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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 2018

FINANCIAL HIGHLIGHTS

The following table shows the comparison of the interim results for the six months ended 30 June 2018 (the "**interim period**") of China Foods Limited (the "**Company**") and its subsidiaries (together the "**Group**") with the corresponding interim results for 2017:

	For the six months ended 30/6/2018 *(RMB million)*	For the six months ended 30/6/2017 *(RMB million)*	Changes
Continuing operation			
• **Revenue**	**8,697.8**	6,669.2	+30.4%
• **Gross profit margin**	**35.0%**	35.9%	-0.9ppt
• **Distribution and selling expenses margin**	**27.1%**	27.4%	-0.3ppt
• **Administrative expenses margin**	**2.5%**	4.1%	-1.6ppt
• **Adjusted EBIT***	**585.2**	394.4	+48.4%
• **Adjusted EBITDA^**	**836.8**	599.5	+39.6%

The Board did not declare the payment of an interim dividend for the interim period (six months ended 30 June 2017: Nil).

Adjusted EBIT* from the continuing operation represents:

	For the six months ended 30/6/2018 ***(RMB million)***	For the six months ended 30/6/2017 *(RMB million)*
Profit before tax from continuing operation	**576.8**	1,941.5
Reconciliation:		
Finance costs	**37.1**	36.5
Share of profits of associates	**(28.7)**	(23.3)
Gains on disposals of Public Sale Bottling Interests (Note i)	**–**	(1,560.3)
Adjusted EBIT*	**585.2**	394.4

Adjusted EBITDA^ from the continuing operation represents:

	For the six months ended 30/6/2018 ***(RMB million)***	For the six months ended 30/6/2017 *(RMB million)*
Adjusted EBIT*	**585.2**	394.4
Reconciliation:		
Provision against inventories	**4.0**	2.3
Depreciation of property, plant and equipment	**232.7**	196.2
Amortisation of prepaid lease payments	**9.6**	4.2
Gain on disposal of property, plant and equipment	**(4.2)**	–
Write-off of property, plant and equipment	**9.2**	2.3
Impairments loss of receivables	**0.3**	0.1
Adjusted EBITDA^	**836.8**	599.5

(Note i): One-off gains on disposal of certain subsidiaries, associates and an available-for-sale investment of approximately RMB1,560.3 million in aggregate (note 5 of financial information) were recorded in the corresponding interim results for 2017, 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 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 2018 have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2018

	NOTES	Six months ended 30/6/2018 RMB'000 (Unaudited)	30/6/2017 RMB'000 (Unaudited) (Restated)
Continuing operation			
Revenue	4	**8,697,780**	6,669,205
Cost of sales		**(5,650,173)**	(4,278,063)
Gross profit		**3,047,607**	2,391,142
Other income and gains	5	**129,666**	1,666,186
Distribution and selling expenses		**(2,361,234)**	(1,827,682)
Administrative expenses		**(215,393)**	(272,518)
Other expenses and losses		**(15,375)**	(2,385)
Finance costs	6	**(37,117)**	(36,541)
Share of profit of associates		**28,671**	23,291
Profit before tax from continuing operation		**576,825**	1,941,493
Income tax expense	7	**(128,501)**	(503,424)
Profit for the period from continuing operation		**448,324**	1,438,069
Discontinued operations			
Loss for the period from discontinued operations	8	**–**	(413,781)
Profit for the period	9	**448,324**	1,024,288
Profit for the period attributable to			
Owners of the Company		**252,359**	672,146
Non-controlling interests		**195,965**	352,142
		448,324	1,024,288
Earnings per share	11		
From continuing and discontinued operations			
Basic (cents)		**9.02**	24.03
Diluted (cents)		**N/A**	N/A
From continuing operation			
Basic (cents)		**9.02**	38.84
Diluted (cents)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Six months ended	
	30/6/2018	30/6/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Profit for the period	**448,324**	1,024,288
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive loss of an associate, net of related income tax	–	(929)
Other comprehensive expense for the period, net of tax	–	(929)
Total comprehensive income for the period	**448,324**	1,023,359
Total comprehensive income for the period attribute to:		
Owners of the Company	**252,359**	671,542
Non-controlling interests	**195,965**	351,817
	448,324	1,023,359

