

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CHINA FOODS LIMITED
中國食品有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

FINANCIAL HIGHLIGHTS

The following table shows the comparison of the final results for the year ended 31 December 2021 (the “year”) of China Foods Limited (the “Company” or “China Foods”) and its subsidiaries (together the “Group”) with the corresponding results for 2020:

	For the year ended 31 December 2021 (RMB million)	For the year ended 31 December 2020 (RMB million)	Changes
● Revenue	19,784	17,249	+14.7%
● Gross profit margin	35.7%	39.6%	-3.9ppt
● Adjusted EBIT*	1,397.9	1,242.7	+12.5%
● Adjusted EBITDA^	1,990.7	1,789.3	+11.3%

The board of directors (the “Board”) of the Company has resolved to recommend to shareholders the payment of final dividend of RMB0.102, equivalent to HK12.5 cents for the year (2020: RMB0.089, equivalent to HK10.6 cents).

Adjusted EBIT* represents:

	For the year ended 31 December 2021 (RMB million)	For the year ended 31 December 2020 (RMB million)
Profit before income tax	1,422.9	1,253.2
Reconciliation:		
Finance costs	4.4	25.1
Share of net profit of associates accounted for using the equity method	(29.4)	(35.6)
Adjusted EBIT*	1,397.9	1,242.7

Adjusted EBITDA^ represents:

	For the year ended 31 December 2021 (RMB million)	For the year ended 31 December 2020 (RMB million)
Adjusted EBIT*	1,397.9	1,242.7
Reconciliation:		
(Reversal of)/provision for impairment of inventories	(7.4)	30.4
Depreciation of property, plant and equipment	530.6	546.1
Depreciation of right-of-use assets	63.1	59.2
Amortisation of intangible assets	6.5	0.5
Incentive income	-	(89.6)
Adjusted EBITDA^	1,990.7	1,789.3

CONSOLIDATED RESULTS

The Board is pleased to announce the consolidated results of the Group as at and for the year, together with the comparative figures as at and for the year ended 31 December 2020 (the “financial information”). The financial information has been reviewed by the audit committee of the Company.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 RMB'000	2020 RMB'000
Revenue	3	19,784,422	17,249,138
Cost of sales	5	(12,723,534)	(10,423,563)
Gross profit		7,060,888	6,825,575
Distribution and selling expenses		(5,356,260)	(5,257,982)
Administrative expenses		(495,775)	(482,703)
Net impairment losses on financial assets		(2,300)	(2,884)
Other income and other gains-net	6	191,343	160,669
Operating profit		1,397,896	1,242,675
Finance costs	7	(4,488)	(25,059)
Share of net profit of associates accounted for using the equity method		29,447	35,602
Profit before income tax		1,422,855	1,253,218
Income tax expense	8	(348,172)	(299,955)
Profit for the year		1,074,683	953,263
Profit is attributable to:			
- Owners of the Company		572,415	498,734
- Non-controlling interests		502,268	454,529
		1,074,683	953,263
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share (RMB cents)	9	20.46	17.83
Diluted earnings per share (RMB cents)		20.46	17.83

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 RMB'000	2020 RMB'000
Profit for the year		1,074,683	953,263
Other comprehensive income		-	-
Total comprehensive income for the year		1,074,683	953,263
Total comprehensive income for the year attributable to:			
- Owners of the Company	9	572,415	498,734
- Non-controlling interests		502,268	454,529
		1,074,683	953,263

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021**

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment		5,061,110	4,972,941
Right-of-use assets		601,816	610,322
Intangible assets		3,530,039	3,508,511
Deferred income tax assets		262,028	412,072
Prepayments and other assets		51,352	2,888
Investments accounted for using the equity method		812,362	792,164
Total non-current assets		10,318,707	10,298,898
Current assets			
Inventories		1,933,314	1,834,340
Prepayments, deposits and other receivables		489,089	505,847
Trade receivables	10	327,746	305,674
Amounts due from related parties		383,963	168,476
Cash and cash equivalents		1,591,703	1,860,415
Pledged bank deposits		18,737	10,540
Prepaid tax		63,448	47,772
Financial assets at fair value through other comprehensive income		41,357	34,714
Assets classified as held for sale		-	43,516
Total current assets		4,849,357	4,811,294
Total assets		15,168,064	15,110,192

