

2008
INTERIM REPORT

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CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 506)

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Ning Gaoning (*Chairman*)
Mr. Qu Zhe (*Managing Director*)
Mr. Mak Chi Wing, William
Ms. Luan Xiuju
Mr. Zhang Zhentao

Non-executive Directors

Mr. Ma Jianping
Ms. Wu Wenting

Independent Non-executive Directors

Mr. Stephen Edward Clark
Mr. Tan Man Kou*
Mr. Yuen Tin Fan, Francis

* *Deceased on 14 August 2008*

AUDIT COMMITTEE

Mr. Tan Man Kou* (*Committee Chairman*)
Mr. Stephen Edward Clark
Mr. Yuen Tin Fan, Francis

REMUNERATION COMMITTEE

Mr. Yuen Tin Fan, Francis
(*Committee Chairman*)
Mr. Stephen Edward Clark
Mr. Qu Zhe

COMPANY SECRETARY

Ms. Liu Kit Yee, Linda

SOLICITORS

Conyers, Dill & Pearman

AUDITORS

Ernst & Young

PRINCIPAL BANKS

Bank of China (Hong Kong) Limited
Bank of Communications Company Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE

33rd Floor
Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Progressive Limited
26/F Tesbury Tower
28 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.chinafoodsltd.com



18/F Floor
Two International Finance Centre,
8 Finance Street, Central
Hong Kong

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the board of directors of China Foods Limited
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 4 to 28 which comprises the condensed consolidated balance sheet of China Foods Limited as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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 HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong
22 September 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
CONTINUING OPERATIONS			
REVENUE	4	8,155,556	4,294,268
Cost of sales	6	(6,479,353)	(3,138,996)
Gross profit		1,676,203	1,155,272
Other income and gains	4	87,596	73,109
Selling and distribution costs		(1,194,671)	(764,114)
Administrative expenses		(196,978)	(161,109)
Other expenses		(11,251)	(2,135)
Finance costs	5	(14,158)	(19,125)
Share of profits of associates		61,545	24,214
PROFIT BEFORE TAX	6	408,286	306,112
Tax	7	(83,159)	(72,944)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		325,127	233,168
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	8	–	239,769
		325,127	472,937
Attributable to:			
Equity holders of the Company		241,567	377,274
Minority interests		83,560	95,663
		325,127	472,937
DIVIDENDS	9	66,993	6,234,148
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic			
– For profit for the period		HK8.65 cents	HK13.52 cents
– For profit from continuing operations		HK8.65 cents	HK6.50 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	2,258,384	2,082,579
Investment properties		61,738	58,000
Prepaid land premiums		150,773	119,265
Deposits for purchase of items of property, plant and equipment		7,698	12,653
Goodwill		1,373,110	1,332,857
Other intangible assets		25,596	17,179
Interests in associates		334,066	156,233
Available-for-sale investments and related advances		254,478	213,455
Deferred tax assets		26,019	25,435
Biological assets		76,715	72,070
Total non-current assets		4,568,577	4,089,726
CURRENT ASSETS			
Inventories		2,245,118	1,968,321
Accounts and bills receivables	12	1,095,068	997,179
Prepayments, deposits and other receivables		767,517	494,795
Due from associates		13,979	–
Due from fellow subsidiaries		15,913	16,770
Due from the ultimate holding company		12,611	4,567
Due from the immediate holding company		160	160
Tax recoverable		3,969	4,077
Investments at fair value through profit or loss		12,611	16,825
Pledged deposits		2,799	3,477
Cash and cash equivalents		1,001,007	1,396,563
Total current assets		5,170,752	4,902,734
CURRENT LIABILITIES			
Accounts and bills payables	13	995,792	815,315
Other payables and accruals		1,290,677	1,350,289
Due to associates		53,383	–
Due to fellow subsidiaries		392,646	346,592
Due to the ultimate holding company		10,297	12,040
Due to related companies		315,308	279,057
Due to minority shareholders of subsidiaries		12,573	1,113
Interest-bearing bank and other borrowings		323,974	284,960
Tax payable		38,036	50,484
Total current liabilities		3,432,686	3,139,850
NET CURRENT ASSETS		1,738,066	1,762,884
TOTAL ASSETS LESS CURRENT LIABILITIES		6,306,643	5,852,610

