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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-MONTH PERIOD ENDED 30 JUNE 2022**

Financial Highlights

The following table shows the comparison of the interim results for the six-month period ended 30 June 2022 (the “**interim period**”) of China Foods Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) with the corresponding interim results for 2021:

	Six-month period ended 30 June		Changes
	2022 (RMB million) (Unaudited)	2021 (RMB million) (Unaudited)	
● Revenue	11,893.7	11,218.8	+6.0%
● Gross profit margin	36.2%	38.9%	-2.7ppt
● Distribution and selling expenses margin	25.7%	29.5%	-3.8ppt
● Administrative expenses margin	2.0%	2.1%	-0.1ppt
● Adjusted EBIT*	1,126.4	934.2	+20.6%
● Adjusted EBITDA [^]	1,460.4	1,171.2	+24.7%

The board of directors (the “**Board**”) did not declare the payment of an interim dividend for the interim period (six-month period ended 30 June 2021: Nil).

Adjusted EBIT* represents:

	Six-month period ended 30 June	
	2022	2021
	(RMB million)	(RMB million)
	(Unaudited)	(Unaudited)
Profit before tax	1,154.3	974.2
Reconciliation:		
Finance costs	1.7	2.3
Share of net profit of associates accounted for using the equity method	(29.6)	(42.3)
Adjusted EBIT*	1,126.4	934.2

Adjusted EBITDA^ represents:

	Six-month period ended 30 June	
	2022	2021
	(RMB million)	(RMB million)
	(Unaudited)	(Unaudited)
Adjusted EBIT*	1,126.4	934.2
Reconciliation:		
Depreciation of property, plant and equipment	295.2	213.5
Depreciation of right-of-use assets	32.7	30.7
Amortisation of intangible assets	3.5	1.6
Losses/(gains) on disposal of property, plant and equipment	1.9	(3.9)
Reversal of impairment of assets classified as held for sale	-	(11.6)
Impairment of property, plant and equipment	-	5.8
Net impairment losses on financial assets	0.7	0.9
Adjusted EBITDA^	1,460.4	1,171.2

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-month period ended 30 June 2022 have been reviewed by the audit committee of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the six-month period ended 30 June 2022

	Notes	Six-month period ended 30 June 2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	4	11,893,717	11,218,829
Cost of sales	8	<u>(7,582,538)</u>	<u>(6,857,039)</u>
Gross profit		4,311,179	4,361,790
Distribution and selling expenses		(3,051,348)	(3,309,207)
Administrative expenses		(233,170)	(230,301)
Net impairment losses on financial assets		(742)	(904)
Other income and other gains - net	5	100,522	118,448
Other expenses		<u>-</u>	<u>(5,641)</u>
Operating profit		1,126,441	934,185
Finance costs	6	(1,749)	(2,272)
Share of net profit of associates accounted for using the equity method		<u>29,597</u>	<u>42,271</u>
Profit before income tax		1,154,289	974,184
Income tax expense	7	<u>(274,520)</u>	<u>(228,248)</u>
Profit for the period		<u>879,769</u>	<u>745,936</u>
Profit is attributable to:			
- Owners of the Company		481,498	404,548
- Non-controlling interests		<u>398,271</u>	<u>341,388</u>
		<u>879,769</u>	<u>745,936</u>
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share (RMB cents)	10	17.21	14.46
Diluted earnings per share (RMB cents)	10	<u>17.21</u>	<u>14.46</u>

INTERIIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2022

	Six- month period ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	879,769	745,936
Other comprehensive income	-	-
Total comprehensive income for the period	879,769	745,936
Total comprehensive income for the period attributable to:		
- Owners of the Company	481,498	404,548
- Non-controlling interests	398,271	341,388
	879,769	745,936

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET*As at 30 June 2022*

	Note	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		5,117,561	5,061,110
Right-of-use assets		586,207	601,816
Intangible assets		3,527,884	3,530,039
Deferred income tax assets		273,962	262,028
Prepayments and other assets		74,555	51,352
Investments accounted for using the equity method		837,232	812,362
Total non-current assets		10,417,401	10,318,707
Current assets			
Inventories		1,045,185	1,933,314
Prepayments, deposits and other receivables		531,361	489,089
Trade receivables	11	841,268	327,746
Amounts due from related parties		92,574	383,963
Cash and cash equivalents		1,991,970	1,591,703
Pledged bank deposits		13,945	18,737
Prepaid tax		35,368	63,448
Financial assets at fair value through other comprehensive income		12,850	41,357
Total current assets		4,564,521	4,849,357
Total assets		14,981,922	15,168,064