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2021

	Note	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Borrowings		-	20,000
Lease liabilities		42,409	52,914
Deferred income tax liabilities		38,984	190,883
Deferred income		229,042	215,560
Total non-current liabilities		310,435	479,357
Current liabilities			
Trade and bills payables	11	474,892	540,334
Amounts due to related parties		214,040	390,626
Contract liabilities		1,581,310	1,767,588
Current income tax liabilities		66,651	58,012
Lease liabilities		34,826	37,554
Other payables and accruals		4,096,615	3,757,501
Total current liabilities		6,468,334	6,551,615
Total liabilities		6,778,769	7,030,972
Net assets		8,389,295	8,079,220
Equity			
Share capital		293,201	293,201
Share premium and reserves		4,864,230	4,660,720
Equity attributable to owners of the Company		5,157,431	4,953,921
Non-controlling interests		3,231,864	3,125,299
Total equity		8,389,295	8,079,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate information

China Foods Limited 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 “Directors”), 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 year, 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 consolidated financial statements are presented in Renminbi (“RMB”), which is also the Company’s functional currency.

2 Basis of preparation

Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) and the disclosure requirements of the Hong Kong Companies Ordinance (HKCO) Cap. 622.

The consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of RMB 1,618,977,000 at the end of the reporting period. In preparing these 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 unutilized 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 consolidated financial statements on a going concern basis is appropriate.

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets – measured at fair value
- assets held for sale – measured at the lower of carrying amount and fair value less cost to sell

New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 -- amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Basis of preparation (Continued)

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions:

	Title	Effective Date
HKFRS 17	Insurance Contracts	1 January 2023 (deferred from 1 January 2021)
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS	Annual Improvements to HKFRS Standards 2018–2020 cycle	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023 (deferred from 1 January 2022)
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HK Int 5 (2020)	Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	N/A
Revised Accounting Guideline 5	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5)	1 January 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Revenue

Disaggregation of revenue from contracts with customers

	2021 RMB'000	2020 RMB'000
Types of goods		
Sparkling drinks	15,052,041	13,314,069
Juices	2,531,038	2,065,264
Water	1,485,875	1,300,738
Others	715,468	569,067
Total	19,784,422	17,249,138
Timing of revenue recognition		
A point in time	19,784,422	17,249,138

The Group sells sparkling and still beverage products to its customers, revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility on selling the goods and bears the risks of obsolescence and loss in relation to the goods. Payment in advance or payment on delivery is typically required from customers, except for certain customers granted with credit.

All of the Group's contracts for sale of goods are for periods of one year or less, as permitted under HKFRS 15 "Revenue from contracts with customers", the transaction price allocated to unsatisfied contracts is not disclosed.

4 Operating segment

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 operating segment in a manner consistent with the nature of the products and production process, the types of customers for their products, the methods used to distribute their products, and the nature of the regulatory environment. 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 the Group's non-current assets, other than deferred income tax assets, are primarily situated in Mainland China, hence no geographical information is presented in accordance with HKFRS 8 "Operating Segments".

Information about major customers

During the current year, there was no revenue derived from a single customer which accounted for 10% or more of the Group's revenue (2020: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	2021	2020
	RMB'000	RMB'000
(a) Cost of sales		
Cost of inventories sold	12,730,960	10,393,066
(Reversal of)/provision for impairment of inventories	(7,426)	30,497
	12,723,534	10,423,563
(b) Other items		
Depreciation of property, plant and equipment	530,649	546,101
Depreciation of right-of-use assets	63,091	59,211
Amortisation of intangible assets	6,486	461
Total depreciation and amortisation	600,226	605,773
Amounts capitalised in inventories	(38,120)	(33,523)
	562,106	572,250
Employee benefit expense, including directors' and chief executive's emoluments		
Wages, salaries and bonuses	2,189,248	2,009,430
Employer's contribution to a retirement benefit scheme (note)	267,306	124,583
Total	2,456,554	2,134,013
Advertising and promotion fee	1,490,574	1,774,605
Petrol and freight charges	846,332	716,841
Expenditure on power	307,433	282,977
Labor service expenditures	140,340	221,102
Auditor's remuneration	3,300	2,750
Impairment of property, plant and equipment	6,034	25,875
Net impairment losses on financial assets	2,300	2,884

Note: There were no forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) to offset existing contributions under the defined contribution schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Other income and other gains-net

An analysis of other income and other gains/(losses) is as follows:

	2021 RMB'000	2020 RMB'000
Other income		
Incentive income	-	89,635
Government grants (note)	95,154	65,171
Processing income	176,725	161,751
Processing cost	(145,179)	(138,343)
Income of sale of by-products and scrap items	22,045	38,635
Cost of sale of by-products and scrap items	(8,824)	(12,394)
Interest income	30,893	11,186
Others	31,804	37,553
	<u>202,618</u>	<u>253,194</u>
Other gains and losses		
Gains/(losses) on disposal of property, plant and equipment	2,780	(4,895)
Gains on disposal of assets classified as held for sales	13,420	-
Impairment of property, plant and equipment	(6,034)	(25,875)
Donations	-	(6,318)
Foreign exchange differences, net	1,964	(2,971)
Others	(23,405)	(52,466)
	<u>191,343</u>	<u>160,669</u>

Note : 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 in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

7 Finance costs

	2021 RMB'000	2020 RMB'000
Interest on bank borrowings	(148)	(20,192)
Interest on lease liabilities	(4,340)	(4,867)
	<u>(4,488)</u>	<u>(25,059)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 Income tax expense

	2021 RMB'000	2020 RMB'000
Current income tax on profits for the year	350,027	279,767
Deferred income tax (credit)/charge	(1,855)	20,188
Income tax expense	<u>348,172</u>	<u>299,955</u>

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable to the PRC subsidiaries is 25% for both years.

The tax charge for the year can be reconciled to the profit before income tax per consolidated statement of profit or loss as follows:

	2021		2020	
	RMB'000	% of PBT	RMB'000	% of PBT
Profit before income tax ("PBT")	<u>1,422,855</u>		<u>1,253,218</u>	
Tax at the statutory tax rates	355,714	25.0	313,304	25.0
Tax effect of share of profit of associates	(7,362)	(0.5)	(8,900)	(0.7)
Tax effect of utilisation of previously unrecognised temporary differences	(3,768)	(0.3)	(12,041)	(1.0)
Tax effect of expenses not deductible for tax purpose	3,536	0.3	3,790	0.3
Under provision in respect of the prior year	5,021	0.4	5,586	0.4
Utilisation of tax losses previously not recognised	(6,969)	(0.5)	(4,409)	(0.4)
Tax losses not recognised	2,000	0.1	2,625	0.2
Income tax expenses and effective tax rate for the year	<u>348,172</u>	<u>24.5</u>	<u>299,955</u>	<u>23.8</u>

The share of tax attributable to associates amounting to RMB 7,362,000 (2020: RMB 8,900,000) is included in "Share of net profit of associates accounted for using the equity method" in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Earnings per share

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2021	2020
Profit for the year attributable to owners of the Company (RMB'000)	<u>572,415</u>	<u>498,734</u>
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	<u>2,797,223,396</u>	<u>2,797,223,396</u>
Basic earnings per share (RMB cents)	<u>20.46</u>	<u>17.83</u>

There is no dilutive instrument held or issued by the Group, diluted earnings per share is therefore the same as basic earnings per share for the respective years.

10 Trade receivables

	2021 RMB'000	2020 RMB'000
Trade receivables	340,889	316,558
Allowance for credit loss	(13,143)	(10,884)
	<u>327,746</u>	<u>305,674</u>

The Group gives credit term to key customers, which granted with credit term ranging from 7 to 90 days upon delivery. 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 has a credit control commissioner to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the fact that the Group's trade receivables 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 trade receivable balances.

The following is an ageing analysis of trade receivables, net of allowance for credit loss, presented based on the date of the delivery of goods:

	2021 RMB'000	2020 RMB'000
Within 6 months	324,404	300,624
6 to 12 months	3,342	5,050
	<u>327,746</u>	<u>305,674</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Trade and bills payables

	2021 RMB'000	2020 RMB'000
Trade payables	445,408	515,259
Bills payable	29,484	25,075
	<u>474,892</u>	<u>540,334</u>

The following is an ageing analysis of trade and bills payables presented based on the delivery date.

	2021 RMB'000	2020 RMB'000
Within 3 months	461,587	524,041
3 to 12 months	13,229	16,151
1 to 2 years	11	15
Over 2 years	65	127
	<u>474,892</u>	<u>540,334</u>

The trade and bills payables are non-interest-bearing and are normally settled in one to three months and one to six months, respectively.

Certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB 18,737,000 (2020: RMB 10,540,000).