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

30 June 2008

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,306,643	5,852,610
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		113,675	106,792
Due to minority shareholders of subsidiaries		92,044	75,047
Due to the ultimate holding company		22,735	21,358
Deferred income		9,094	9,183
Deferred tax liabilities		7,387	6,729
Total non-current liabilities		244,935	219,109
Net assets		6,061,708	5,633,501
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	14	279,138	279,138
Reserves		4,604,564	4,153,901
Proposed final dividend		–	125,612
		4,883,702	4,558,651
Minority interests		1,178,006	1,074,850
Total equity		6,061,708	5,633,501

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

Notes	Attributable to equity holders of the Company										
	Employee			Capital reserve	Reserve funds	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Issued capital	Share premium account	share-based compensation reserve								
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 January 2008	279,138	3,660,432	3,060	(419,907)	126,085	237,093	547,138	125,612	4,538,651	1,074,850	5,633,501
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	-	-	203,572	-	-	203,572	56,065	259,637
Profit for the period	-	-	-	-	-	-	241,567	-	241,567	83,560	325,127
Total income and expense for the period	-	-	-	-	-	203,572	241,567	-	445,139	139,625	584,764
Cancellation of share premium	-	(3,660,432)	-	3,660,432	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	13,156	-	(13,156)	-	-	-	-
Equity-settled share option arrangements	-	-	5,524	-	-	-	-	-	5,524	-	5,524
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(36,469)	(36,469)
Final 2007 dividend declared	-	-	-	-	-	-	-	(125,612)	(125,612)	-	(125,612)
At 30 June 2008	279,138	-*	8,584*	3,240,525*	139,241*	440,665*	775,549*	-	4,883,702	1,178,006	6,061,708

* These reserve accounts comprise the consolidated reserves of HK\$4,604,564,000 (31 December 2007: HK\$4,153,901,000) in the consolidated balance sheet.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2007

		Attributable to equity holders of the Company										
		Employee			Exchange			Proposed		Minority		Total
		Issued	Share	share-based	Capital	Reserve	fluctuation	Retained	final	Total	interests	equity
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2007	279,138	3,660,432	-	2,482,197	193,282	275,427	2,863,932	-	-	9,754,408	1,807,721	11,562,129
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	-	-	161,549	-	-	-	161,549	27,785	189,334
Profit for the period	-	-	-	-	-	-	377,274	-	-	377,274	95,663	472,937
Total income and expense for the period	-	-	-	-	-	161,549	377,274	-	-	538,823	123,448	662,271
Transfer from retained profits	-	-	-	-	16,620	-	(16,620)	-	-	-	-	-
Contribution from a minority shareholder	-	-	-	-	-	-	-	-	-	-	1,057	1,057
Release of reserves upon distribution of the Spin-off Group	-	-	-	(2,902,104)	(98,147)	(281,979)	3,282,230	-	-	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(1,055)	(1,055)
Special interim dividend	9, 16	-	-	-	-	-	(6,234,148)	-	-	(6,234,148)	(1,180,386)	(7,414,534)
At 30 June 2007	279,138	3,660,432	-	(419,907)	111,755	154,997	272,668	-	-	4,059,083	750,785	4,809,868

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(71,681)	115,924
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(254,714)	(472,002)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(119,140)	(870,848)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(445,535)	(1,226,926)
Cash and cash equivalents at beginning of period	1,396,563	2,515,973
Effects of foreign exchange rate changes, net	49,979	45,707
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,001,007	1,334,754
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	918,025	747,020
Non-pledged time deposits with original maturity of less than three months when acquired	82,982	587,734
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,001,007	1,334,754

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

China Foods Limited (the "Company") is a limited liability company incorporated in Bermuda. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is a subsidiary of COFCO (Hong Kong) Limited ("COFCO (HK)"), a company incorporated in Hong Kong. The ultimate holding company of the Company is COFCO Limited ("COFCO"), which is a state-owned enterprise registered in the People's Republic of China (the "PRC").