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	NOTE	30/6/2018 RMB'000 (Unaudited)	31/12/2017 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment		**4,641,762**	4,658,037
Investment properties		**20,100**	20,100
Prepaid lease payments		**538,532**	542,232
Prepayments for property, plant and equipment		**6,865**	7,389
Goodwill		**3,279,160**	3,279,160
Investments in associates		**737,031**	708,360
Deferred tax assets		**320,545**	271,495
		9,543,995	9,486,773
Current assets			
Inventories		**1,077,927**	1,292,430
Accounts and bills receivables	*12*	**644,364**	301,393
Prepayments, deposits and other receivables		**928,272**	977,172
Due from fellow subsidiaries		**34,734**	22,621
Due from the immediate holding company		**138**	138
Due from the ultimate holding company		**71**	71
Due from non-controlling shareholders of subsidiaries		**647**	5,081
Due from associates		**26,563**	9,305
Prepaid tax		**22,244**	25,146
Pledged deposits		**10,113**	6,424
Cash and cash equivalents		**486,724**	832,063
		3,231,797	3,471,844

	NOTE	30/6/2018 *RMB'000* (Unaudited)	31/12/2017 *RMB'000* (Restated)
Current liabilities			
Accounts and bills payables	*13*	**1,379,148**	1,112,940
Other payables and accruals		**2,298,778**	3,094,870
Contract liabilities		**309,762**	-
Borrowings		**780,000**	-
Due to fellow subsidiaries		**121,309**	89,507
Due to the ultimate holding company		**1,336**	1,336
Due to non-controlling shareholders of subsidiaries		**9,720**	17,974
Due to associates		**183,358**	120,065
Tax liabilities		**53,861**	492,089
		5,137,272	4,928,781
Net current liabilities		**(1,905,475)**	(1,456,937)
Total assets less current liabilities		**7,638,520**	8,029,836
Non-current liabilities			
Borrowings		**976,620**	1,756,620
Deferred income		**207,979**	210,106
Deferred tax liabilities		**62,869**	38,193
		1,247,468	2,004,919
Net assets		**6,391,052**	6,024,917
Capital and reserve			
Share capital		**293,201**	293,201
Share premium and reserves		**3,860,836**	3,663,305
Equity attributable to owners of the company		**4,154,037**	3,956,506
Non-controlling interests		**2,237,015**	2,068,411
Total equity		**6,391,052**	6,024,917

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. CORPORATE INFORMATION

China Foods Limited (the "**Company**") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is a subsidiary of China Foods (Holdings) Limited, a company incorporated in the British Virgin Islands. In the opinion of the directors of the Company, 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 2018, the Company and its subsidiaries (collectively referred to as the "**Group**") were involved in processing, bottling and distribution of sparkling beverage products, and distribution of still beverage products.

The primary economic environment for the Group entities is Mainland China. It is Renminbi ("**RMB**") that mostly influences the performance of the Group entities and the underlying transactions, events and conditions relevant to the Group entities. Accordingly, the functional currency of the Company has been changed from Hong Kong Dollar ("**HKD**") into RMB.

The presentation currency of the condensed consolidated financial statements is changed from HKD to RMB in the current year. Comparative figures have been re-presented in RMB.

2. BASIS OF PREPARATION

The condensed consolidated financial statement is prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The condensed consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of RMB1,905,475,000 at the end of the reporting period. In preparing these condensed consolidated financial statements, the directors have given careful consideration to the current and anticipated future liquidity of the Group. Taking into account, inter alia, (i) the unutilised loan facilities at the end of the reporting period, and (ii) the expected net cash inflows generated from the Group's operations for the next twelve months, 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 these condensed consolidated financial statements on a going concern basis is appropriate.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue and the related interpretations.

The Group recognises revenue from sale of beverage products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Variable consideration

For contracts that contain variable consideration (volume based rebates to customers), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Consideration payable to a customer

Consideration payable to a customer includes rebate for promotional activities at customers' location that the Company pays, or expects to pay, to the customer. Consideration payable to a customer also includes credit or other items that can be applied against amounts owed to the Company. The Group accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue as the payment is not exchange for distinct good or service that the customer transfers to the Group. The Group recognises such reduction of revenue when (or as) the later of either of the following events occurs: (a) the Group recognises revenue for the transfer of the related goods or services to the customer; and (b) the Group pays or promises to pay the consideration (even if the payment is conditional on a future event).

The following adjustment were made to the amounts recognised in the condensed consolidated statements of financial position at 1 January 2018. Line items were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31/12/2017	Reclassification	Carrying amounts under HKFRS 15 1/1/2018
		RMB'000	*RMB'000*	*RMB'000*
Other payables and accruals	*(a)*	3,094,870	(1,205,129)	1,889,741
Contract liabilities		–	1,205,129	1,205,129

Notes:

(a) Previously included in the other payables and accruals, RMB1,205,129,000 related to advance payment received from customer for purchase of the Group's products. This balance is reclassified to contract liabilities upon application of HKFRS 15.

The following table summaries the impacts of applying HKFRS15 on the Group's condensed consolidated statement of financial positions as at 30 June 2018 and the condensed consolidated statement of profit or loss for the six months period then ended for each of the line items affected. Line items that were not affected by the changes have not been included.