12 Dividends

	2021 年 RMB'000	2020 年 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2020 final - HK 10.6 cents (2019: final – HK 4.8 cents in respect of the year ended 31 December 2019) per ordinary share	<u>248,953</u>	<u>122,232</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of HKD 12.5 cents (2020: HKD 10.6 cents) per ordinary share, in an aggregate amount of HKD 349,653,000, equivalent to RMB 285,317,000 (2020: HKD 296,506,000, equivalent to RMB 248,953,000), has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from retained profits for the year ended 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

CURRENT STATUS

China Foods exclusive franchise to manufacture, market and distribute products under the Coca-Cola series encompasses 19 provincial-level administrative regions, covering approximately 50% of mainland China's population. The Company provides consumers with eleven major types of beverages — namely sparkling drinks, juices, water, milk drinks, energy drinks, tea, coffee, functional nutrition drinks, sports drinks, plant-based protein drinks and alcoholic drinks under 24 brands.

The Company has approximately 10,000 salespersons to serve over 2 million customers. Our marketing network reaches 100% of the cities, 100% of the counties and more than 60% of the towns within our operating regions, with the controllable business, being customer orders served directly by our sales representatives, accounting for nearly 90% of the overall business.

DEVELOPMENT STRATEGY

2021 is the first year of 14th Five-Year Plan for China Foods. With the vision of becoming a “world-class beverage group”, China Foods this year focuses its efforts on “Marketization, Globalisation, Risk Containment and Business Optimisation”, optimizes growth momentum, changes the development mode, enhances competitive advantages, thoroughly implements the three strategies of “balanced development, lean growth, transformation and upgrading” by actively grasping the historical opportunities of domestic consumption upgrading and deepening reform, and implements the operation concept of “improving quality, enhancing efficiency, innovation, system, openness and green”. The Company focuses on its six core value of “consumer-oriented”, “customer-centric”, “contributor-oriented”, “innovation-driven”, “efficiency-driven” and “party building-led” to promote the realization of the development goal of “high quality and sustainability”. The details of operation concepts are set out below:

- *Improving quality:* Place emphasis on resource investment, guide the differentiated development of various business segments, continue to make efforts to upgrade its product mix, and focus on promoting the layout of the entire channel in order to achieve optimization of business portfolio.
- *Enhancing efficiency:* Improve the level of diversification and differentiation of marketing execution management, and promote more precise and efficient marketing execution strategies in segmentation; promote supply chain integration and digitalisation of production and logistics, focus on efficiency improvement, and gradually improve the standardization, centralization and flexibility of the supply chain system with standardized process construction. Establish a central planning centre for central co-ordination; set up a flexible and efficient business unit to stimulate new business vitality.
- *Innovation:* Seize the trend of digitalization in the industry and build up our capabilities in digital marketing, digital supply chain and digital governance; carry out digital transformation of the whole chain, develop digital marketing projects, and set up big data center, gain deep insight into consumer needs and consumption scenarios through big data technology to establish a client-oriented “Business-end” operation platform “Coke GO ”and a consumer-oriented “Consumer-end” operation platform “Joy Club ”so as to improve brand impact, and develop digital factory projects to provide intelligent support for production and operation decisions.

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT STRATEGY (CONTINUED)

- *System:* In order to actively respond to market challenges, the Company's system will be upgraded in all aspects, such as development mode, system mechanisms, concepts capabilities, and cultural soft power, and continuously optimize the organizational structure to adapt the changes in the external operating environment and the internal needs of the Company's long-term development; establish a contribution-based talent incentive and training mechanism as well as focus on youthfulness and increase the proportion of young cadres selected to provide sufficient manpower resources for strategic development.
- *Openness:* Adapt to the new era of consumer demand with model innovation and enhance the overall competitiveness of the value chain; explore and design innovative business models for key strategic projects and build an ecosystem layout.
- *Green:* Adopt a sustainable development model to enhance safety, quality and environmental protection and achieve low-carbon green development.

INDUSTRY ENVIRONMENT

Although China's economy faced multiple challenges in 2021, including complex international environment and domestic epidemic spreading, the overall economy continued to recover as the country strengthened its macroeconomic policies and increased its support for the real economy. According to the statistics from the National Bureau of Statistics of the PRC, China's GDP increased by 8.1% year-on-year in 2021, with consumer spending growing at the same pace, and the national per capita consumption expenditure, after deducting price factors, grew by 12.6% year-on-year, driving the satisfactory overall revenue performance of the non-alcoholic ready-to-drink industry.

