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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 2021

Financial Highlights

The following table shows the comparison of the interim results for the six months ended 30 June 2021 (the “**interim period**”) of China Foods Limited (the “**Company**” or “**China Foods**”) and its subsidiaries (together the “**Group**”) with the corresponding interim results for 2020:

| | For the six-month period ended 30 June 2021 (RMB million) (Unaudited) | For the six-month period ended 30 June 2020 (RMB million) (Unaudited) | Changes |
|---|--|--|----------------|
| ● Revenue | 11,218.8 | 9,401.2 | +19.3% |
| ● Gross profit margin | 38.9% | 38.7% | +0.2ppt |
| ● Distribution and selling expenses margin | 29.5% | 30.0% | -0.5ppt |
| ● Administrative expenses margin | 2.1% | 2.4% | -0.3ppt |
| ● Adjusted EBIT* | 934.2 | 738.5 | +26.5% |
| ● Adjusted EBITDA[^] | 1,187.9 | 981.7 | +21.0% |

The board of directors (the “**Board**”) did not declare the payment of an interim dividend for the interim period (six months ended 30 June 2020: Nil).

Adjusted EBIT* represents:

| | For the six-month period ended 30 June 2021 (RMB million) (Unaudited) | For the six-month period ended 30 June 2020 (RMB million) (Unaudited) |
|--|--|--|
| Profit before tax | 974.2 | 736.8 |
| Reconciliation: | | |
| Finance costs | 2.3 | 15.0 |
| Share of net profit of associates accounted for using the equity method | (42.3) | (13.3) |
| Adjusted EBIT* | 934.2 | 738.5 |

Adjusted EBITDA^ represents:

| | For the six-month period ended 30 June 2021 (RMB million) (Unaudited) | For the six-month period ended 30 June 2020 (RMB million) (Unaudited) |
|---|--|--|
| Adjusted EBIT* | 934.2 | 738.5 |
| Reconciliation: | | |
| Depreciation of property, plant and equipment | 230.2 | 215.7 |
| Depreciation of right-of-use assets | 30.7 | 21.9 |
| Amortisation of other intangible assets | 1.6 | 0.3 |
| Gains on disposal of property, plant and equipment | (3.9) | (2.8) |
| Reversal of impairments of assets classified as held for sales | (11.6) | - |
| Impairment of property, plant and equipment | 5.8 | 5.8 |
| Net impairment losses on financial assets | 0.9 | 2.3 |
| Adjusted EBITDA^ | 1,187.9 | 981.7 |

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 2021 have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the six-month period ended 30 June 2021

| | Notes | Six-month period ended 30 June 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
|--|-------|--|--------------------------------|
| Revenue | 4 | 11,218,829 | 9,401,153 |
| Cost of sales | | (6,857,039) | (5,766,142) |
| Gross profit | | 4,361,790 | 3,635,011 |
| Distribution and selling expense | | (3,309,207) | (2,824,395) |
| Administrative expenses | | (230,301) | (227,891) |
| Net impairment losses on financial assets | | (904) | (2,315) |
| Other income and other gains - net | 5 | 118,448 | 174,672 |
| Other expenses | | (5,641) | (16,495) |
| Operating profit | | 934,185 | 738,587 |
| Finance costs | 6 | (2,272) | (15,048) |
| Share of net profit of associates accounted for using the equity method | | 42,271 | 13,298 |
| Profit before income tax | | 974,184 | 736,837 |
| Income tax expense | 7 | (228,248) | (176,663) |
| Profit for the period | 8 | 745,936 | 560,174 |
| Profit is attributable to: | | | |
| Owners of the Company | | 404,548 | 330,350 |
| Non-controlling interests | | 341,388 | 229,824 |
| | | 745,936 | 560,174 |
| Earnings per share for profit attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share (cents) | 10 | 14.46 | 11.81 |
| Diluted earnings per share (cents) | 10 | 14.46 | 11.81 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2021

| | Six- month period ended 30 June | |
|--|---------------------------------|----------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Profit for the period | 745,936 | 560,174 |
| Other comprehensive income for the period, net of tax | - | - |
| Total comprehensive income for the period | 745,936 | 560,174 |
| Total comprehensive income for the period is attributable to: | | |
| Owners of the Company | 404,548 | 330,350 |
| Non-controlling interests | 341,388 | 229,824 |
| | 745,936 | 560,174 |

