ended 30 June 2016: Nil). 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current – Mainland China:		
Charge for the period	**649,457**	191,204
Current – Elsewhere:		
Charge for the period	**–**	57
Overprovision in prior years	**(942)**	–
Deferred	**(41,502)**	2,366
Total tax charge for the period	**607,013**	193,627

The share of tax attributable to associates amounting to HK$9,243,000 (six months ended 30 June 2016: HK$7,936,000) is included in "Share of profits of associates" in the condensed consolidated statement of profit or loss.

8. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

(1) Discontinued operation

Prized Developments Limited and its subsidiaries (the "**Target Group**") are engaged in the production of the Group's chocolate and other confectionary products, which are sold and distributed via COFCO Food Sales & Distribution Co., Ltd., a wholly-owned subsidiary of the Group. Together these two components comprise the Group's confectionery segment (the "**Discontinued Segment**").

On 31 December 2015, the Company announced the decision of its board of directors to dispose of the Target Group by entering into an equity transfer and debt assignment agreement with Tops Properties Limited, a wholly-owned subsidiary of COFCO Property (Group) Co., Ltd. which is a Shenzhen-listed company owned as to 45.67% by COFCO, for a total consideration of RMB611,000,000 (subject to certain potential adjustments). The Group has decided to cease the Discontinued Segment because it plans to focus its resources on its other business.

As a result, the Discontinued Segment was classified as a disposal group held for sale and as a discontinued operation. With the Discontinued Segment being classified as a discontinued operation, it is no longer included in the note for operating segment information.

On 31 May 2016, the disposal in relation to the Target Group was completed. The results of the Discontinued Segment for the period are presented below:

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Revenue	–	114,747
Cost of sales	–	(77,377)
Other income and gains	–	1,917
Selling and distribution expenses	–	(77,576)
Administrative expenses	–	(5,218)
Other expenses and losses	–	(216)
Loss before tax from a discontinued operation	–	(43,723)
Income tax credit related to pre-tax loss	–	205
Loss for the period from a discontinued operation	–	(43,518)

The net cash flows incurred by the Discontinued Segment are as follows:

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Operating activities	–	9,612
Investing activities	–	(1,583)
Net cash flow inflow	–	8,029
Loss per share:		
Basic, attributable to the discontinued operation	–	HK$1.55 cents
Diluted, attributable to the discontinued operation	–	HK$1.55 cents

The calculations of basic and diluted loss per share attributable to the discontinued operation are based on:

	For the six months ended 30 June	
	2017	2016
Loss attributable to ordinary equity holders of the parent attributable to the discontinued operation	–	HK$43,518,000
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation *(Note 10)*	**2,797,223,396**	2,797,223,396

(2) Disposal group classified as held for sale

On 16 December 2016, COFCO Coca-Cola Beverages Limited ("**CCBL**"), a 65%-owned subsidiary of the Company, and the Company entered into the public sale equity transfer master agreement with Swire Beverages Holdings Limited ("**Swire Beverages**") pursuant to which the Company agreed to dispose of its entire investments in subsidiaries in Hainan COFCO Coca-Cola Beverages Limited, COFCO Coca-Cola Beverages (Jiangxi) Limited and Zhanjiang COFCO Coca-Cola Beverages Limited, and its investments in associates in Swire Coca-Cola Beverages Jiangsu Limited, Swire Coca-Cola Beverages Zhejiang Limited and Swire Coca-Cola Beverages Wenzhou Limited, and its available-for-sale investments in Swire Guangdong Coca-Cola Limited, Swire Guangdong Coca-Cola (Huizhou) Limited and The Coca-Cola Bottling Unit of Shanghai Shen-Mei Beverage and Food Co., Ltd (collectively referred to as the "**Public Sale Companies**") to Swire Beverages at an aggregate consideration of approximately RMB2,122 million.

The Public Sale Companies are engaged in the processing, bottling and distribution of sparkling beverage products, and distributing still beverage products in various regions in Mainland China, which are part of the Group's beverage segment. The above transactions, which are expected to be completed within one year, together with the acquisitions of various beverage companies from The Coca-Cola Company ("KO") and Swire Beverages as well as the disposal of the Discontinued Segment, form part of the Group's overall strategy of concentrating on expanding its core activities.

On 1 April 2017, the disposal in relation to the Public Sale Companies was completed, except the disposal in relation to The Coca-Cola Bottling Unit of Shanghai Shen-Mei Beverage and Food Co., Ltd.

The major classes of assets and liabilities of the Public Sale Companies classified as held for sale as the end of reporting period are as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Assets		
Property, plant and equipment	**–**	316,405
Prepaid land premiums	**–**	34,043
Prepayments for items of property, plant and equipment	**–**	25
Goodwill	**–**	102,782
Investments in associates	**–**	88,148
Available-for-sale investments	**101,010**	195,393
Deferred tax assets	**–**	9,946
Inventories	**–**	150,516
Accounts and bills receivables	**–**	25,134
Prepayments, deposits and other receivables	**–**	20,504
Due from associates	**–**	1
Prepaid tax	**–**	175
Pledged deposits	**–**	2,376
Cash and cash equivalents	**–**	12,772
Assets classified as held for sale	**101,010**	958,220
Liabilities		
Accounts and bills payables	**–**	(115,879)
Other payables and accruals	**–**	(182,881)
Due to associates	**–**	(26,972)
Tax payable	**–**	(3,567)
Liabilities directly associated with the assets classified as held for sale	**–**	(329,299)
Net assets directly associated with the Public Sale Companies	**101,010**	628,921
Exchange fluctuation reserve of the Public Sale Companies	**–**	35,100

9. DIVIDEND

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Interim – Nil (six months ended 30 June 2016: HK1.2 cents) per ordinary share	**–**	33,567

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

The calculation of basic earnings per share amount for the period ended 30 June 2017 is based on the profit for the period attributable to ordinary equity holders of the parent of HK$756,111,000 (six months ended 30 June 2016: HK$616,677,000), and the weighted average number of ordinary shares of 2,797,223,396 (six months ended 30 June 2016: 2,797,223,396) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2016 and 2017 in respect of the dilution as the impact of the Company's share options outstanding had no dilutive effect on the basic profit per share amounts presented.