	Notes	As reported	Adjustment	Amounts without application of HKFRS 15
		RMB'000	*RMB'000*	*RMB'000*
Other payables and accruals	*(a)*	2,298,778	309,762	2,608,540
Contract liabilities		309,762	(309,762)	–
Revenue		8,697,780	53,280	8,751,060
Distribution and selling expenses	*(b)*	2,361,234	53,280	2,414,514

Notes:

(a) RMB309,762,000 related to advance payment received from customer for purchase of the Group's products was included in other payable and accruals. This balance is reclassified to contract liabilities upon application of HKFRS 15 in the condensed consolidated statement of financial position as at 30 June 2018.

(b) RMB53,280,000 related to promotion expense for promotion activities performed by the distributors was included in distribution and selling expenses under HKAS 18. This amount is reclassified to revenue upon application of HKFRS 15 in the condensed consolidated statement of profit or loss for the six months period ended 30 June 2018.

3.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts and bills receivables and other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The application of ECL model has no material impact on retained profits or other comprehensive income at 1 January 2018.

The application of HKFRS 9 has no material impact on the classification and measurement (including impairment) of financial assets and financial liabilities at 1 January 2018.

4A. REVENUE

Disaggregation of revenue

	For the six months ended 30/6/2018 Beverage *RMB'000* (Unaudited)
Types of goods	
Sparkling drinks	**5,753,971**
Water	**1,279,699**
Juices	**1,120,528**
Others	**543,582**
Total	**8,697,780**
Timing of revenue recognition	
A point in time	**8,697,780**

4B. OPERATING SEGMENT INFORMATION

After the wine segment, kitchen food segment and the others segment were disposed of during 2017, the Group's revenue and consolidated results are mainly derived from processing, bottling and distribution of sparkling and still beverages, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for the purpose of resource arrangement and performance assessment. Accordingly, no segment information is presented.

Geographical information

All revenue of the continuing operation of the Group is derived from customers operating in Mainland China and over 90% of the Group's non-current assets, other than deferred tax assets, are situated in Mainland China, hence no geographical information is presented in accordance with HKFRS 8 Operating Segments.

Information about major customers

During the current period, there was no revenue derived from a single customer which accounted for 10% or more of the Group's revenue (2017: Nil).

5. OTHER INCOME AND GAINS

	Six months ended	
	30/6/2018	30/6/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Continuing operation		
Other income		
Compensation income *(Note i)*	**52,933**	–
Subcontracting service	**26,565**	15,694
Government grants *(Note ii)*	**24,090**	30,110
Sale of by-products and scrap items	**5,920**	6,712
Bank interest income	**2,161**	5,724
Dividend income from available-for-sale investments	**–**	44,011
Others	**11,737**	3,617
	123,406	105,868
Gains		
Foreign exchange differences, net	**2,044**	–
Gain on disposal of property, plant and equipment	**4,216**	–
Gain on disposal of subsidiaries *(Note 15)*	**–**	805,367
Gain on disposal of the equity interests in associates	**–**	438,106
Gain on disposal of available-for-sale investments	**–**	316,845
	6,260	1,560,318
	129,666	1,666,186

Note i: Compensation income represents amount received from the holding company of non-controlling shareholder of a subsidiary of the Company for system related expenses incurred.

Note ii: 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.

6. FINANCE COSTS

	Six months ended	
	30/6/2018	30/6/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Continuing operation		
Interest on bank loans	**36,899**	36,059
Interest on loans from non-controlling shareholders of subsidiaries	**218**	482
	37,117	36,541

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 2017: 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.

	Six months ended	
	30/6/2018	30/6/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Continuing operation		
Current tax		
PRC enterprise income tax	**153,958**	540,053
Over provision in prior years		
PRC enterprise income tax	**(1,083)**	–
Deferred tax		
Current year	**(24,374)**	(36,629)
Total tax charge for the period	**128,501**	503,424

The share of tax attributable to associates amounting to RMB9,606,000 (six months ended 30 June 2017: RMB8,145,000) is included in "Share of profits of associates" in the condensed consolidated statement of profit or loss.

8. DISCONTINUED OPERATIONS

(1) Disposal of the kitchen food segment

On 25 May 2017, COFCO Food Sales & Distribution Co., Ltd., a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with COFCO Fortune Holdings Limited, a wholly-owned subsidiary of China Agri-Industries Holdings Limited ("**China Agri**"), a fellow subsidiary of the Company, pursuant to which the Company agreed to transfer its entire equity interest in COFCO Fortune Food Sales & Distribution Co., Ltd., a subsidiary of the Group's kitchen food segment for a total consideration of RMB1,050 million (the "**Transaction**"). The Transaction was completed in September 2017. The comparative figures in the condensed consolidated statement of profit or loss have been restated to re-present the kitchen food segment as a discontinued operation.