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)*As at 30 June 2022*

	Note	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Non-current liabilities			
Lease liabilities		31,516	42,409
Deferred income tax liabilities		55,839	38,984
Deferred income		237,178	229,042
Total non-current liabilities		324,533	310,435
Current liabilities			
Trade and bills payables	12	1,069,581	474,892
Amounts due to related parties		408,396	214,040
Contract liabilities		253,156	1,581,310
Current income tax liabilities		78,750	66,651
Lease liabilities		38,479	34,826
Other payables and accruals		4,218,833	4,096,615
Total current liabilities		6,067,195	6,468,334
Total liabilities		6,391,728	6,778,769
Net assets		8,590,194	8,389,295
Equity			
Share capital		293,201	293,201
Share premium and reserves		5,048,677	4,864,230
Equity attributable to owners of the Company		5,341,878	5,157,431
Non-controlling interests		3,248,316	3,231,864
Total equity		8,590,194	8,389,295

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six-month period ended 30 June 2022

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**”).

During the six-month period ended 30 June 2022, 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 condensed consolidated interim financial information is presented in Renminbi (“**RMB**”), which is also the Company’s functional currency.

2 Basis of preparation

The condensed consolidated interim financial report for the half-year reporting period ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standards 34 “Interim Financial Reporting”.

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 2021 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 RMB1,502,674,000 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 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 condensed consolidated interim financial information on a going concern basis is appropriate.

2 Basis of preparation (Continued)

Amended standards adopted by the Group

The following amended standards became applicable for the current reporting period:

	Title	Effective Date
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
Annual Improvements 2018–2020 cycle		1 January 2022
Revised Accounting Guideline 5	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5)	1 January 2022

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.

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory the current reporting period 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.

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 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 reporting period, there was no revenue derived from a single customer which amounted for 10% or more of the Group's revenue (2021: Nil).

4 Revenue

	Six-month period ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Types of goods		
Sparkling drinks	9,035,110	8,614,977
Juices	1,656,066	1,368,092
Water	748,505	834,771
Others	454,036	400,989
	<u>11,893,717</u>	<u>11,218,829</u>
Total	11,893,717	11,218,829
Timing of revenue recognition		
A point in time	<u>11,893,717</u>	<u>11,218,829</u>

5 Other income and other gains - net

	Six-month period ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income		
Government grants (note)	62,611	42,907
Processing income	82,968	70,393
Processing cost	(69,722)	(59,544)
Income from sale of by-products and scrap items	11,251	17,646
Cost from sale of by-products and scrap items	(6,435)	(11,744)
Interest income	11,348	15,474
Others	15,265	22,338
	<u>107,286</u>	<u>97,470</u>
Other gains and losses		
(Losses)/gains on disposal of property, plant and equipment	(1,902)	3,850
Gains on disposal of assets classified as held for sale	-	13,420
Foreign exchange differences, net	151	3,708
Others	(5,013)	-
	<u>100,522</u>	<u>118,448</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 interim condensed consolidated balance sheet. There are no unfulfilled conditions or contingencies relating to these grants.

6 Finance costs

	Six-month period ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	-	148
Interest on lease liabilities	<u>1,749</u>	<u>2,124</u>
Total	<u>1,749</u>	<u>2,272</u>

7 Income tax expense

	Six-month period ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax on profits for the period	269,599	239,623
Deferred income tax debit/(credit)	<u>4,921</u>	<u>(11,375)</u>
Income tax expense	<u>274,520</u>	<u>228,248</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 of the PRC subsidiaries is 25% for both interim periods.

8 Profit for the period

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

	Six-month period ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Cost of sales		
Cost of inventories sold	7,580,453	6,889,509
Provision for/(reversal of) impairment of inventories	2,085	(32,470)
	<u>7,582,538</u>	<u>6,857,039</u>
(b) Other items		
Depreciation of property, plant and equipment	309,494	230,223
Depreciation of right-of-use assets	32,704	30,668
Amortisation of intangible assets	3,543	1,593
	<u>345,741</u>	<u>262,484</u>
Total depreciation and amortisation	(14,427)	(16,784)
Amounts capitalised in inventories	<u>331,314</u>	<u>245,700</u>
Employee benefit expense, including directors' and chief executive's emoluments		
Wages, salaries and bonuses	996,747	1,017,020
Employer's contribution to a retirement benefit scheme (note)	143,213	129,164
	<u>1,139,960</u>	<u>1,146,184</u>
Total		
Advertising and promotion fee	1,046,153	1,390,981
Petrol and freight charges	482,692	468,825
Expenditure on power	177,442	172,668
Labor service expenditures	176,887	136,518
Impairment of property, plant and equipment	-	5,806
Reversal of impairment of assets classified as held for sale	-	(11,593)
Net impairment losses on financial assets	<u>742</u>	<u>904</u>

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.