11. ACCOUNTS AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 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 ageing 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 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
Within 3 months	**1,485,659**	1,039,048
3 to 12 months	**324,029**	252,501
1 to 2 years	**32,733**	19,296
Over 2 years	**9,756**	8,827
	1,852,177	1,319,672

12. ACCOUNTS AND BILLS PAYABLES

An ageing 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 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**2,272,303**	1,114,518
3 to 12 months	**131,132**	75,035
1 to 2 years	**6,297**	1,251
Over 2 years	**8,850**	8,416
	2,418,582	1,199,220

At 30 June 2017, certain of the Group's bills payable were secured by the Group's bank deposits amounting to HK$45,260,000 (31 December 2016: HK$51,607,000).

13. BUSINESS COMBINATION

On 17 November 2016, CCBL entered into the non-public sale equity transfer master agreement with KO and Swire Beverages pursuant to which:

(i) KO will procure its subsidiaries to transfer to CCBL all the issued share capital in Coca-Cola (Chongqing) Beverages Ltd, Coca-Cola (Jilin) Beverages Ltd, Coca-Cola Liaoning (Central) Beverages Ltd, and Coca-Cola (Heilongjiang) Beverages Ltd., 93.75% of the issued share capital in Coca-Cola Liaoning (North) Beverages Ltd, 89.3% of the issued share capital in Coca-Cola (Sichuan) Beverages Ltd, 75% of the issued share capital in Coca-Cola (Shanxi) Beverages Ltd, and 60% of the issued share capital in Coca-Cola Liaoning (South) Beverages Ltd, (the "**CBL Companies**"), for an aggregate base consideration of RMB2,900,000,000;

(ii) Swire Beverages will procure its subsidiaries to transfer to CCBL all the issued share capital in Swire Coca-Cola Beverages Shaanxi Limited ("**Coca-Cola Shaanxi**") for an aggregate base consideration of RMB487,000,000; and

(iii) Such base considerations shall be subject to customary closing accounts adjustments by reference to the net cash balance and the working capital level of each entities as at the date of completion.

The CBL Companies and Coca-Cola Shaanxi are engaged in the processing, bottling and distribution of sparkling beverage products, and distributing still beverage products in various regions in Mainland China.

On 1 April 2017, the aforementioned acquisitions in relation to the CBL Companies and Coca-Cola Shaanxi were completed.

The Group has elected to measure the non-controlling interest in Coca-Cola Liaoning (North) Beverages Ltd, Coca-Cola (Sichuan) Beverages Ltd, Coca-Cola (Shanxi) Beverages Ltd, and Coca-Cola Liaoning (South) Beverages Ltd at the non-controlling interest's proportionate share of respective identifiable net assets.

The fair values of the identifiable assets and liabilities of the CBL Companies and Coca-Cola Shaanxi as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *HK$'000*
Property, plant and equipment		3,024,560
Prepaid land premiums		147,681
Other intangible assets	*(a)*	–
Deferred tax assets		27,798
Inventories		491,508
Accounts receivable		599,896
Prepayments, deposits and other receivables		644,363
Cash and cash equivalents		478,647
Accounts payable		(1,024,590)
Other payables and accruals		(1,237,150)
Interest-bearing bank borrowings		(1,123,740)
Tax payable		(29,633)
Deferred income		(29,521)
Deferred tax liabilities		(10,158)
Total identifiable net assets at fair value		1,959,661
Non-controlling interests		(187,161)
		1,772,500
Goodwill on acquisition	*(b)*	2,223,003
		3,995,503
Satisfied by:		
Cash		3,995,503
Contingent consideration	*(c)*	–
		3,995,503

(a) The fair value of the acquired identifiable intangible assets are provisional pending to the final valuation results performed by independent professionally qualified valuers.

(b) The goodwill is provisional subject to final valuation results of identified intangible assets, contingent consideration and other identifiable assets and liabilities.

(c) The contingent consideration represents the customary closing accounts adjustments on the base considerations by reference to the net cash balance and the working capital level of each entities as at the date of completion. As of 30 June 2017, contingent consideration is not recognised pending to the final valuation results performed by independent professionally qualified valuers and final confirmation on adjustments on the base considerations, if any, between counter parties.

The fair values of the accounts receivables and other receivables as at the date of acquisition amounted to HK$599,896,000 and HK$521,228,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$609,252,000 and HK$521,542,000, respectively, of which accounts receivables of HK$9,356,000 and other receivables of HK$314,000 are expected to be uncollectible.

The Group incurred transaction costs of HK$49,262,000 for this acquisition. These transaction costs have been expensed and are included in profit or loss.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition is follows:

	HK$'000
Cash consideration	(3,995,503)
Cash and bank balances acquired	478,647
Net outflow of cash and cash equivalents in respect of the acquisition	(3,516,856)

Since the acquisition, the CBL Companies and Coca-Cola Shaanxi contributed HK$1,722,739,000 to the Group's revenue and profit of HK$19,977,000 to the consolidated profit for the six months ended 30 June 2017.

Had the combination taken place at the beginning of the reporting period, the revenue from continuing operations of the Group and the profit of the Group for the period would have been HK$17,356,179,000 and HK$1,199,853,000, respectively.

14. DISPOSAL OF SUBSIDIARIES

	Note	For the six months ended 30 June **2017** ***HK$'000*** **(Unaudited)**	 2016 *HK$'000* (Unaudited)
Net assets disposed of:			
Property, plant and equipment		**318,570**	128,207
Investment properties		**–**	79,297
Prepaid land premiums		**34,673**	–
Prepayments for items of property, plant and equipment		**28**	–
Goodwill		**102,897**	–
Deferred tax assets		**9,825**	–
Inventories		**91,270**	43,891
Accounts and bills receivables		**24,136**	10,553
Prepayments, deposits and other receivables		**18,145**	1,878
Due from fellow subsidiaries		**2,952**	5,666
Prepaid tax		**3,334**	1,490
Pledged deposits		**2,702**	–
Cash and cash equivalents		**51,278**	17,329
Accounts and bills payables		**(149,714)**	(18,353)
Other payables and accruals		**(149,072)**	(23,474)
Due to fellow subsidiaries		**(83,776)**	(946)
Due to associates		**(6,872)**	–
Deferred tax liabilities		**–**	(14,879)
		270,376	230,659
Exchange fluctuation reserve		**(22,983)**	(43,110)
		247,393	187,549
Gain on disposal of subsidiaries	*4*	**907,159**	522,969
		1,154,552	710,518
Satisfied by:			
Cash		**1,154,552**	700,549
Due to fellow subsidiaries		**–**	9,969
		1,154,552	710,518