The profit for the six months ended 30 June 2017 from the discontinued kitchen food segment is set out below.

	Six months ended 30/6/2017 *RMB'000* (Unaudited)
Revenue	5,885,596
Cost of sales	(5,391,261)
Other income	3,752
Distribution and selling expenses	(466,545)
Administrative expenses	(7,973)
Other expenses and losses	(35)
Profit before tax	23,534
Income tax expense	(4,221)
Profit for the period	19,313

During the six months ended 30 June 2017, the kitchen food segment contributed RMB111,068,000 to the Group's net operating cash flows, RMB31,994,000 in respect of investing activities and nil in respect of financing activities.

(2) Disposal of the wine segment and the others segment

On 16 October 2017, the Company entered into an equity transfer agreement with China Foods (Holdings) Limited, the immediate holding company of the Company, pursuant to which the Company agreed to transfer its entire equity interest in COFCO Wines & Spirits Holdings Limited, COFCO Premier Brands Limited, Global Lander Limited and Superb Vision Limited, comprising of the wine segment and the others segment for a total consideration of RMB1,187 million (the "**Disposal**"), and the Company would receive payment of RMB3,107 million from China Foods (Holdings) Limited before the date of completion of the Disposal for the settlement of loans owned to the Company by the relevant members of those companies to be disposed of. The Disposal was completed in December 2017. The comparative figures in the condensed consolidated statement of profit or loss have been restated to re-present the wine segment and the others segment as discontinued operations.

The loss for the six months ended 30 June 2017 from the discontinued wine segment and the others segment is set out below.

	Six months ended 30/6/2017 *RMB'000* (Unaudited)
Revenue	1,217,120
Cost of sales	(661,862)
Other income	36,461
Distribution and selling expenses	(440,898)
Administrative expenses	(89,939)
Finance costs	(165)
Impairment of goodwill	(421,887)
Other expenses and losses	(44,657)
Loss before tax	(405,827)
Income tax expense	(27,267)
Loss for the period	(433,094)

During the six months ended 30 June 2017, the wine segment and the others segment incurred net operating cash outflows of RMB115,340,000, net investing cash outflows of RMB76,089,000 and contributed RMB36,000,000 in respect of financing activities.

9. PROFIT FOR THE PERIOD

Profit for the period from continuing operation has been arrived at after charging:

		Six months ended	
		30/6/2018	30/6/2017
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
			(Restated)
(a)	Cost of sales		
	Cost of inventories sold	**5,646,146**	4,275,778
	Provision against inventories	**4,027**	2,285
		5,650,173	4,278,063
(b)	Other items		
	Depreciation of property, plant and equipment	**232,668**	196,164
	Amortisation of prepaid lease payments	**9,573**	4,172
	Write-off of property, plant and equipment*	**9,241**	2,250
	Impairment loss of receivables*	**277**	73

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

10. DIVIDEND

During the current interim period, a final dividend of HK2.4 cents per share in respect of the year ended 31 December 2017 (2017: HK1.2 cents per share in respect of the year ended 31 December 2016) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to RMB54,828,000 (2017: RMB28,926,000).

11. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of basic earnings per share amount for the period ended 30 June 2018 is based on the profit for the period attributable to owner of the Company of RMB252,359,000 (six months ended 30 June 2017: RMB672,146,000), and the weighted average number of ordinary shares of 2,797,223,396 (six months ended 30 June 2017: 2,797,223,396) in issue during the period.

From continuing operation

The calculation of basic earnings per share from continuing operation for the period ended 30 June 2018 is based on the profit from continuing operation for the period attributable to owners of the Company of RMB252,359,000 (six months ended 30 June 2017: RMB1,086,303,000), and weighted average number of ordinary shares of 2,797,223,396 (six months ended 30 June 2017: 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 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.

12. ACCOUNTS AND BILLS RECEIVABLES

	30/6/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Restated)
Accounts and bills receivables	**645,082**	303,220
Allowance	**(718)**	(1,827)
	644,364	301,393

The Group gives credit term to key customers, while for other customers, payment in advance or payment on delivery is normally required. The Group seeks to maintain strict control over its outstanding receivables and every plant has credit control commissioner 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 allowance, is as follows:

	30/6/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Restated)
Within 6 months	**643,667**	152,382
6 to 12 months	**697**	148,998
1 to 2 years	**–**	13
	644,364	301,393

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

13. 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:

	30/6/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Restated)
Within 3 months	**1,210,880**	1,065,003
3 to 12 months	**121,401**	41,281
1 to 2 years	**42,977**	4,516
Over 2 years	**3,890**	2,140
	1,379,148	1,112,940

At 30 June 2018, certain of the Group's bills payable were secured by the Group's bank deposits amounting to RMB10,113,000 (31 December 2017: RMB6,424,000).