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2021

| | Note | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|---|------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | 4,983,129 | 4,972,941 |
| Right-of-use assets | | 627,320 | 610,322 |
| Intangible assets | | 3,522,442 | 3,508,511 |
| Deferred income tax assets | | 455,933 | 412,072 |
| Long-term prepayments and other assets | | 31,570 | 2,888 |
| Investments accounted for using the equity method | | 833,455 | 792,164 |
| Total non-current assets | | 10,453,849 | 10,298,898 |
| Current assets | | | |
| Inventories | | 1,226,358 | 1,834,340 |
| Prepayments, deposits and other receivables | | 685,527 | 505,847 |
| Trade receivables | 11 | 781,427 | 305,674 |
| Due from entities under common control | | 50,531 | 86,961 |
| Due from the ultimate holding company | | 22 | 1 |
| Due from non-controlling shareholders of subsidiaries | | 7,502 | 56,649 |
| Due from associates | | 35,875 | 24,865 |
| Cash and cash equivalents | | 1,928,959 | 1,860,415 |
| Pledged bank deposits | | 24,709 | 10,540 |
| Prepaid tax | | 12,613 | 47,772 |
| Assets classified as held for sale | | - | 43,516 |
| Debt instruments at fair value through other comprehensive income | | 52,377 | 34,714 |
| Total current assets | | 4,805,900 | 4,811,294 |
| Total assets | | 15,259,749 | 15,110,192 |

CONDENSED CONSOLIDATED BALANCE SHEET - continued

As at 30 June 2021

| | Note | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|--|------|---|---|
| Non-current liabilities | | | |
| Borrowings | | - | 20,000 |
| Lease liabilities | | 59,566 | 52,914 |
| Deferred income tax liabilities | | 223,369 | 190,883 |
| Deferred income | | 239,016 | 215,560 |
| Total non-current liabilities | | 521,951 | 479,357 |
| Current liabilities | | | |
| Trade and bills payables | 12 | 898,892 | 540,334 |
| Due to entities under common control | | 152,019 | 198,295 |
| Due to non-controlling shareholders of subsidiaries | | 29,595 | 3,534 |
| Due to associates | | 212,909 | 188,797 |
| Contract liabilities | | 441,432 | 1,767,588 |
| Current income tax liabilities | | 86,035 | 58,012 |
| Lease liabilities | | 31,524 | 37,554 |
| Other payables and accruals | | 4,395,187 | 3,757,501 |
| Total current liabilities | | 6,247,593 | 6,551,615 |
| Total liabilities | | 6,769,544 | 7,030,972 |
| Net assets | | 8,490,205 | 8,079,220 |
| Equity | | | |
| Share capital | | 293,201 | 293,201 |
| Share premium and reserves | | 4,814,913 | 4,660,720 |
| Capital and reserves attributable to owners of the Company | | 5,108,114 | 4,953,921 |
| Non-controlling interests | | 3,382,091 | 3,125,299 |
| Total equity | | 8,490,205 | 8,079,220 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six-month period ended 30 June 2021

1 GENERAL 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 “**Directors**”), the ultimate holding company is COFCO Corporation, which is a state-owned enterprise registered in the People’s Republic of China (the “**PRC**”).

The condensed consolidated interim financial information is presented in Renminbi (“**RMB**”), unless otherwise stated.

During the six-month period ended 30 June 2021, 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.

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the half-year reporting period ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standards 34 “Interim Financial Reporting” and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the Group during the interim reporting period.

The condensed consolidated interim financial information have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of RMB 1,441,693,000 at the end of the reporting period. In preparing these condensed consolidated interim financial information, the Directors have given careful consideration to the current and anticipated future liquidity of the Group. Taking into account, inter alia, (i) the 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 interim financial information on a going concern basis is appropriate.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group has adopted these new or amended standards, which did not have any impact on the Group’s significant accounting policies and the presentation of this condensed interim financial information.

(b) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

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 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 Group is derived from customers operating in Mainland China and over 90% of the Group's non-current assets, other than deferred income 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 from sale to a single customer amounted to 10% or more of the Group's revenue for the reporting period (2020: Nil).

4 REVENUE

| | Six-month period ended 30 June | |
|--------------------------------------|--------------------------------|------------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Types of goods | | |
| Sparkling drinks | 8,614,977 | 7,381,941 |
| Juices | 1,368,092 | 1,036,601 |
| Water | 834,771 | 704,915 |
| Others | 400,989 | 277,696 |
| Total | 11,218,829 | 9,401,153 |
| Timing of revenue recognition | | |
| At a point in time | 11,218,829 | 9,401,153 |