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cash consideration	**1,154,552**	700,549
Cash and cash equivalents disposed of	**(51,278)**	(17,329)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**1,103,274**	683,220

15. EVENTS AFTER THE REPORTING PERIOD

On 25 May 2017, COFCO Food Sales & Distribution Co., Ltd., a wholly-owned subsidiary of the Company, entered into an equity transfer and debt assignment agreement with COFCO Fortune Holdings Limited, a wholly-owned subsidiary of China Agri-Industries Holdings Limited ("**China Agri**"), a fellow subsidiary of the Company, which is listed in Hong Kong, pursuant to the which the Company agreed to transfer its entire equity interest in a subsidiary engaging in the business which covers the sale, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate (MSG), seasoning sauce and cereals) for a total consideration of RMB1,050 million (the "**Transaction**"). The Transaction was approved by shareholders of the Company other than COFCO and its associates at the special general meeting held by the Company on 4 July 2017 and approved by shareholders of China Agri other than COFCO and its associates at the special general meeting held by China Agri on 7 July 2017. The completion of the Transaction is still subject to the approval by relevant approval authorities, including the State-owned Assets Supervision and Administration Commission and Beijing Municipal Commission of Commerce.

LETTER FROM THE MANAGING DIRECTOR

REVIEW – FIRST HALF OF 2017

In the first half of 2017, the macro-economy in China maintained stable growth momentum. However, the depressed situation of the wine as well as the consumer-pack edible oil industries, coupled with intensified industry competition, put pressure on the revenue and profit growth of the relevant businesses of the Group.

Faced with challenges from industry competition, the Group has followed the strategies formulated at the beginning of the year and adopted effective measures to cope with the challenges and to implement various key areas of work.

During the first half of 2017, the Group has made considerable effort to streamline its business and optimize business portfolio by allocating resources to core businesses, in order to enhance the return to our shareholders. To this end, the Group has rigorously pushed forward several key restructuring projects, including refranchising of bottling operations in Mainland China, entering into the agreement in relation to the disposal of COFCO Fortune Food Sales & Distribution Co., Ltd. and the decision regarding progressive termination of "others" operating segment.

In addition, faced with external competition and challenges, the Company continued to promote the strategy of "Quality Improvement and Efficiency Enhancement" and implemented a series of initiatives to develop internal potentials, enhance the quality of operation and improve operational efficiency. To achieve this, we (1) strategically consolidated business focus, disposed of consumer-pack edible oil business and pushed forward the integration of newly acquired beverage business; (2) focused on major strategic and mid-to high-end products, enhanced brand marketing and stepped up sales efforts to improve overall product mix and boost gross profit margin; (3) deepened channel penetration by actively developing county-level distributors, so as to increase the number of points of sale; (4) in respect of management, further optimized the internal organizational structure of the Company and expanded authority granted to the frontline business operation to enhance operational management efficiency and quality of our businesses, while facilitating the market-oriented reform on the internal incentive mechanism in order to motivate team spirit.

As a result, the overall quality of operation and operational efficiency of the Group continued to improve during the first half of 2017. Excluding the effect of the RMB depreciation, overall revenue from the continuing operations of the Group increased, mainly due to the increase in revenue of the Beverage business segment, with the contributions by the newly acquired bottling plants, which was partially offset by the decrease in revenue from the Kitchen Food business that will be disposed upon completion. In respect of operating profit, the overall business experienced moderate improvement compared with that of the same period last year. The imported wine business recorded significant growth in its operating results, while the operating results of the beverage business remained basically steady in RMB term.

Including the one-off significant gain on the disposal of equity interests in certain bottling plants (other than the disposal of the interest in The Coca-Cola Bottling Unit of Shanghai Shen-Mei Beverage and Food Co., Ltd which was completed on 1 July 2017) recorded during the period, which was partially offset by certain impairment of goodwill, profit attributable to owners of the parent of the Group increased by 22.6%.

OUTLOOK – SECOND HALF OF 2017

In the second half of 2017, a number of factors, such as the persistently intensified external competition faced by the Group and the fluctuations in the exchange rate of the Renminbi, will bring some uncertainties to our business. However, some positive factors such as the greater contribution of consumption to the economic growth and the further implementation of reform on state-owned enterprises will also provide us with new business opportunities and impetus.

The Group will continue to focus on the key areas of work for the year. Efforts will be made to optimize business portfolio, consolidate business focus, and push forward the integration of newly acquired beverage business. By focusing on promotion of star products, we will enhance brand marketing and optimize product mix to improve profitability of the Group. While efforts will be stepped up to develop new customers and continue to enhance our channel penetration, we will facilitate the market-oriented incentive reforms to further motivate team spirit. Through these initiatives, the Group will strive to improve our results for the full year of 2017.

Finally, on behalf of China Foods, I wish to express my sincere gratitude to our shareholders, customers and business partners for their continued support. I would also like to thank members of the board of directors, the entire management team and our employees for their devotion and hard work.

REVIEW – RESTRUCTURING PROJECTS

Refranchising of bottling operations in China ("Refranchising Transactions")

On 17 November 2016, COFCO Coca-Cola Beverages Limited ("**CCBL**", a 65%-owned joint venture of the Company), The Coca-Cola Company and Swire Beverages Holdings Limited ("**Swire**") entered into an inter-conditional non-public sale master agreement, pursuant to which: (i) CCBL shall acquire the bottling operations of The Coca-Cola Company in six regions including Heilongjiang, Jilin, Liaoning, Shanxi, Sichuan and Chongqing for an aggregate base consideration (subject to adjustment) of approximately RMB2,900 million; and (ii) CCBL shall acquire the bottling operation of Swire in Shaanxi for a base consideration (subject to adjustment) of approximately RMB487 million (collectively, the "**Acquisitions**").