14. BUSINESS COMBINATION

On 17 November 2016, COFCO Coca-Cola Beverages Limited ("**CCBL**"), a 65%-owned subsidiary of the Company, entered into the non-public sale equity transfer master agreement with The Coca-Cola Company ("**KO**") and Swire Beverages Holdings Limited ("**Swire**") pursuant to which:

(i) KO procured 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, (collectively the "**CBL Companies**"), for an aggregate base consideration of RMB2,900,000,000; and

(ii) Swire procured 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;

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 the CBL companies 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:

	Fair value recognised on acquisition *RMB'000* (Restated)
Property, plant and equipment	2,685,174
Prepaid lease payments	131,110
Deferred tax assets	24,679
Inventories	436,356
Accounts receivable	532,582
Prepayments, deposits and other receivables	572,059
Cash and cash equivalents	424,938
Accounts payable	(909,621)
Other payables and accruals	(1,098,329)
Interest-bearing bank borrowings	(997,645)
Tax liabilities	(26,308)
Deferred income	(26,208)
Deferred tax liabilities	(9,018)
Total identifiable net assets at fair value	1,739,769
Non-controlling interests	(166,160)
	1,573,609
Goodwill on acquisition	1,973,560
	3,547,169
Satisfied by:	
Cash	3,547,169

The Group incurred transaction costs of RMB43,710,000 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:

	RMB'000 (Restated)
Cash consideration	(3,547,169)
Cash and bank balances acquired	424,938
Net outflow of cash and cash equivalents in respect of the acquisition	(3,122,231)

Since the acquisition, the CBL Companies and Coca-Cola Shaanxi contributed RMB1,516,355,000 to the Group's revenue and RMB17,584,000 to the profit of the condensed consolidated profit for the six months ended 30 June 2017.

Had the combination taken place at the beginning of the reporting period, the revenue and profit from continuing operation of the Group for the six months ended 30 June 2017 would have been RMB7,433,782,000 and RMB1,476,961,000, respectively.

15. DISPOSAL OF SUBSIDIARIES

The details of disposal subsidiaries during the six months ended 30 June 2017 are as follows.

	RMB'000 (Restated)
Net assets disposed of:	
Property, plant and equipment	282,823
Prepaid lease payments	30,782
Prepayments for property, plant and equipment	25
Goodwill	91,351
Deferred tax assets	8,723
Inventories	81,029
Accounts and bills receivables	21,428
Prepayments, deposits and other receivables	16,109
Due from fellow subsidiaries	2,621
Prepaid tax	2,960
Pledged deposits	2,399
Cash and cash equivalents	45,524
Accounts and bills payables	(132,915)
Other payables and accruals	(132,345)
Due to fellow subsidiaries	(74,375)
Due to associates	(6,101)
	240,038
Gain on disposal of subsidiaries	805,367
	1,045,405
Satisfied by	
Cash	1,045,405

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

	RMB'000 (Unaudited) (Restated)
Cash consideration	1,045,405
Cash and cash equivalents disposed of	(45,524)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	999,881

MANAGEMENT DISCUSSION AND ANALYSIS

Current status

In 2017, China Foods Limited ("**China Foods**") disposed of the consumer-pack edible oil and other kitchen food products businesses and then the wine and other non-beverage businesses. Currently, China Foods only focuses on its beverage business through its control and operation of COFCO Coca-Cola Beverages Limited ("**CCBL**"), which is Coca-Cola's fifth largest global bottling partner.

After completing the restructuring of Coca-Cola businesses in China in April 2017, the exclusive franchise right to manufacture, market and distribute products under the Coca-Cola series of the Company was expanded to a total of 19 provincial-level administrative regions. These include Heilongjiang, Jilin, Liaoning, Inner Mongolia, Hebei, Beijing, Tianjin, Shanxi, Shandong, Shaanxi, Gansu, Ningxia, Qinghai, Tibet, Xinjiang, Sichuan, Chongqing, Guizhou and Hunan, covering 81% of mainland China's territory and 51% of its population. The Company provides consumers with nine major types of beverages, namely sparkling drinks, juices, milk drinks, water, enhanced water, coffee, ready-to-drink tea, energy drinks and plant-based protein drinks, under 18 brands.

As of June 2018, we have more than 10 thousands salespeople serving millions customers. Our marketing network has reached 100% of the cities, 100% of the counties and over 60% towns within our operating regions, representing more than half of all retail points in the region. The sales of controllable distribution accounted for majority of total sales.