5 OTHER INCOME AND OTHER GAINS – NET

| | Six-month period ended 30 June | |
|--|--------------------------------|----------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Other income - net | | |
| Incentive income | - | 89,635 |
| Government grants (i) | 42,907 | 32,598 |
| Processing income | 70,393 | 119,922 |
| Processing cost | (59,544) | (100,967) |
| Income of sale of by-products and scrap items | 17,646 | 30,720 |
| Cost of sale of by-products and scrap items | (11,744) | (20,488) |
| Interest income | 15,474 | 3,524 |
| Others | 22,338 | 15,761 |
| | <u>97,470</u> | <u>170,705</u> |
| Other gains - net | | |
| Gains on disposal of property, plant and equipment | 3,850 | 2,832 |
| Gains on disposal of assets classified as held for sales | 13,420 | - |
| Foreign exchange differences, net | 3,708 | 1,135 |
| | <u>20,978</u> | <u>3,967</u> |
| Total | <u>118,448</u> | <u>174,672</u> |

(i) Government grants

Various government grants were received 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 balance sheet, respectively. There are no unfulfilled conditions or contingencies relating to these grants.

6 FINANCE COSTS

| | Six-month period ended 30 June | |
|-------------------------------|--------------------------------|---------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Interest on bank borrowings | 148 | 12,509 |
| Interest on lease liabilities | 2,124 | 2,539 |
| Total | <u>2,272</u> | <u>15,048</u> |

7 INCOME TAX EXPENSE

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 30 June 2021 is 23.4%, which is consistent with the effective tax rate of 24.0% for the six months ended 30 June 2020.

| | Six-month period ended 30 June | |
|--|--------------------------------|----------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Current income tax on profits for the period | 239,623 | 159,164 |
| Deferred income tax (credit)/charge | (11,375) | 17,499 |
| Income tax expense | 228,248 | 176,663 |

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both interim period.

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 in 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.

8 PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging the following items:

| | Six-month period ended 30 June | |
|---|--------------------------------|------------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Cost of inventories sold | 6,889,509 | 5,763,241 |
| (Reversal of)/provision for impairment of inventories | (32,470) | 2,901 |
| | 6,857,039 | 5,766,142 |
| Depreciation of property, plant and equipment | 230,223 | 215,587 |
| Depreciation of right-of-use assets | 30,668 | 21,914 |
| Amortisation of other intangible assets | 1,593 | 285 |
| Total depreciation and amortisation | 262,484 | 237,786 |
| Amounts capitalised in inventories | (16,784) | (15,721) |
| | 245,700 | 222,065 |
| Impairment of property, plant and equipment | 5,806 | 5,831 |
| Reversal of impairment of assets classified as held for sales (i) | (11,593) | - |
| Net impairment losses on financial assets | 904 | 2,315 |

- (i) This item was included in “other income and other gains - net” in the condensed consolidated statement of profit or loss.

9 DIVIDENDS

During the current interim period, a final dividend of HK 10.6 cents per share in respect of the year ended 31 December 2020 (2020: HK 4.8 cents per share in respect of the year ended 31 December 2019) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to RMB 250,355,000 (2019: RMB 123,078,000).

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share amount for the period ended 30 June 2021 is based on the profit for the period attributable to owners of the Company of RMB 404,548,000 (six-month period ended 30 June 2020: RMB 330,350,000), and the number of ordinary shares of 2,797,223,396 (six-month period ended 30 June 2020: 2,797,223,396) in issue during the period.

(b) Diluted earnings per share

As at 30 June 2021, there is no dilutive instrument held or issued by the Group, diluted earnings per share is the same as basic earnings per share.

11 TRADE RECEIVABLES

| | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|-------------------------------------|---|---|
| Trade receivables | 784,886 | 308,229 |
| Provision for credit loss allowance | (3,459) | (2,555) |
| Total | <u>781,427</u> | <u>305,674</u> |

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 has credit control commissioners to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and 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 collaterals or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing.

The ageing analysis of trade receivables (net of provision for credit loss allowance) is as follows:

| | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|----------------|---|---|
| Up to 6 months | 778,302 | 300,624 |
| 6 to 12 months | 3,125 | 5,050 |
| Over 12 months | - | - |
| Total | <u>781,427</u> | <u>305,674</u> |

12 TRADE AND BILLS PAYABLES

| | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|----------------|---|---|
| Trade payables | 805,193 | 515,259 |
| Bills payables | 93,699 | 25,075 |
| Total | <u>898,892</u> | <u>540,334</u> |

The ageing analysis of trade and bills payable is as follows:

| | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|-----------------|---|---|
| Within 3 months | 806,437 | 524,041 |
| 3 to 12 months | 92,243 | 16,151 |
| 1 to 2 years | 205 | 15 |
| Over 2 years | 7 | 127 |
| Total | <u>898,892</u> | <u>540,334</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

CURRENT STATUS

The Company's 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 10 major types of beverages – namely sparkling drinks, juices, water, milk drinks, energy drinks, tea, coffee, functional nutrition drinks, sports drinks and plant-based protein drinks under 20 brands.