REVIEW OF RESULTS

Below is a summary comparison of 2021 and 2020 annual results:

	For the year ended 31 December 2021 (RMB million)	For the year ended 31 December 2020 (RMB million)	Change
Revenue	19,784	17,249	+14.7%
Sales volume			+13.5%
Gross profit margin			-3.9ppt

In 2021, the China Foods' business returned to growth in both revenue and sales volume. Revenue growth continued to outpace sales growth, with the year-on-year of 14.7% and 13.5% respectively. Affected by easing monetary policies and strong export demand of the PRC, the main raw material price experienced a significant increase during the year. Although we lock in the purchase price to mitigate the pressure of rising costs to a certain extent, gross margins during the year still decreased year-on-year. Through efficiency improvement, China Foods effectively reduced its overall expense ratio, with a significant improvement in its selling expense ratio, successfully offsetting the pressure of rising raw material cost and achieving an operating margin similar to that of last year. In addition to various expense ratio, the Company continued to pay attention to the management of capital expenditure and operating cash flow to ensure that the capital is sufficient to meet operational and development needs and that business of the Company can achieve sustainable and sound development.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS (CONTINUED)

Business development by beverage category was as follows:

Sparkling drinks

The sparkling drinks segment returned to growth in both revenue and sales volume. The driving force of sleek cans and mini cans continued to increase during the year, both of which increased by more than 50%, coupled with the Chinese New Year's encouraging growth in household and multi-pack sparkling drinks, which led to a year-on-year double digit growth in traditional sparkling drinks.

Sugar-free sparkling maintained rapid growth in recent years, with a growth rate of over 50%. In addition to the continuous acceleration of the growth of the "Sugar Free" and "Fiber +" series, the Company launched a brand-new "AH!HA!" sparkling water during the year to meet the needs of consumers who want to "unbundle" their lives, seek a good and rich taste experience, but also to reduce the burden on their bodies, hoping to reduce the demand for sugar, fat and calorie intake. "AH!HA!" sparkling water is available in two flavors: White Peach Oolong and Pomelo Sea Salt, with a cool mix of flavors that are light and sweet, zero sugar, zero calories and zero fat, coupled with a dazzling fashion packaging.

During the year, the proportion of revenue from the "Sugar-free" and "Fiber+" series continued to increase, and further optimising the Company's product structure. The market share of our sparkling drinks maintained a high market share of nearly 60% in our operating regions, continuously surpassing our major competitors' products.

Juices

During the year, the domestic juice industry started to recover, and the overall revenue of the industry recorded a year-on-year increase. Benefiting from the new packaging, the revenue of Minute Maid Pulpy Orange Juice increased significantly. Minute Maid Pulpy Peach Juice, our star product, was launched in different packaging during the year to meet different drinking scenarios of consumers, leading to a significant year-on-year increase in revenue and driving the Company's overall revenue performance in juice category to be better than last year.

At present, the product structure of the domestic juice industry is still dominated by low and medium concentration juice drinks, and the proportion of 100% juice that meets consumers' nutritional and health needs is relatively low. In response to the market demand for this type of product, the Company launched "Minute Maid 100% Juice" with two flavors available during the year: orange juice and mango-pineapple juice. The orange juice is selected from 200 days of fresh sunshine oranges, through the hand-picked, whole fruit extraction process, natural sweet and sour just right. Mango and pineapple blends, tropical flavor, and the two flavors are also highly valued by consumers. In the second half of the year, the Company launched Minute Maid Apple Soda Water in some of its operating regions on a trial basis, entering the fruit juice sparkling water segment. The product is infused with real fruit juice and has the sweet and sour tasted of fruit and the refreshing experience of sparkling drinks, with zero sugar and zero fat, bringing consumers a healthy and burden-free experience.

During the year, the juice product of the Company outperformed other competitors, with the market share of our juice products in terms of sales revenue growing in our operating regions, maintaining our leading position in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS (CONTINUED)

Water

Amidst low price promotion of key competitors, Ice Dew faced tough challenges during the year. However, we insisted on sustainable development and refused to engage in vicious competition with low prices, resulting in slower growth this year. The sales of our mainstream water brand “Chun Yue” product has maintained its high growth with our continuous market investment. During the year, we launched a new-brand of “Chun Yue Soda Water”, with added vitamins and minerals on top of zero-vapor, zero-sugar and zero-fat, with two flavors: blueberry with zinc and lemon with niacin. Zinc helps to improve appetite, while niacin is an essential component of energy metabolism, and has been well received by consumers and sold well since its launch.

The Company's water products are currently undergoing a painful period of category upgrade and replacement, with a slight decline in market share during the year.