Development strategy

As the only focused beverage business within the COFCO group, and following The Coca-Cola Company's strategy for the development of a total beverage business with "Quality Improvement and Efficiency Enhancement, Achieving Innovation and Win-win Results", in 2018 China Foods will follow the industrial development trend of meeting consumer demand, boosting market status and shareholder returns, and striving to become a world-class bottler. Specific strategies are as follows:

- **Quality system:** Demonstrate a firm commitment to food safety, quality, and full compliance with quality standards required by the government, COFCO and The Coca-Cola Company. Implement a tracking system and enhancement mechanism to become a safe and environmental-friendly enterprise.

- **Product structure:** Continue to optimise and diversify the product structure to offer appealing, high quality beverages that bring consumers enjoyment, refreshment, health and energy.

- **Sales and distribution network:** Provide sustainable and stable high-quality customer services in its operating regions, with the most extensive geographical coverage to support the growing number of customers and their robust business activities, so as to maintain high growth in sales revenue. Meanwhile continue to improve the distribution efficiency and reduce the distribution cost of each unit case; constantly improve the productivity and adaptability of the network; and expand new sales channels based on consumption trends and retail industry developments.

- **Best benefits:** Maintain the Group's continuing profit growth by achieving higher than average growth for the system; continuously increase the net cash flows generated from operating and investment activities, exceeding the system's average profit growth and return on equity, and create returns for society via tax contributions, employment opportunities and charitable activities; share the enterprise's success with employees through the simultaneous realisation of individual value and enterprise development.

- **Team building:** Employees are integrated into a highly efficient, interactive team under a corporate culture that stresses honesty, dedicated professionalism, professional development, innovation and responsibility, and are recognised and appreciated by other bottlers in the system, the industry, our business partners and shareholders and gained their respect.

Industrial environment

Based on the statistics from the National Bureau of Statistics of the PRC, China's GDP achieved a year-on-year growth of 6.8% in the first half of 2018. The national economy was stable on the whole.

With the economy's stable development and the growth and upgrading of consumer demand, the sales volume of non-alcoholic ready-to-drink industry accelerated to high single digit in the first half of 2018 compared to the same period last year driven by Sparkling and emerging categories.

According to data released by Nielsen, China Foods maintained its leading position in the industry and the regions in which it operates. The total sales volume and market share by value of sparkling drinks, juices, bottled water, milk drinks and enhanced water reached 24.3% and 21% respectively. Sparkling drinks and juices continued to maintain a leading position with a year-on-year growth of 31% and 10% in sales volume.

REVIEW OF RESULTS

Below is a summary comparison of the beverage business's 2018 and 2017 interim results:

	For the six months ended 30/6/2018 ***(RMB million)***	For the six months ended 30/6/2017 *(RMB million)*	Change
Revenue	**8,697.8**	6,669.2	+30.4%
Sales volume growth rate			+26.7%
Percentage point decrease of gross profit margin			-0.9 ppt

In the first half of 2018, China Foods achieved growth of 26.7% in sales volume and 30.4% in revenue compared with the same period last year, with revenue growth surpassing sales volume growth. The gross profit margin declined by 0.9 percentage point due to the rise in the cost of bulk raw materials. With the gradual gains in efficiency from the business integration following the merger and acquisitions, and restructuring, the profit margin before tax of newly acquired bottlers improved significantly. China Foods' beverage business has maintained a solid pace of development in terms of the total volume and structure with significant synergistic effect from the regional consolidation.

China Foods tightly controls various fees and expenses with an effective budget management system. In the first half of 2018, the overall expense ratio decreased by 1.99 percentage points, or 0.94 of a percentage point in organic terms. Meanwhile, the Company focused on management of capital expenditures and operating cash flow to gradually reduce finance costs. The operating profit margin was higher than that of the same period last year.

Business development by beverage category was as follows:

Sparkling drinks

While maintaining the stable development of its core brands, China Foods also promoted new products with a higher gross profit, which brought sustainable development opportunities for sparkling drinks. Among the core brands, Coca-Cola has led the market with the launch of summer promotion campaigns from “Nickname Bottle”, “Lyric Bottle”, “Lines Bottle”, “Code Bottle” to “Bracelet Bottle” in 2018. With these campaigns, Coca-Cola closely followed current hotspots in beverage consumption and at the fashionable trend. Sprite’s collaboration with the popular “King of Glory” mobile game and The Avengers movie of Marvel included the depiction of game and movie characters on product packaging, increasing its appeal among younger consumers. To meet consumer health trends, we upgraded product packaging and introduced sleek can products and improved the proportion of sugar-free series products in the sparkling category. Building on the success of “Coca-Cola Zero” and “Sprite Zero”, we introduced “Sprite Fiber +”, which has maintained a high reorder rate since its debut in March. The sales volume of sugar-free series products increased 84% year-on-year in the first half of 2018.