On the same day, according to the relevant requirements for the sale of state-owned assets, CCBL and the Company decided to publish formal disclosures on the website of the China Beijing Equity Exchange relating to the Company's proceedings with the public sale of its entire interests in the bottling operations in Jiangxi, Hainan and Guangdong (Zhanjiang and Maoming) and its associated and minority interests in the bottling operations of six other regions (including Jiangsu, Zhejiang, Shanghai, Wenzhou, Huizhou and Guangdong). On 16 December 2016, CCBL, the Company and Swire (being the successful bidder in the public sale) entered into a public sale equity transfer master agreement for the disposal of equity interests in the above-mentioned bottling operations at an aggregate consideration of RMB2,122 million (collectively, the "**Disposals**").

The Acquisitions and Disposals represent part of the Company's overall strategy to concentrate on expanding its core activities, and reflect its long-term commitment to the Coca-Cola beverages bottling business in China. The Acquisitions are expected to further deepen this important strategic partnership through more cooperation opportunities between the Company and The Coca-Cola Company. The Acquisitions are also the important step for repositioning the Company as one of the largest beverage bottlers in China, presenting a significant opportunity for the Company to scale-up its beverage business, expand its geographical coverage, create economies of scale and capitalize on the attractive long-term growth trends in China's beverage market.

With over 16 years of experience in the Coca-Cola bottling business of CCBL, the Company's senior management team has a proven track record and demonstrated capability in the running of the business. We are confident in facilitating a smooth transition and integration of the bottling operations to be acquired in the new territories. Following the completion of the Acquisitions, we believe that we are able to create cost synergies through streamlining the operations of the Coca-Cola bottling franchise territories, increasing productivity, improving the flow of the operation and reducing the cost of distribution and transportation. The significant increase in production capacity is expected to provide a favorable factor for future production growth.

During the period, except for the disposal of the interest in The Coca-Cola Bottling Unit of Shanghai Shen-Mei Beverage and Food Co., Ltd to Swire by the Group under the public sale equity transfer master agreement (the "**Shen-Mei Disposal**"), the Acquisitions and the Disposals were completed on 1 April 2017.

Subsequent to the end of the period and up to the date of this announcement, the conditions of the Shen-Mei Disposal have been satisfied and the Shen-Mei Disposal was also completed on 1 July 2017.

Disposal of COFCO Fortune Food Sales & Distribution Co., Ltd.

On 25 May 2017, COFCO Food Sales & Distribution Co., Ltd., a wholly-owned subsidiary of the Company, entered into an agreement with COFCO Fortune Holdings Limited, a connected person of the Company, pursuant to which COFCO Food Sales & Distribution Co., Ltd. shall sell its 100.0% equity interests in a wholly-owned subsidiary, namely COFCO Fortune Food Sales & Distribution Co., Ltd. ("**Fortune Food Sales & Distribution**") to COFCO Fortune Holdings Limited for a consideration of RMB1,050 million (the "**Fortune Food Sales & Distribution Disposal Transaction**"). The Fortune Food Sales & Distribution Disposal Transaction was approved by the independent shareholders of the Company at the special general meeting held on 4 July 2017.

Fortune Food Sales & Distribution is primarily engaged in the sale, distribution and marketing of consumer-pack edible oil and other kitchen food products under the "Fortune" (福臨門) brand (including consumer-pack sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals).

The Group has always been dedicated to the improvement of its business operations and the maximization of returns to its shareholders. After careful deliberations, the management was of the view that the Group should focus on businesses with higher growth potentials, stronger brand attributes, higher gross margins and better earnings prospects to maximize returns for the shareholders. Through the disposal of Fortune Food Sales & Distribution, the Group can continue its strategic focus and business portfolio optimization, so that the Group can become more focused on its core businesses, enhance its professionalism in business operation, and thereby increase the overall profitability of the Group.

Fortune Food Sales & Distribution primarily engages in the downstream business of the consumer-pack edible oil value chain, and its long term competitiveness and growth have been driven by large sales volume, relatively high operational efficiency and low cost and expenses. By integrating with the upstream raw material processing business of the edible oil value chain, the transaction could unlock synergies and growth potentials, thereby maximizing the value of the business of Fortune Food Sales & Distribution and the upstream operations. The transaction could also reduce connected transactions between the Group and the upstream company, thereby decreasing operational and compliance costs of both companies.

As of the date of this announcement, the completion of the Fortune Food Sales & Distribution Disposal Transaction is still subject to the fulfillment of certain conditions precedent.

Reference is made to the letter from the board of directors contained in the circular of the Company dated 16 June 2017, which set out, among others, the board of directors (the "**Board**") of the Company has an intention to distribute a part of proceeds to be received by the Company from the Fortune Food Sales & Distribution Disposal Transaction as a special dividend to the shareholders of the Company. After taking into account the financial position at the end of the period, the special dividend is estimated to be HK10 cents per share or a total amount of approximately HK$279.7 million, subject to the completion of the Fortune Food Sales & Distribution Disposal Transaction having taken place.

A meeting of the Board will be held after the completion of the Fortune Food Sales & Distribution Disposal Transaction to determine the exact amount of the special dividend. Further announcement(s) in respect of the special dividend will be made by the Company as and when appropriate.

Progressive termination of "others" operating segment

On 28 March 2017, in view of consolidating the Group's business focus and enhancing shareholders' return, the Board decided that the sale and distribution by the Group of certain consumer products including fruit juice beverages, instant noodles, peanuts and others, collectively categorized as the "others" segment (not categorized under the beverage segment, wine segment and kitchen food segment) in operating segment information of financial statements, would be progressively terminated in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS – BUSINESS REVIEW

CONTINUING OPERATIONS

BEVERAGE BUSINESS

Business Introduction

The beverage business of the Company is primarily carried out by COFCO Coca-Cola Beverages Limited ("**CCBL**"), a joint venture company, in which the Company and The Coca-Cola Company hold 65% and 35% interest respectively.

After completion of the Acquisitions and Disposals in relation to the Refranchising Transactions, CCBL has the exclusive right to manufacture, market and distribute Coca-Cola products in 19 provinces, municipalities and regions including Tianjin, Hebei, Beijing, Shandong, Hunan, Guizhou, Gansu, Ningxia, Qinghai, Tibet, Inner Mongolia and Xinjiang as well as the newly acquired regions including Sichuan, Chongqing, Heilongjiang, Jilin, Liaoning, Shanxi and Shaanxi. CCBL also has associate interests in Coca-Cola Bottlers Manufacturing Holdings Limited, a manufacturing company which mainly supplies still beverages to all Coca-Cola franchisees in Mainland China.