Ready-to-drink coffee

The domestic ready-to-drink coffee market grew rapidly, which is still expected to be higher than the industry average and has considerable market potential. During the year, in order to meet the demand of domestic consumers for healthy consumption under the fast-paced life, we launched two new “Costa” cold brew flavored latte and cold brew flavored black coffee ready-to-drink coffee products, using metal aluminum bottle packaging design, low temperature extraction coffee process, greatly reducing the bitter taste of coffee, retaining a brighter and clearer coffee flavor, the taste is also more delicate and smooth, together with the three high-end “Costa” ready-to-drink coffee products, namely Mellow Latte, Pure Americana and Golden Princess Latte launched last year, we have further broadened our territory of elite ready-to-drink coffee.

During the year, market share of coffee categories continued to grow, with its market share surpassing 10% for the first time. “Costa” became the second largest brand of ready-to-drink coffee in key markets, with the revenue exceeding RMB100 million for the first time, representing a year-on-year growth of more than double.

Ready-to-drink teas

Last year, COFCO Coca-Cola introduced “Fuze” lemon tea and chrysanthemum tea for the first times, which were well received by consumers. During the year, we continued our efforts to launch “Fuze” sugar-free lemon tea on a pilot basis in some of our operating regions to meet consumer demand for sugar-free tea beverages. The new product is extracted from Yunnan large-leaf black tea leaves, with a strong tea flavor and lemon juice, bringing consumers a delicious experience of zero sugar, zero calories and zero fat.

Alcoholic drinks

During the year, the Company launched its first alcoholic drink category “Lemon-Dou”, a Japanese lemon sparkling wine with three flavours: honey lemon, signature lemon and salt lemon, each with different levels of alcohol and lemon juice, so consumers can choose according to their preference. With its low alcohol, rich taste and Ready-to-drink, “Lemon-Dou” offers young consumers a fresh alternative for a weekend sip, a meal or an evening of screen time.

Business development by development channels was as follows:

The Company keeps expanding its customer base and adjusting customer structure, and has achieved significant increase in the number of customers it serves. During the year, we strengthened our partner development efforts, expanded our point-of-sale coverage and increased our point-of-sale penetration, and continued to increase the proportion of controllable revenue, further strengthening our core strengths.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS (CONTINUED)

Modern channel: make vigorous effort to develop multi-packs and accelerate new product launches to achieve significant revenue growth;

Traditional channel: Achieve double-digit growth in revenue through channel optimisation and the promotion of the “Coke GO” platform, which improves the efficiency of business visits and enhances point-of-sale services;

New retail channel: through continuous optimization of product structure and increase in new product on-shelf rate, channel revenue achieved high growth during the year and further increased its revenue share;

Catering channel: through the installation of “Coke GO”, we have improved the quality of service and the channel has grown rapidly throughout the year.

Outlook

With the evolution of global pandemic and the appearance of Omicron confirmed case in several Mainland cities, the consumption during the Chinese New Year may be affected and the beverage industry still faces many challenges. However, with the implementation of more precise and effective normalized epidemic prevention and control measures, coupled with the active promotion of the stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations) and security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments) of the country, the domestic economy is expected to develop steadily. As policies that aim to expand domestic demand and promote consumption continue to take effect, and in line with the interest rate cut implemented by the People's Bank of China, it is expected that the domestic economy will gradually return to normal operation, and the trend of consumption upgrading is expected to continue, with the non-alcoholic ready-to-drink industry continuing to expand.

In 2022, the price of main raw materials is expected to remain on an upward or expensive trend. The price of white sugar is expected to achieve a year-on-year increase due to domestic supply and demand gap and high international sugar prices; Fructose price is expected to remain strong in 2022 due to low stocks of corn; PET prices is also at high level in line with international oil price; due to higher aluminum price and increased processing cost, the price of aluminum can is expected to experience a significant increase compared with last year. Although the increase in main raw material price will put pressure on the Company's gross profit, the Company will continue to actively pursue important strategies such as product structure upgrade, business portfolio optimization and supply chain integration and carry forward its enterprise spirit “Act! Fight! Win!”. The management is confident of full-year revenue and sales volume growth and our results can maintain a stable growth in 2022.

FINANCIAL REVIEW

REVENUE

In 2021, business returned to growth in both sales volume and revenue, and the revenue continued to outrun sales volume, with a year-on-year increase of 14.7% and 13.5% respectively.

GROSS PROFIT MARGIN

Affected by the global quantitative easing monetary policy and domestic strong export demand, major raw materials recorded a significant increase during the year, and the gross profit margin for the year experienced a year-on-year decrease.