In the first half of 2018, the market share by value for sparkling products in our operating regions increased by 0.2 of a percentage point.

Juices

The Company continued to strengthen the distribution of new-generation Flower series products. It initiated the Spy Bottle campaign in 2018 and held themed roadshows with free drinks for consumers, thus significantly increasing the frequency of product consumption. Through sponsorship of the “Ultimate Challenge”, a popular TV variety show, and cooperation with popular IP dramas, the Company enhanced audience recognition of its “Minute Maid Triple Fruit and Flower” series products and influenced consumer preferences. For retail execution, the Company increased the number of customers for the display of juice rainbow and reinforced the promotion of juice products through catering channels to further encourage the purchasing pattern of consumers.

Water

Leveraging on market demand for water products, and separate from the Ice Dew positioned at the RMB1 water market, the Company launched Chun Yue water at the RMB2 price point and explored domestic and overseas source water in order to enter the medium-and high-end water industry. We introduced the new “Chun Yue Shenxian Water” in June 2018 in original, lime and cucumber flavors. Containing no sugar or calories, these products can provide 28% of the recommended daily dietary fiber intake for adults, and satisfy the demands of newly dominant consumer groups in cities.

Energy drinks

"Monster (魔爪) energy drink" was launched across our operating regions in 2017. Precisely targeted marketing helped the product achieve a steady rate of development. On 1 June 2018 Monster initiated an award-winning national uncapping campaign that will run to the end of the year. Monster was also integrated as a prop in the popular Player Unknown's Battlegrounds game. The Company used the same theme for in-store displays and promotions to consolidate online and offline marketing. Finally, Monster enhanced its cooperation with petrol stations and gymnasiums to increase its distribution through special target channels.

Ready-to-drink teas

In May 2018, the Company introduced "Yo! Tea", a western tea drink in fruit flavors including black tea with iced kumquat, black tea with blended berry, and green tea with apple and kiwi. Each is available in 480ml plastic bottles and 480ml cans. The product package design integrates fashion elements and conducts deep interaction with consumers through the three different hand gestures. It also incorporates short videos, close-ups and other interactions through multimedia in its marketing campaign to emphasize the products' hip-hop style for young consumers.

Coffee drinks

In May 2018, GEORGIA launched two new products, the rich aroma American coffee and mellow latte flavor. With improved formula, the products brought new tastes to consumers who are further attracted by the unique high-end coffee cup packaging. As of June, their sales volume is better than expected.

Outlook

In the second half of 2018, China's economy and beverage industry are expected to maintain stable growth. Despite the cost pressures arising from the rising costs of raw materials, the benefits of regional integration and scale derived from platform upgrading will continue to increase. China Foods will continue to upgrade its products and promote the launch of new products such as "Cola Fiber +", "Fanta Zero" and high-end source water. While promoting sales volume and revenue growth, the Company will further enhance its management of costs and fees to guarantee a stable gross profit margin and operating profit margin.

FINANCIAL REVIEW

The primary economic environment for the Group entities is Mainland China. It is Renminbi ("**RMB**") that mostly influences the performance of the Group entities and the underlying transactions, events and conditions relevant to the Group entities. Accordingly, the functional currency of the Company has been changed from Hong Kong Dollar ("**HKD**") into RMB.

The presentation currency of the condensed consolidated financial statements is changed from HKD to RMB in the current year, comparative figures have been re-presented in RMB.

REVENUE

Sales volume growth amounted to 26.7% while revenue growth reached 30.4%, mainly attributable to the stable results from existing bottling plants, together with the contribution of newly acquired bottling plants after the refranchising project completed in April 2017.

GROSS PROFIT MARGIN

The overall gross profit margin from continuing operation decreased by 0.9 percentage point mainly due to the market competition and continued rise in the price of international commodities and raw material prices (apart from sugar), though we lowered manufacturing costs per unit by leveraging on the advantages from the use of new equipment for production and strengthening the vertical integration of the supply chain.

OTHER INCOME AND GAINS

One-off gains on disposal of certain subsidiaries, equity interests in associates and available-for-sale investment of approximately RMB1,560 million in aggregate were recorded in first half year of 2017, which was in relation to the disposals of equity interests in certain bottling plants in the refranchising project. No material change in other income and gains after excluding the one-off gains mention above.

SELLING AND DISTRIBUTION EXPENSES RATIO/ADMINISTRATIVE EXPENSES RATIO

Distribution and selling expenses ratio of continuing operations dropped slightly 0.3 percentage point, was mainly attributable to the improved efficiencies brought by supply chain optimization through regional integration.