Development Strategy

The strategic goal of CCBL is to build a world-class bottling group with the best-regarded professional team, to build the most valuable sales and distribution network, and to become the most efficient beverage industry player in every region in which we operate. To this end, CCBL has been implementing the following strategies:

- Insistence on commitment to food safety and quality;
- The continued improvement of our product offering to the trade by ensuring that our sparkling and juice products have enduring appeal to consumers, and by continuously introducing new products with higher margin. At the same time, we will seek to raise profitability for both CCBL and its distributors through a reasonable margin sharing model, and improve inventory turnover at point-of-sale;
- Strengthen our relationship with participants in our outlet delivery partners program, and provide support for the growth of our customers through product category management, and the application of route-to-market strategies for the sales and distribution network;
- Focus on further improving retail execution as this is our contact point with consumers;
- Effective control of costs and improvement of efficiency; and
- Encouragement of creative concepts and innovative ideas in business processes, tools, marketing and management systems.

Industry Overview

In respect of the trend of beverage consumption, the post-80s and 90s generations have become the mainstream of our consumer groups, who have a preference for more diversified products. Hence, novelty, uniqueness and functionality of the beverages have become the main criteria in their selection of beverages, and they are willing to pay price premium for healthy and safe products. The overall trend of the beverage industry is moving towards high value-added and diversified products while the volume of sales for conventional beverage categories remains stable. Consumption upgrade, rather than price sensitivity, has become the main driving factor for category growth, while product innovation is fundamental for category growth and product mix enhancement, with increasing industry competition.

Among the principal beverage products, CCBL is a major player in the sparkling, juice and packaged-water categories. According to industry data for the first quarter of 2017, in terms of volume growth, the overall non-alcohol ready-to-drink (NARTD) beverages market (excluding white milk and bulk water) recorded a positive growth of 4.0%, including a positive growth of 3.2% and 5.4% respectively for the sparkling category (volume share of 14.5%) and juice category (volume share of 10.9%), while the packaged-water category (volume share of 32%) grew by 9.7%.

According to the data released by Nielsen, as of May 2017, CCBL obtained 25% market share by volume (basically the same with the corresponding period last year) in the main non-alcohol beverage categories in the regions in which we operate, of which our sparkling category recording a volume share of 64.2% (increased by 0.6 percentage point as compared with corresponding period last year) and juice category recording a volume share of 22.8% (increased by 1.0 percentage point as compared with corresponding period last year).

2017 Interim Results

A comparison of the 2017 interim results with those of the comparative period in 2016 of the beverage business segment is summarized below:

(In HK dollar reporting term)	**For the six months ended 30 June 2017** ***(HK$' million)***	For the six months ended 30 June 2016 *(HK$' million)*	**Changes** *(Note)*
Revenue	**7,568.1**	6,156.5	+22.9%
Percentage increase in sales volume			+32%
Percentage point increase of gross profit margin			+0.3 percentage point

(Note): In RMB terms, segment revenue increased by 28%. In terms of organic growth, segment revenue in RMB terms increased by 6%, while sales volume recorded an increase of 8%.

Since the takeover of the newly acquired bottling plants by CCBL on 1 April 2017, the revenue of the newly acquired bottling plants recorded an increase of 10% on a year-on-year basis. The profitability of the original bottling plants owned by CCBL continued to grow at a steady pace, with growth in sales volume, sales revenue, profit before tax and other key profitability indicators all beating those recorded at the same period of 2016.

In the reporting terms, the overall sales volume for beverage products increased by 32%, while in terms of organic growth, the overall sales volume increased by 8%. The sparkling category continued to achieve steady growth in sales volume by launching multi-pack, new flavor and sugar-free series products, and the juice category fully restored growth momentum through product and packaging upgrade, while the packaged water category commenced the launching and sale of the new product "Chun Yue" at a price point of RMB2 per bottle. In the first quarter of 2017, given the greater efforts by our competitors in making promotions and expanding sale channels, our unit selling price slightly decreased as compared with the same period last year to increase our competitiveness and achieve an increase in our market shares. In the second quarter, both the price and product mix steadily improved.

In respect of cost control, while implementing centralized control over the procurement of key materials, we strived to optimize the production processes of the bottling plants, so as to create cost synergies, improve the flow of operation and increase productivity, with a slight increase of 0.3 percentage point in the overall gross profit margin.

In respect of expense control, spending on marketing increased in response to rising market competition in 2017. By continued enhancement of promotional efficiency and refined management of key expense items, CCBL implemented strict budget control over total expenses, in an effort to effectively control increase in marketing and other expenses for the first year after the completion of the Refranchising Transactions.

Besides, during the period, the Disposals (other than the Shen-Mei Disposal) were completed on 1 April 2017, recording one-off significant gain on the Disposals of approximately HK$1,760.4 million in aggregate.

Outlook

In the second half of 2017, the sales volume and revenue are expected to maintain stable growth. However, given the integration in the first year following the Acquisitions, intensified market competitions and additional costs for the promotion of new products, we will expect these factors to put downward pressure on the selling expense ratio. Gross profit margins, however, are expected to benefit from stable prices of key packaging materials, continued improvement in packaging mix of CCBL, and the launching and sale of new products. Furthermore, affected by the loan financing for the Refranchising Transactions, the finance costs for the second half of the year will be increased. Overall speaking, the profitability of CCBL is expected to remain stable.

WINE BUSINESS

Business Introduction

- Domestic wine business is based on the famous "Greatwall" brand, which has a fine tradition and has long been a leader in the China wine market. Due to the popularity of the brand and the high quality of its products, "Greatwall" wine is the top pick for state banquets.

- The "Greatwall" brand covers a variety of wines which include Cabernet Sauvignon, Merlot, Pinot Noir, Cabernet Franc, Shiraz for red wines; and Chardonnay, Riesling, Sauvignon Blanc for white wines. In addition, brandies and sparkling wines are also produced.

- "Greatwall" wines offer single varietal wines and blended wines using 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. The domestic wine business has seven production plants and wineries in China, including Shacheng Wine Plant, Huaxia Wine Plant, Zhuolu Wine Plant and Chateau Sungod in Hebei, Yantai Wine Plant in Shandong, Xinjiang Wine Plant and Chateau YunMo in Ningxia.