9 Dividends

During the current interim period, a final dividend of HK12.5 cents per share in respect of the year ended 31 December 2021 (2021: HK10.6 cents per share in respect of the year ended 31 December 2020) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to RMB297,051,000 (2020: RMB250,355,000).

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share amount for the period ended 30 June 2022 is based on the profit for the period attributable to owners of the Company of RMB481,498,000 (six-month period ended 30 June 2021: RMB404,548,000), and the number of ordinary shares of 2,797,223,396 (six-month period ended 30 June 2021: 2,797,223,396) in issue during the period.

(b) Diluted earnings per share

As at 30 June 2022, 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 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables	854,704	340,889
Allowance for credit loss	(13,436)	(13,143)
Total	841,268	327,746

The Group's sales to key customers are based on credit terms 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:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Up to 6 months	840,230	324,404
6 to 12 months	1,038	3,342
Total	841,268	327,746

12 Trade and bills payables

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	1,005,387	445,408
Bills payable	64,194	29,484
Total	<u>1,069,581</u>	<u>474,892</u>

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 3 months	1,054,883	461,587
3 to 12 months	11,691	13,229
1 to 2 years	3,002	11
Over 2 years	5	65
Total	<u>1,069,581</u>	<u>474,892</u>

Certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB13,945,000 (2021: RMB18,737,000).

13 Subsequent Events

On 15 July 2022, COFCO Beverages (CCBMH) Limited ("CBL", an indirectly 65%-owned subsidiary of the Company), Coca-Cola Bottlers Manufacturing Holdings Limited ("CCBMH") and other relevant parties entered into a master agreement, pursuant to which it has been conditionally agreed that CBL shall procure COFCO Coca-Cola Beverages (China) Investment Limited ("CBL Purchaser", another indirectly 65%-owned subsidiary of the Company) to purchase from CCBMH, and CCBMH shall sell to the CBL Purchaser, the equity interests in several associates with an aggregate consideration of approximately RMB544,396,000.

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 11 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 2.4 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

In 2022, trends such as healthy living, channel sinking and digital transformation will continue to impose a profound impact on the domestic beverage industry. China Foods will implement its total beverage strategy by focusing on the satisfaction of the ever-growing expectation of the people for a better life. Under the direction of high-quality development, it will be firmly committed in the business approach of “improving quality, enhancing efficiency, innovation, system, openness and green”, and take a better business portfolio, strong network coverage, flexible and efficient new business development and leading digital construction as key dimensions, to drive high-quality growth in performance. During the year, we will remain focused on “Market-Oriented, Globalisation, Risk Containment and Business Optimisation”, renew our commitment in the enterprise spirit “Work! Work hard! Win!”, and promote the realisation of the development goals 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 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, 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”, with the number of customers that have installed “Coke GO” “exceeding 1.8 million, and more than 1.35 million independent active customers, 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 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

In the first half of 2022, impacted by unfavorable conditions such as the complicated and changeable international environment, and the frequent and scattered outbreaks of domestic pandemic, the domestic economic growth further slowed down in the second quarter. The country stepped up its efforts to adjust macro policies, and effectively implemented a package of policies and measures to stabilise the economy. Thanks to these efforts, the domestic GDP recorded a year-on-year increase of 2.5%, and the national per capita consumption expenditure, after deducting price factors, grew by 0.8% year-on-year, thus contributing to the stability maintained in the overall sales of the non-alcoholic ready-to- drink industry.

REVIEW OF RESULTS

Below is a summary comparison of 2022 and 2021 interim results:

	As of 30 June 2022 (RMB million)	As of 30 June 2021 (RMB million)	Change
Revenue	11,893.7	11,218.8	+6%
Sales volume			-4%
Gross profit margin			-2.7ppt

In the first half of 2022, although the sales volume of China Foods recorded a year-on-year decrease due to the impact of the domestic pandemic, its revenue grew by 6% year-on-year thanks to the optimisation of product and packaging structure. During the period, affected by factors such as easing monetary policies in various countries and strong export demand of the PRC, the prices of bulk commodities in international market increased to a certain extent. The gross profit margin of the Company was slightly lower than that of the corresponding period last year. However, since the management actively implemented a series of optimization and integration measures to improve efficiency, which effectively reduced the ratio of selling and administrative expenses, the operating margin was improved. At the same time, the Company continued to pay attention to the management of capital expenditure and operating cash flow, in order to control risks.