Significant one-off professional fees related to the refranchising project were recorded in the corresponding interim results for 2017. The administrative expenses ratio of continuing operations decreased by 1.6 percentage points was mainly due to the decrease in professional fees and gradual gains in efficiency from the business integration in current period.

FINANCE COSTS

Finance costs were comparable to the corresponding interim results for 2017.

INCOME TAX EXPENSES

Significant income tax expense related the gain on disposal of certain subsidiaries, equity interests in associates and available-for-sale investments of the beverage business as part of the refranchising project was recorded in the corresponding interim results for 2017. Income tax expenses increased in line with profit without considering the above mentioned impact.

LIQUIDITY AND FINANCIAL RESOURCES

The Company's treasury function operates as a centralised 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, reviews its funding costs and maturity profiles to facilitate timely refinancing. Cash pooling is applied in Mainland China for more efficient utilisation of cash. Also, the treasury function formulated financial risk management procedures, which are subject to periodic review by the senior management of the Company.

In the consolidated statement of financial position as at 30 June 2018, the Group's unpledged cash and cash equivalents totaled approximately RMB487 million (31 December 2017: approximately RMB832 million). Net current liabilities were approximately RMB1,905 million (31 December 2017: approximately RMB1,457 million).

Having considered the (i) forecast cash flow from operating activities of continuing operation, (ii) existing financial resources and gearing level of the Group, and (iii) existing banking facilities available to the Group, the directors believe that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations, contracted capital expenditures as at 30 June 2018.

CAPITAL STRUCTURE

As at and for the six months period ended 30 June 2018, the total number of issued shares of the Company remained unchanged at 2,797,223,396. In the condensed consolidated statement of financial position as at 30 June 2018, the Group had interest-bearing bank borrowings of approximately RMB1,757 million (31 December 2017: approximately RMB1,757 million).

As at 30 June 2018 and 31 December 2017, all bank and other borrowings were denominated in Renminbi, carried at annual interest rate, floating in nature, at the rate of 4.28% and will be repayable on or before 2020.

As at 30 June 2018, net assets attributable to owners of the parent were approximately RMB4,154 million (31 December 2017: approximately RMB3,957 million) and net borrowing position of the Group (interest-bearing bank and other borrowings less unpledged cash and cash equivalents) was approximately RMB1,270 million (31 December 2017: approximately RMB925 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 31% (31 December 2017: approximately 23%).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2018, the Group has no significant contingent liabilities nor assets pledged (other than certain bills payable) (31 December 2017: 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 2018, all interest-bearing borrowings were denominated in Renminbi and recorded in the books of the subsidiaries operating in Mainland China.

Although the Group has not used any financial instruments for hedging purposes, the treasury function actively and closely monitors foreign exchange rate risk exposure. The foreign exchange risk exposure is not significant.

HUMAN RESOURCES

As at 30 June 2018, the Group employed 19,686 staff in Mainland China and Hong Kong (31 December 2017: 20,293). 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 2017 Annual Report.

The share option scheme adopted by the Company on 21 November 2006 (the "**Share Option Scheme**") expired on 20 November 2016. Currently, the Company has not adopt any new share option scheme. The last batch of share options was granted on 29 March 2011 pursuant to the terms of the Share Option Scheme and the last exercise day of all outstanding options was on 28 March 2018. On 30 September 2017, all share option holders have confirmed in writing that all their vested options had lapsed and there is no outstanding share option accordingly.

CHANGE IN THE STRUCTURE OF THE GROUP

In February 2018, COFCO Coca-Cola Huazhong Beverages Limited and Hunan COFCO Coca-Cola Beverages Company Limited, two indirect wholly-owned subsidiaries of CCBL, completed the merger by absorption. After the merger, COFCO Coca-Cola Huazhong Beverages Limited took over all the assets and liabilities of Hunan COFCO Coca-Cola Beverages Company Limited, and its registered capital increased from RMB78,000,000 to RMB144,400,000. In addition, Hunan COFCO Coca-Cola Beverages Company Limited has also completed the cancellation of registration.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the interim period (30 June 2017: 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 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 condensed consolidated financial statements as at and for the six months period ended 30 June 2018 have been reviewed by the Group's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, and the Audit Committee.

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 2018 interim report of the Company will be published on the above websites and dispatched to shareholders of the Company in due course.

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

Hong Kong, 28 August 2018

As at the date of this announcement, the Board comprises: Mr. Ma Jianping as the chairman of the Board and a non-executive director; Ms. Luan Xiuju and Mr. Shen Peng as executive directors; Mr. Qin Yelong and Ms. Xiao Jianping as non-executive directors; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Mok Wai Bun, Ben as independent non-executive directors.