- To cope with competition from imported wine, the Group is developing an imported wines platform, COFCO Wines & Wines (中糧名莊薈), for the import of value-added wines into the PRC market by way of trade agency. Meanwhile, it also owns and operates the Société du Château de Viaud SAS at Bordeaux in France.

Development Strategy

In order to enhance the competitiveness of the "Greatwall" brand, and to achieve the transition of our business into the brand-driven mode, our focus is to reposition "Greatwall" as a mid-to high-end quality wine icon in China. Our core strategies are described as follows:

- **Product focus:** to focus on developing strategic products for "Greatwall Five Stars" that will attract consumers to upgrade to higher quality wines, and continue to streamline our product types to shift our focus on mid-to high-end products.

- **Brand building:** to focus on "Greatwall Five Stars" with ongoing brand promotion; to underscore Greatwall's national wine status by enhancing recognition of the national wine by consumers; to promote experiential marketing and direct communication with consumers.

- **Distribution network:** to streamline the distribution system of "Greatwall" by focusing on the major markets and replicating the success in regions with larger market share of "Greatwall" to enhance our channel penetration; to strengthen customer management by promoting integrated management of major customers and distributors; to implement stringent control over market price points to build a favorable market environment; to develop core consumer base to effectively improve inventory turnover at points of sale.

- **Supply chain management:** to optimize production footprint, strengthen cost control over supply chain and promote benchmarking of key supply chain processes, so as to improve supply chain efficiency, with an objective to lower cost and enhance efficiency.

As to the imported wine business, the Group focused on selecting famous wine brands in the major wine export countries in the world and quality wine suppliers to build a good cooperation relationship. The Group also stepped up efforts to develop new customers and build a sales network covering all the provinces and regions across the country, and cooperated with our customers to build a sales network with a focus on the "Wines & Wines" specialty stores at sales terminals, so as to boost sales growth. The Group made efforts to optimize the management system and improve the quality of business development, with an aim to improve the operational efficiency and return of the self-owned Société du Château de Viaud SAS in France.

Industry Overview

The market size of the PRC wine industry, including domestic wines and imported wines, is expected to remain a single-digit annual growth rate over the next three to five years. Although the current wine market in China is mainly dominated by domestic wines, imported wine consumption keeps increasing rapidly, with increasing brand awareness, which has an ongoing impact on the domestic wines and intensifies the market competition with the domestic wine players.

2017 Interim Results

A comparison of the 2017 interim results with those of the comparative period of 2016 for the wine business segment is summarized below:

(In HK dollar reporting term)	**For the six months ended 30 June 2017** ***(HK$' million)***	For the six months ended 30 June 2016 *(HK$' million)*	**Changes** *(Note)*
Revenue	**1,381.2**	1,285.2	+7.5%

(Note): In RMB terms, segment revenue grew by 12%.

During the period, the wine business segment recorded sales revenue increase in RMB term, which was mainly due to the growth of the imported wine business. During the period, the repositioning exercise for the "Greatwall" brand has been executed as scheduled and is beginning to take effect. Consequently, we focused on the optimization of our product mix, together with raising ex-factory prices, scaling down the sales of low-end SKU with low profit margin and rigorously promoting mid-to high-end products, leading to an increase of 2.1 percentage points in the overall gross profit margin for the "Greatwall" wine. Nevertheless, given the sales revenue from the low-end products significantly decreasing by 22.9%, the overall sales revenue in RMB term of the "Greatwall" wine decreased by 8%. Furthermore, due to the growth of the imported wine business and the increased sales contributions from our imported wine, which had a relatively lower gross profit margin than the "Greatwall" wine, the segment's overall gross profit margin decreased.

During the period, in order to underscore the new status of the "Greatwall" brand, "Greatwall wine for national celebrations" promotions were held during important national events to emphasize "Greatwall"'s credibility as "the designated wine for serving at state banquets". Meanwhile, we continued to increase "Greatwall" brand's online advertising investment, with an aim to enhance the brand's popularity and reputation. As a result, marketing expenses increased by approximately RMB41 million.

With the entering into of the above agreement regarding the Fortune Food Sales & Distribution Disposal Transaction, coupled with the decision to have the "Others" operating segment progressively terminated in 2017, most of the expected unallocated expenses of the Group in the future will be directly attributable to the wine business segment.

After careful consideration of the low growth and fierce competition of the domestic wine industry, the management was of the opinion that assessment should be conducted for the recoverable value of certain assets categorized into the wine business segment. As a result, an impairment of goodwill in the amount of approximately HK$479 million was recognized for the period.

Outlook

In the second half of 2017, we expect the development of the domestic wine industry will continue to face challenges with low growth and fierce competition, implying greater challenges ahead of our domestic wine business. We will continue to reposition "Greatwall" as a mid-to high-end wine brand. To this end, we will increase spending in advertising and marketing, continue to launch promotions during important national events, with focus on "Greatwall Five Stars" strategic products, and streamline our product types for the continuous optimization of our product mix. We will also further improve our distribution systems by deepening channel penetration, further cooperate with distributors by employing resources on promotional activities at points of sale so as to improve inventory turnover, and to enhance quality and efficiency in the supply chain by benchmarking. While continuing the scale up of imported wine business, we will focus on optimizing product mix to improve the gross profit margin and optimizing our business mode to improve our profitability. With such initiatives, we will strive for the improvement in results of our wine business.

KITCHEN FOOD BUSINESS

Business Introduction

The Kitchen Food business covers the sale, distribution and marketing of edible oil which is the principal product category, as well as the sale, distribution and marketing of sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals. “Fortune” brand is a well-known 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 for the Kitchen Food business is to maintain its position as one of the leading companies in the industry. To this end, we will pursue the following strategies:

- Strengthen the promotion of the core values of the “Fortune” brand and improve the sales network for all products under the brand;

- Conduct product research and development to respond effectively to changes in consumer preferences, develop products that meet consumer preferences, with various characteristics;

- Conduct channel upgrades according to the current status and development trend of channels, enhance channel management to seize opportunities in the fast growing new channels;

- Enhance the supply chain system and save operation costs;

- Continue to explore new business models to drive sales growth.