The Company has approximately 10,000 salespersons to serve over 1.8 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 more than 90% of the overall business.

DEVELOPMENT STRATEGY

In line with its consistent ambition to be a “world-class bottler”, China Foods this year focuses its efforts on “Marketisation, Globalisation, Risk Containment and Business Optimisation”, optimises 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 development concept of “improving quality, enhancing efficiency, innovation, system, and openness”. The Company focuses on the consumer-oriented, customer-centric, contributor-oriented, innovation-driven, efficiency-driven and party-building-led development strategy to promote the realisation of the development goal of “high quality and sustainability”. The details of development 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 optimisation 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, focus on efficiency improvement, and gradually improve the standardisation, centralisation and flexibility of the supply chain system with standardised process construction.
- **Innovation:** Seize the trend of digitalisation 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, and develop digital marketing projects, gain deep insight into consumer needs and consumption scenarios through big data technology to establish a client-oriented “Business-end” operation platform and a consumer-oriented “Consumer-end” operation platform, and develop digital factory projects to provide intelligent support for production and operation decisions.
- **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 optimise the organisational 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 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.

INDUSTRY ENVIRONMENT

According to the statistics from the National Bureau of Statistics of China, in the first half of 2021, China's GDP grew by 12.7% year-on-year, and on the basis of the overall stability of the pandemic prevention and control and the continued recovery of residents' income growth, residents' consumption expenditure continued to rebound, and the per capita consumption expenditure of residents in China, after deducting price factors, increase by 17.4% year-on-year, driving the overall revenue recovery of the non-alcoholic ready-to-drink industry to be satisfactory.

REVIEW OF RESULTS

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

| | As of 30 June 2021 (RMB million) (Unaudited) | As of 30 June 2020 (RMB million) (Unaudited) | Change |
|---------------------|---|---|---------------|
| Revenue | 11,218.8 | 9,401.2 | +19.3% |
| Sales volume | | | +17.0% |
| Gross profit margin | | | +0.2ppt |

In the first half of 2021, the China Foods' business returned to growth in both sales volume and revenue, with a year-on-year increase of 17.0% and 19.3% respectively. Affected by quantitative easing monetary policies and inflation in various countries, the international bulk commodity market experienced a relatively significant increase during the period. The prices of all major raw materials other than sugar record an increase as compared with the same period of last year. However, we locked in the purchase price in time to reduce the pressure of rising costs to a certain extent, coupled with the growth of sales volume of high-margin products and the improvement of packaging structure, the gross profit margin was basically flat as compared with the same period of last year. The Company continued to pay attention to the management of capital expenditure and operating cash flow, effectively reducing the distribution and selling and administrative expense ratio, and as a result, the operating profit margin was higher than that of the same period of last year.

Business development by beverage category was as follows:

Sparkling drinks

The sparkling drinks segment returned to growth in both sales volume and revenue. In the first half of 2021, the driving force of sleek cans and mini cans continued to increase, 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 growth of more than 10% in traditional sparkling drinks.

Sugar-free sparkling maintained rapid growth in recent years, with a growth rate of nearly 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 period 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 period, 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 over 60% in our operating regions, continuously surpassing our major competitors’ products.

Juices

During the period, the domestic juice industry started to recover, and the overall revenue of the industry increased year-on-year. Benefiting from the new packaging switch, the revenue of “Minute Maid Pulpy Orange Juice” increased significantly, and the revenue of “Minute Maid Peach Juice”, which was launched last year, also increased, the Company’s revenue of juice category performed better than that of the same period of 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 period: 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.

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

Water

The sales of “Ice Dew” water product has returned to growth, while the sales of our mainstream water brand “Chun Yue” product has maintained its high growth with our continuous market investment. During the period, 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 in just a few months.

During the period, the market share of our water products in terms of sales revenue in our operating regions remained unchanged as compared with last 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 period, 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.

The Company achieved remarkable growth in sales share in the six main operating regions of coffee categories during the period, with a year-on-year increase of 6% and a market share of over 9%, while the revenue exceeded the milestone number of RMB100 million for the first time, being higher than that of the full-year last year.

Ready-to-drink teas

Last year, COFCO Coca-Cola Beverages Limited introduced “Fuze” lemon tea and chrysanthemum tea for the first times, which were well received by consumers. During the period, 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.