OTHER INCOME AND OTHER GAINS-NET

Other income and other gains-net increased by 19.1% year-on-year, this is mainly due to an increase of about RMB 20 million in interest income this year.

DISTRIBUTION AND SELLING EXPENSES RATIO/ ADMINISTRATIVE EXPENSES RATIO

During the year, the Company effectively reduced the distribution and selling expenses ratio through the improvement in efficiency, and the administrative expenses ratio further decreased accordingly.

FINANCE COSTS

Since all interest-bearing bank borrowings were fully repaid during the year, the financing costs decreased by 82.1% year-on-year.

INCOME TAX EXPENSES

Income tax expenses amounted to RMB 348 million, representing an increase of 16.1%, which was in line with the profit growth.

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 for the Group;
- Managing financial risks, including interest rate and foreign exchange rate risks; and
- Targeting yield enhancement opportunities.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

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 the 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 31 December 2021, the Group's unpledged cash and cash equivalents totaled approximately RMB1,592 million (31 December 2020: approximately RMB1,860 million). Net current liabilities were approximately RMB1,619 million (31 December 2020: RMB1,740 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 31 December 2021.

CAPITAL STRUCTURE

As at and for the year ended 31 December 2021, 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 31 December 2021, the Group had no interest-bearing bank borrowings (31 December 2020: approximately RMB20 million, all of which were denominated in Renminbi, and carried at annual interest rate of loan prime rate -0.0125%).

As at 31 December 2021, the Group had no other borrowings (31 December 2020: Nil). As at 31 December 2021, net assets attributable to owners of the parent were approximately RMB5,157 million (31 December 2020: approximately RMB4,954 million) and net cash position of the Group (unpledged cash and cash equivalents less interest-bearing bank and other borrowings) was approximately RMB1,592 million and the gearing ratio was nil (31 December 2020: approximately RMB1,860 million and the gearing ratio (ratio of borrowing position of the Group to equity attributable to owners of the parent) of less than 1%).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 31 December 2021, the Group has no significant contingent liabilities nor assets pledged (other than certain bills payable) (31 December 2020: 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 31 December 2021, 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 of the Group actively and closely monitors foreign exchange rate exposure. The foreign exchange risk exposure at the operational level is not significant.

HUMAN RESOURCES

As at 31 December 2021, the Group employed 19,189 staff in Mainland China and Hong Kong (31 December 2020: 19,076). 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 pension insurance, medical insurance, work injury insurance, unemployment insurance, maternity insurance and housing fund contributions in compliance with the requirements of the laws of China.

The Group firmly believe that talent is the most valuable asset and the basis for its sustainable development of a corporation. The Group has established comprehensive policies and systems for employee recruitment, labour contracts, remuneration and benefits, attendance management, training and development, performance appraisal, disciplinary policies, protection of employee interests, etc, in order to protect the basic interests of employees, eliminate discrimination by nationality, age and gender, etc, and prohibit the employment of child labour and any form of forced labour.

The Group also adheres to the talent development concept of “contributor-oriented”, and provides employees with a solid career development platform and a comprehensive training system. It has formulated relevant management systems and regulations such as the Training and Management System, and provides various training on management skills and professional skills for employees at all levels through the internet and in the form of video conferences, live broadcasts and online college to improve personal knowledge and skills, which secures joint development of the Group as well as its employees.

The Company and its subsidiaries have no share option scheme.

FINAL DIVIDEND

On 29 March 2022, the Board recommended the payment of a final dividend of RMB0.102, equivalent to HK12.5 cents, (2020: RMB0.089, equivalent to HK10.6 cents) per ordinary share for the year ended 31 December 2021, subject to the approval obtained at the annual general meeting to be held on Tuesday, 7 June 2022 (the “2022 AGM”). The proposed final dividend for the year ended 31 December 2021 will be distributed on or around Friday, 8 July 2022 to shareholders of the Company (the “Shareholders”) whose names appear on the Shareholders’ register of the Company on Friday, 17 June 2022 (the “Record Date”).

The implementation of the “Notice Regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management” issued by the State Administration of Taxation of PRC (the “SAT”) on 22 April 2009 (the “Notice”) commenced on 1 January 2008 and in the first half of 2013, the Company received the SAT approvals which confirmed that (i) the Company is regarded as a Chinese Resident Enterprise; and (ii) relevant enterprise income tax policies shall be applicable to the Company starting from 1 January 2013. Pursuant to the Notice, the “Enterprise Income Tax Law of the People’s Republic of China” (the “Enterprise Income Tax Law”) and the “Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People’s Republic of China” (the “Implementation Rules”), both implemented in 2008, the Company is required under the laws of the PRC to withhold and pay enterprise income tax for its non-resident enterprise Shareholders to whom the Company pays the final dividend for 2021. The withholding and payment obligation lies with the Company.