Industry Overview

During the period, the overall growth of the volume of sales of packaged edible oil has slackened, but prices remained stable. Corn oil recorded a slower pace of growth as the product has reached its maturity stage. Among the healthy oil products, sunflower seed oil has replaced corn oil to become the growth driver. Meanwhile, more tasty products such as rapeseed oil and peanut oil have grown at a rapid pace. After years of declines, blended oil has staged a mild recovery while soybean oil continued to decline. Consumers tend to prefer a wider variety of nutritious and tasty oils, with increasing demands for products with unique aroma.

2017 Interim Results

A comparison of the 2017 interim results with those for the comparative period of 2016 for the Kitchen Food business segment is summarized below:

(In HK dollar reporting term)	For the six months ended 30 June 2017 (HK$' million)	For the six months ended 30 June 2016 (HK$' million)	Changes (Note)
Revenue	**6,645.6**	6,987.2	-4.9%

(Note): In RMB terms, segment revenue remained basically stable.

Overall sales volume of the Kitchen Food business segment decreased by 4.3%.

Despite the ongoing intensified market competition, the Kitchen Food business continued to improve supply chain system and enhance supply chain efficiency, so that operating results remained steady. The year-on-year decline in segment results during the period is mainly due to the independent operation of Fortune Foods Sales & Distribution during the period which accounted for all directly attributable expenses of Kitchen Food business, whereas the comparative results last year excluded certain allocation of operating expenses of headquarter level. In addition, during the first half of 2017, COFCO Food Sales & Distribution Co., Ltd. made certain impairment of approximately HK$28 million in relation to long-aged prepayments and receivables (more than 5 years), which was one-off non-recurring in nature.

FINANCIAL REVIEW

CONTINUING OPERATIONS

REVENUE

(reported in HKD terms)	**For the six months ended 30 June 2017** *(HK$' million)*	**As percentage of total revenue** *%*	For the six months ended 30 June 2016 *(HK$' million)*	As percentage of total revenue *%*
Beverage segment	**7,568.1**	**48.4**	6,156.5	42.2
Wine segment	**1,381.2**	**8.9**	1,285.2	8.8
Kitchen food segment	**6,645.6**	**42.5**	6,987.2	47.9
Others segment	**33.3**	**0.2**	161.7	1.1
Total	**15,628.2**	**100**	14,590.6	100

Revenue from continuing operations of the Group grew by 7.1% in HKD terms, whereas the amount in RMB terms, increased by 11.5%. Revenue growth in RMB terms is mainly attributable to the increase in revenue of the Beverage business segment, with the contributions by the newly acquired bottling plants, which was partially offset by the decrease in revenue from the kitchen food business that will be disposed upon completion.

GROSS PROFIT MARGIN

The overall gross profit margin from continuing operations increased mainly due to increase in revenue contribution of beverage segment (with higher margin), while the contribution of kitchen food segment dropped (with lower margin).

OTHER INCOME AND GAINS

One-off gains on disposal of certain subsidiaries, associates and an available-for-sale investment of approximately HK$1,760.4 million in aggregate were recorded, in relation to the disposals of equity interests in certain bottling plants.

The disposal of a discontinued operation was successfully completed on 31 May 2016. One-off gain on disposal of subsidiaries (attributable to a discontinued operation) was recorded in the corresponding interim results for 2016.

SELLING AND DISTRIBUTION EXPENSES/ADMINISTRATIVE EXPENSES

Aggregated amount of selling and distribution expenses and administrative expenses from continuing operations was HK$3,520.7 million, grew by HK$417.8 million or 13.5%, mainly due to the acquisition of the newly acquired bottling plants of beverage business, together with additional spending in advertising, brand promotion and marketing expenses as a result of intensifying market competition of continuing operating businesses, under management's ongoing efforts to optimize supply chain management, enhance promotional efficiency and control expenses.

OTHER EXPENSES AND LOSSES

One-off impairment of goodwill of wine segment in the amount of approximately HK$479 million and certain impairment of receivables were recorded during the period.

FINANCE COSTS

Finance costs were HK$41.7 million, an increase of 92.8%, mainly due to the debt financing for the acquisition of newly acquired bottling plants of beverage business.

SHARE OF PROFITS OF ASSOCIATES

Share of profits of associates were comparable to the corresponding interim results for 2016.

INCOME TAX EXPENSES

Income tax expense was HK$607 million, an increase of 213%, included the relevant tax of the gain on disposal of certain subsidiaries, associates and an available-for-sale investment, in relation to the disposals of equity interests in certain bottling plants

LIQUIDITY AND FINANCIAL RESOURCES

The Company's treasury function operates as a centralized service for:

- Reallocating financial resources within the Group;
- Procuring cost-efficient funding;
- Managing financial risks, including interest rate and foreign exchange rate risks; 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. Cash pooling is applied in mainland China for more efficient utilization of cash. Also, the treasury function formulated financial risk management procedures, which are subject to periodic review by the senior management of the Company.

During the period, EBITDA from continuing operations grew by HK$115.5 million to HK$883.6 million, mainly attributable to the improvement in EBITDA of beverage business driven by the newly acquired bottlers, as well as the improvement in EBITDA of non-beverage business, with significant expense controls.

In the condensed consolidated statement of financial position as at 30 June 2017, the Group's unpledged cash and cash equivalents totalled approximately HK$1,293 million (31 December 2016: approximately HK$1,120 million). Net current liabilities were approximately HK$1,121 million (31 December 2016: net current assets of approximately HK$1,438 million), mainly related to the net current liabilities of the newly acquired bottlers of beverage business and the reclassification of certain bank borrowings of the Company from non-current liabilities to current liabilities according to maturity date during the period. Besides, beverage business segment assets of HK$958 million and segment liabilities of HK$329 million in relation to public sale equity transfer agreement of Refranchising Transactions which were classified as "assets of a disposal group classified as held for sale" and "liabilities directly associated with the assets of a disposal group classified as held for sale" respectively at 31 December 2016.

Having considered the (i) budgeted cash flow from operating activities from continuing operations, (ii) existing financial resources and gearing level of the Group, (iii) existing banking facilities available to the Group, and (iv) forseeable receipt of proceed from the Fortune Food Sales & Distribution Disposal Transaction, the management believes that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations, contracted capital expenditures as at 30 June 2017.

CAPITAL STRUCTURE

As at and for the six months ended 30 June 2017, the total number of issued shares of the Company remained unchanged at 2,797,223,396.