Outlook

Although the domestic economy is expected to maintain a stable recovery in the second half of the year, external uncertainties such as the continued evolution of the global pandemic and trade protectionism in many countries, coupled with the internal environment of uneven domestic economic growth, are expected to continue to pose challenges for the beverage industry. However, we believe that as long as the country continues to deepen the supply-side structural reform, release the potential of domestic demand, help enterprises to relieve difficulties and accelerate the reform and opening up, the domestic economy is expected to continue to recover steadily, and the non-alcoholic ready-to-drink industry will be benefited and still maintain considerable growth in the second half of the year.

Due to the quantitative easing monetary policy adopted by many countries to stimulate the economy, while the economy is expected to gradually recover after the improvement of the pandemic, the prices of major raw materials are expected to remain high in the second half of 2021, which will put certain pressure on the Company’s gross profit. However, driven by the Company’s strategy of product mix upgrade, business portfolio optimisation and supply chain integration, the management is confident of full-year revenue and sales volume growth in 2021 and the Group can maintain a healthy growth in results.

FINANCIAL REVIEW

REVENUE

Sales volume increased by 17% while revenue increased by 19%. The increase of revenue was mainly attributable to the increase of sales volume, and improvement of new products, packaging structure and price.

GROSS PROFIT MARGIN

The prices of bulk commodities in international market have risen significantly in the period, and the prices of all major raw materials, except sugar, rose to a certain extent as compared to the same period last year. However, the pressure of rising costs was reduced to a certain degree due to our efforts to lock in purchase prices in a timely manner. This, coupled with the increase of sales volume of high-margin products and the improvement in our packaging structure, resulted in the gross profit margin being basically flat.

OTHER INCOME AND GAINS

Other income and gains mainly include processing services and government grants, which decreased by 32% year-on-year, the decrease was mainly due to one-off incentive income was recorded in the same period last year.

DISTRIBUTION AND SELLING EXPENSES RATIO/ADMINISTRATIVE EXPENSES RATIO

The distribution and selling expenses ratio decreased by 0.5 percentage point, which was mainly due to the efficiency gains from supply chain optimisation through regional consolidation.

The administrative expenses ratio decreased by 0.3 percentage point, which was mainly due to the efficiency improvement by optimising business organisation.

FINANCE COSTS

Finance costs dropped year-on-year by 85% as a result of the net repayment of interest-bearing bank borrowings during the period.

INCOME TAX EXPENSES

Income tax expenses amounted to RMB228 million, representing an increase of 29%, which was in line with 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.

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 condensed consolidated balance sheet as at 30 June 2021, the Group's unpledged cash and cash equivalents totalled approximately RMB1,929 million (31 December 2020: approximately RMB1,860 million). Net current liabilities were approximately RMB1,442 million (31 December 2020: approximately 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, and contracted capital expenditures as at 30 June 2021.

CAPITAL STRUCTURE

As at and for the six months period ended 30 June 2021, the total number of issued shares of the Company remained unchanged at 2,797,223,396. In the condensed consolidated balance sheet as at 30 June 2021, the Group had no interest-bearing bank borrowings (31 December 2020: approximately RMB20 million at prime rate of minus 0.0125%).

As at 30 June 2021, net assets attributable to owners of the parent were approximately RMB5,108 million (31 December 2020: approximately RMB4,954 million), and the Group's net cash position (unpledged cash and cash equivalents less interest-bearing bank and other borrowings) was approximately RMB1,929 million (31 December 2020: approximately RMB1,840 million) and gearing ratio (ratio of borrowing position of the Group to equity attributable to owners of the parent) was zero (31 December 2020: less than 1%).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2021 and 31 December 2020, the Group had no significant contingent liabilities nor assets pledged (other than certain bills payable).

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 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 actively and closely monitors foreign exchange rate exposure. The Group's exposure to foreign exchange rate risk is not significant.

HUMAN RESOURCES

As at 30 June 2021, the Group employed 18,777 staff in Mainland China and Hong Kong (31 December 2020: 19,076). Employees are paid according to their positions, performance, experience and prevailing practices.

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, employment 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 concept of “create a highly regarded professional team”, 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, Training System and Career Development 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 employee.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the interim period (30 June 2020: Nil).

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 interim period, except that the chairman of the Board was unable to attend the annual general meeting which held on 1 June 2021 as required under Code Provision E.1.2 due to travel restrictions during the COVID-19 pandemic.

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 interim financial information as at and for the six months period ended 30 June 2021 have been reviewed by the Group’s auditor, PricewaterhouseCoopers, 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 of the Company.

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 2021 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
Qing Lijun
Managing Director

Hong Kong, 24 August 2021

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 as a non-executive director; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Mok Wai Bun, Ben as independent non-executive directors.