FINAL DIVIDEND (CONTINUED)

Pursuant to (i) the Notice, (ii) the Enterprise Income Tax Law and the Implementation Rules, and (iii) the SAT approvals, the Company is required to withhold 10% enterprise income tax when it distributes the final dividend for 2021 to its non-resident enterprise shareholders. In respect of all Shareholders whose names appear on the Company's register of members as at the Record Date who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organisations, which are all considered as non-resident enterprise shareholders), the Company will distribute the final dividend for 2021 after deducting enterprise income tax of 10%. The Company will not withhold and pay the enterprise income tax in respect of the final dividend for 2021 payable to any natural person Shareholders whose names appear on the Company's register of members on the Record Date.

If any resident enterprise (as defined in the PRC's Enterprise Income Tax Law) listed on the Company's register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, does not desire to have the Company withhold the said 10% enterprise income tax, it should lodge with the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, documents from its governing tax authority confirming that the Company is not required to withhold and pay enterprise income tax in respect of the dividend that it is entitled at or before 4:30 p.m. on Wednesday, 15 June 2022.

SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD READ THE ABOVE CAREFULLY. IF THE STATUS OF THE SHAREHOLDERS IN THE REGISTER OF MEMBERS NEEDS TO BE AMENDED ACCORDINGLY, PLEASE ENQUIRE ABOUT THE RELEVANT PROCEDURES WITH THE RESPECTIVE NOMINEES OR TRUSTEES IMMEDIATELY. THE COMPANY WILL STRICTLY WITHHOLD AND PAY THE ENTERPRISE INCOME TAX FOR ITS NON-RESIDENT ENTERPRISE SHAREHOLDERS IN ACCORDANCE WITH THE APPLICABLE LAWS AND REQUIREMENTS OF THE RELEVANT GOVERNMENT DEPARTMENTS IN THE PRC, BASED ON THE INFORMATION SET OUT IN THE COMPANY'S REGISTER OF MEMBERS ON THE RECORD DATE. THE COMPANY ASSUMES NO LIABILITY WHATSOEVER AND WILL NOT ENTERTAIN ANY CLAIMS ARISING FROM ANY INACCURATE INFORMATION OR DELAY IN AMENDMENT OF THE RELEVANT INFORMATION OR THE STATUS OF THE SHAREHOLDERS OR DISPUTES REGARDING THE MECHANISM OF WITHHOLDING.

CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders' eligibility to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Thursday, 2 June 2022 to Tuesday, 7 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2022 AGM, all transfer documents, accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 1 June 2022.

For determining the Shareholders' entitlement to the proposed final dividend for 2021, the register of members of the Company will be closed from Thursday, 16 June 2022 to Friday, 17 June 2022, both days inclusive, during which period no transfer of shares will be registered. The ex-dividend date will be Tuesday, 14 June 2022. In order to qualify for the proposed final dividend for 2021, all transfer documents, accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 15 June 2022.

CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the code provisions (“Code Provisions”) of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year, except that the chairman of the board of directors was unable to attend the annual general meeting which held on 1 June 2021 as required under Code Provision E.1.2 due to the entry restrictions over the Novel Coronavirus.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Following specific enquiries by the Company, all directors of the Company confirmed that they have complied with the required standards set out in the Model Code throughout the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the consolidated financial statements for the year ended 31 December 2021 and has discussed with the Company’s auditor, about auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

SCOPE OF WORK OF MESSRS. PRICEWATERHOUSECOOPERS

The figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2021 as set out in this announcement of final results have been agreed by the Group’s auditor, Messrs. PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. PricewaterhouseCoopers on this announcement.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.chinafoodsltd.com). The 2021 Annual Report of the Company will be published on the above websites and dispatched to the Shareholders in due course.

By order of the Board
China Foods Limited
Qing Lijun
Managing Director

Hong Kong, 29 March 2022

As at the date of this announcement, the Board comprises: Mr. Chen Lang as the chairman of the Board and a non-executive director; Mr. Qing Lijun and Mr. Shen Peng as executive directors; Mr. Chen Zhigang and Mr. Chen Gang as non-executive directors; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Mok Wai Bun, Ben as independent non-executive directors.