The smart retail business, which the Company has been committed in developing in recent years, achieved remarkable results during the period, with the revenue exceeding RMB200 million. As of the end of June this year, over 20,000 units of vending machines were installed, covering more than 5 million consumers, representing a year-on-year increase of more than 100%. In the future, we will continue to make precise allocation and expand the coverage area, while exploring opportunities for other value-added business, with the vision of becoming the largest smart retail digital platform in the PRC.

Business development by beverage category was as follows:

Sparkling drinks

During the period, the revenue growth of the sparkling drinks segment slowed down. Sugar-free sparkling continued to outperform traditional sparkling, and its percentage of revenue further increased. During the period, “Coca-Cola Peach Coke” joined as new member of the Company’s traditional sparkling drinks. The product adopts a new peach-flavored formula with a unique and refreshing taste, and has been launched in a romantic pink packaging. Three new products have been added to the sugar-free series during the period: “Sprite Sugar-Free Lemon Mint” (“雪碧無糖檸檬薄荷”) – a brand-new Sprite sugar-free formula infused with real mint essence; “Coca-Cola Sugar-Free Vanilla Coke” (“可口可樂無糖香草味可樂”) – which preserves the taste of vanilla Coca-Cola, but features sugar-free and fat-free; and “Fanta Baobab & Tamarind Soda” (“芬達猴麵包樹與酸角味汽水”) – a perfect fusion of baobab fruit and tamarind, which creates a novel, unique fruity taste with an eye-catching color of Barbie pink. Also, the “AH!HA!” sparkling water that was marketed last year launched two new flavors, being Strawberry White Chocolate and Waxberry White Wine, to satisfy young consumers who prefer to taste a fresh delicacy.

During the period, “Coca-Cola Creations” (“樂創無界”), the global creative platform of Coca-Cola, released its first limited-edition product “Starlight” (“星河漫步”) inspired by space and the limited-edition product “Byte” (“律動方塊”) inspired by the concept of the Metaverse in the PRC. In order to create a richer immersive experience, Coca-Cola simultaneously launched AR (Augmented Reality) games. As long as consumers scan the code on the can of Coca Cola “Byte”, they can unlock the Metaverse AR game experience. This strengthened the interaction between products and consumers.

During the period, the market share of our sparkling drinks maintained a high market share of more than 50% in our operating regions, continuously surpassing our major competitors’ products.

Juices

The domestic juice industry maintained its recovery momentum of last year. The revenue from “Minute Maid Pulpy Orange Juice” recorded a significant increase, and the sales of new products achieved satisfactory results, driving the Company’s revenue from the juices segment to achieve double-digit growth.

During the period, Minute Maid sparkling juice series were launched. The products feature sugar-free and fat-free, and have real fruit juice infused with sparkling to create a refreshing new taste. Three flavors of peach, grape and apple are available, added by zinc, niacin and other ingredients to supplement the daily nutrition intake. They are delicious sweet and sour, healthy and free of burden. The revenue exceeded RMB10 million in a few months since the launch.

During the period, the market share of our juice products in terms of sales revenue in the Company’s operating regions was basically unchanged, maintaining our leading position in the industry.

Water

Affected by the domestic pandemic, the revenue from water products declined. During the period, we newly launched Chun Yue Pineapple-flavored Water, which is infused with real fruit juice on the basis of zero sugar, zero fat and zero energy. The fruit juice and water is of best ratio, enabling consumers to drink every sip with a light fruity aroma. Amid the normalcy under the pandemic, in the second half of the year, we will continue to develop home consumption scenarios, seize the opportunities of home consumption, and meet the business opportunities for consumers' water consumption at home through e-commerce and community partners, thus promoting the growth of large-package revenue.

In the future, we will maintain the focus on promoting the mainstream water brand "Chun Yue" products, while making active efforts to develop the strategy of high-end water products, with an expectation to enhance the profitability of the water segment, thus driving the overall profit. As the Company's water segment remains in the painful updating and upgrading phase, the market share during the period decreased slightly.

Ready-to-drink coffee

Through marketing activities such as free drinks in key channels, store promotions and O2O activities, the Company's ready-to-drink coffee achieved double-digit growth, higher than the industry average, with its market share continuing to rise. "Costa" maintained the second largest brand of ready-to-drink coffee in key markets, achieving remarkable results.