In the consolidated statement of financial position as at 30 June 2017, the Group had interest-bearing bank borrowings of approximately HK$4,225 million (31 December 2016: approximately HK$1,620 million).

Majority of bank borrowings in Mainland China were denominated in Renminbi, carried at annual fixed interest rate, ranging between 4.13% and 4.28%, while the rest were denominated in Hong Kong Dollars, carried at annual interest rates, floating in nature, ranging between 1.17% and 1.22% (31 December 2016: all of the Group's bank loans were denominated in Hong Kong Dollars, carried at annual interest rates, floating in nature, ranging between 0.92% and 1.75%).

As at 30 June 2017, the Group had other borrowings of approximately HK$26 million, carried at fixed, annual interest rate of 4.3% (31 December 2016: approximately HK$25 million, carried at fixed, annual interest rate of 4.3%).

Maturity profile of interest-bearing bank and other borrowings as at 30 June 2017, is analyzed as:

- HK$2,209 million borrowings repayable within one year or on demand;
- HK$2,016 million borrowings repayable in the second year; and
- HK$26 million borrowings repayable in the third year.

As at 30 June 2017, net assets attributable to owners of the parent were approximately HK$6,327 million (31 December 2016: approximately HK$5,461 million) and net borrowing position of the Group (interest-bearing bank and other borrowings less unpledged cash and cash equivalents) was approximately HK$2,958 million (31 December 2016: approximately HK$525 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 46.7% (31 December 2016: approximately 9.6%).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2017, the Group has no significant contingent liabilities nor assets pledged (other than certain bills payable) (31 December 2016: Nil).

FOREIGN EXCHANGE MANAGEMENT

Majority of monetary assets, monetary liabilities and transactions of the Group were principally denominated in Renminbi and recorded in the books of subsidiaries operating in mainland China (functional currency as Renminbi). In respect of interest-bearing borrowings as at 30 June 2017, approximately 60% were denominated in Renminbi and recorded in the books of the subsidiaries operating in mainland China, while the rest were denominated in Hong Kong dollar and recorded in the book of the Company (functional currency as Hong Kong dollars). For consolidated financial statements reporting of the Group (reporting currency as Hong Kong dollars), foreign exchange differences, arising from translation of financial statements of subsidiaries operating in Mainland China, are directly recognized in other comprehensive income and accumulated in the exchange fluctuation reserve.

Although the Group has not used any financial instruments for hedging purpose, the treasury function actively and closely monitors foreign exchange rate fluctuation, particularly the exchange rate of Renminbi to Hong Kong dollar. The foreign exchange risk exposure at the operational level is not significant.

Nevertheless, the currency mismatch by using Hong Kong dollar borrowings to finance assets and businesses denominated in Renminbi, exposes the Group to the risk of unexpected cash outflows for repayment of such borrowings by realization of assets denominated in Renminbi, if any.

During the period, the Group used Renminbi bank borrowings to finance the acquisition of certain bottling plants of Beverage business segment. The Group intends to gradually repay certain Hong Kong dollar borrowings.

HUMAN RESOURCES

As at 30 June 2017, the Group employed 24,421 staff in Mainland China and Hong Kong (31 December 2016: 14,015). 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 2016 Annual Report.

The Company's share option scheme (the "**Option Scheme**") was adopted on 21 November 2006 for a term of ten years for the purpose of rewarding eligible employees of the Group (including executive directors and non-executive directors of the Company) based on individual merits and the Option Scheme expired on 20 November 2016.

As at 1 January 2017, a total of 22,120,000 share options of the Company remained outstanding. During the interim period, a total of 940,000 share options lapsed. Accordingly, as at 30 June 2017, a total of 21,180,000 share options of the Company remained outstanding.

CHANGE IN THE STRUCTURE OF THE GROUP

During the period, COFCO Wines & Spirits International Holdings Limited, a wholly-owned subsidiary of the Company, set up a 60% owned joint-venture company in Tianjin named COFCO W&W International Co., Ltd., which is mainly engaged in sales and distribution of imported wines. COFCO Coca-Cola Beverages (China) Investment Limited, a 65% owned subsidiary of the Company, set up a wholly-owned subsidiary in Tianjin named Zhongke Enterprise Management (Tianjin) Limited, which is mainly engaged in enterprise management services.

In addition, COFCO Coca-Cola Beverages (China) Investment Limited has acquired all the equity interest in Swire Coca-Cola Beverages Shaanxi Limited, Coca-Cola (Chongqing) Beverages Ltd, Coca-Cola (Jilin) Beverages Ltd, Coca-Cola Liaoning (Central) Beverages Ltd and Coca-Cola (Heilongjiang) Beverages Ltd., 93.75% equity interest in Coca-Cola Liaoning (North) Beverages Ltd, 89.3% equity interest in Coca-Cola (Sichuan) Beverages Ltd, 75% equity interest in Coca-Cola (Shanxi) Beverages Ltd, and 60% equity interest in Coca-Cola Liaoning (South) Beverages Ltd.

During the period, CCBL has disposed all the equity interest in COFCO Coca-Cola Beverages (Jiangxi) Limited, Zhanjiang COFCO Coca-Cola Beverages Limited and Hainan COFCO Coca-Cola Beverages Limited, 20% equity interest in Swire Coca-Cola Beverages Jiangsu Limited, 20% equity interest in Swire Coca-Cola Beverages Zhejiang Limited, 19% equity interest in Swire Guangdong Coca-Cola Limited, 7.6% equity interest in Swire Guangdong Coca-Cola (Huizhou) Limited, and 7.15% equity interest in Swire Coca-Cola Beverages Wenzhou Limited.

Subsequent to the end of the period and on 1 July 2017, COFCO Beverages Limited, a wholly-owned subsidiary of the Company, completed the disposal of its 14% interests in The Coca-Cola Bottling Unit of Shanghai Shen-Mei Beverages and Food Co., Ltd.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the interim period (30 June 2016: HK1.2 cents per share).

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 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 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 2017 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, 29 August 2017

As at the date of this announcement, the Board comprises: Mr. Ma Jianping as the chairman of the Board and a non-executive director; Mr. Jiang Guojin, Ms. Luan Xiuju and Mr. Zhou Chenguang as executive directors; Mr. Qin Yelong and Ms. Xiao Jianping as non-executive directors; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Yuen Tin Fan, Francis as independent non-executive directors.