Ready-to-drink teas

During the period, the Company launched the "COSTA" light milk tea beverage for the first time. The product features low-sugar and low-fat, especially suitable for the new generation of urban consumers who are concerned about health, with a total of three flavors of white peach oolong, grape jasmine and lychee black tea available on the market. It has achieved outstanding results in a few months since its launch. Together with the "Fuze" sugar-free lemon tea, which was launched last year and achieved a satisfactory increase, the revenue from the tea segment recorded a more than doubled increase during the period.

Outlook

The second half of the year is expected to witness the escalation of risk of stagflation in the global economy, and increasingly tightened policies of major economies, which lead to a significant increase in external uncertainties. Moreover, as the domestic pandemic has not been completely eliminated, demand contraction and supply shocks are intertwined, which bring difficulties to the operations of various industries, the basis for economic recovery remains unstable. Although the domestic economy grew year-on-year in the first half of the year, it was lower than market expectations and far from the annual growth goal, reflecting several unstable factors in the recovery of the domestic economy. We believe that as a series of economic stabilizing policies of the state gradually take effect, the domestic economy will overcome various unfavorable factors and show a trend of stability with good momentum. The management remains cautiously optimistic that the non-alcoholic ready-to-drink industry can maintain healthy development throughout the year.

In the second half of 2022, it is expected that the prices of major raw materials will remain at a high level, and pressures will be further imposed on the gross profit of the Company. The management will continue to actively promote key strategies such as product structure upgrade, business portfolio optimisation, and supply chain integration to reduce the pressure on profits from high raw material costs. In July this year, we entered into a master agreement with The Coca-Cola Company and Swire Pacific Limited, to acquire the non-sparkling beverage production business of the tripartite joint venture in our franchise area. The transaction is expected to help improve the synergy between production and sales, establish a more efficient supply chain network, and effectively reduce the production and management costs of the Company's non-sparkling beverages, thus improving the overall profit margin.

FINANCIAL REVIEW

REVENUE

Despite a slight decline in sales volumes, the revenue recorded a year-on-year increase of 6% due to the improved products and packaging structure.

GROSS PROFIT MARGIN

During the period, the gross profit margin of the Company was lower than that of the same period last year, due to a significant increase in the prices of bulk commodities in international market.

OTHER INCOME AND GAINS

Other income and gains mainly include subcontracting services and government grants, which decreased by 15% year-on-year mainly due to one-off gains on the disposal of an asset of RMB13 million recorded in the same period last 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

Finance costs, mainly representing the interests on lease liabilities, dropped year-on-year by 23%.

INCOME TAX EXPENSES

Income tax expenses amounted to RMB275 million, representing an increase of 20%, which was in line with growth in profit before tax.

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 statement of financial position as at 30 June 2022, the Group's unpledged cash and cash equivalents totaled approximately RMB1,992 million (31 December 2021: approximately RMB1,592 million). Net current liabilities were approximately RMB1,502 million (31 December 2021: approximately RMB1,619 million).

Having considered the (i) forecast cash flow from operating activities of continuing operation, (ii) existing financial resources and gearing level of the Group, and (iii) existing banking facilities available to the Group, the Directors believe that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations, contracted capital expenditures as at 30 June 2022.

CAPITAL STRUCTURE

As at and for the six-month period ended 30 June 2022, the total number of issued shares of the Company remained unchanged at 2,797,223,396. In the condensed consolidated statement of financial position as at 30 June 2022, the Group had no interest-bearing bank borrowings (31 December 2021: nil).

As at 30 June 2022, net assets attributable to owners of the parent were approximately RMB5,342 million (31 December 2021: approximately RMB5,157 million), and the Group's net cash position (unpledged cash and cash equivalents less interest-bearing bank and other borrowings) was approximately RMB1,992 million (31 December 2021: approximately RMB1,592 million) and gearing ratio (ratio of borrowing position of the Group to equity attributable to owners of the parent) was nil (31 December 2021: nil).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2022 and 31 December 2021, 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 2022, 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 exposure to foreign exchange rate risk is not significant.

HUMAN RESOURCES

As at 30 June 2022, the Group employed 19,048 staff in Mainland China and Hong Kong (31 December 2021: 19,189). 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.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the interim period (30 June 2021: Nil).

CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) throughout the interim period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Listing Rules as its 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-month period ended 30 June 2022 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 2022 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, 23 August 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 Mr. Li Hung Kwan, Alfred, Mr. Mok Wai Bun, Ben and Ms. Leung Ka Lai, Ada, SBS as independent non-executive directors.