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- production, sale and trading of grape wine and other related products;
- processing and distribution of sparkling beverages and still beverages;
- distribution of packaged consumer-pack edible oil for the retail market; and
- production and distribution of chocolate and other related products.

During the prior interim period, on 8 February 2007, the Company declared a special interim dividend to distribute the Company's entire interest in the issued share capital of China Agri-Industries Holdings Limited ("China Agri-Industries"), a subsidiary incorporated in Hong Kong on 18 November 2006, for the purpose of acting as the investment holding company of the subsidiaries engaged in oilseed processing, wheat processing, the production and sale of brewing materials, rice trading and processing and the production and sale of biofuel and biochemicals (the "Spin-off Group"), and spinning off China Agri-Industries through a separate listing on the Stock Exchange (the "Spin-off"). The special interim dividend was conditional upon approval by the Stock Exchange. Following the approval by the Stock Exchange, the Spin-off and the listing of the shares of China Agri-Industries were completed on 21 March 2007.

Upon the completion of the Spin-off, the Group discontinued its oilseed processing, wheat processing, the production and sale of brewing materials, rice trading and processing, and the production and sale of biofuel and biochemicals businesses carried out by the Spin-off Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements of the Group for the year ended 31 December 2007, except in relation to the following new Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted by the Group for the first time for the current period’s financial information:

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above HKFRSs has had no impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial information.

3. SEGMENT INFORMATION

Details of the business segments are summarised as follows:

Continuing operations

- (a) the wineries segment is engaged in the production, sale and trading of grape wine and other related beverage products;
- (b) the beverages segment is engaged in the processing and distribution of sparkling beverages and still beverages;
- (c) the consumer-pack edible oil segment engages in the distribution of retail packaged cooking oil;
- (d) the confectionery segment is engaged in the production and distribution of chocolate and other related products; and
- (e) the corporate and others segment comprises the Group’s corporate income and expense items.

3. SEGMENT INFORMATION (continued)

Discontinued operations

- (a) the oilseed processing segment is engaged in the extraction, refining and trading of edible oil and related businesses;
- (b) the wheat processing segment is engaged in the production of flour products and related businesses;
- (c) the brewing materials segment is engaged in the trading and processing of malt;
- (d) the rice processing and trading segment is engaged in the processing and trading of rice;
- (e) the biofuel and biochemical segment is engaged in the production and sale of biofuel and biochemicals, and related products; and
- (f) the "others" segment comprises the corporate income and expense items of the Spin-off Group.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

30 June 2008

3. SEGMENT INFORMATION (continued)

The following tables present revenue and profit information regarding the Group's business segments for the six months ended 30 June 2008 and 2007.

Six months ended 30 June 2008

	Continuing operations						Discontinued operations												
	Wineries		Consumer-pack Beverages		Corporate and others		Rice		Biofuel and biochemical		Brewing materials		Others		Eliminations		Total Consolidated		
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Segment revenue:																			
Sales to external customers	1,482,803	112,082	2,449,538	4,101,133	-	8,155,556	-	-	-	-	-	-	-	-	-	-	-	8,155,556	
Other revenue	25,769	6,983	32,264	140	(3,572)	61,384	-	-	-	-	-	-	-	-	-	-	-	61,384	
Segment results	315,287	(65,473)	159,566	(40,430)	(34,063)	334,887	-	-	-	-	-	-	-	-	-	-	-	334,887	
Interest and dividend income						26,012												-	26,012
Finance costs						(14,158)												-	(14,158)
Share of profits of associates	-	-	61,545	-	-	61,545	-	-	-	-	-	-	-	-	-	-	-	61,545	
Profit before tax						408,286												-	408,286
Tax						(83,159)												-	(83,159)
Profit for the period						325,127												-	325,127

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2007

	Continuing operations						Discontinued operations								Total	Consolidated	
	Confec- tionery		Consumer- pack Beverages		Corporate and others		Rice		Wheat		Biofuel and		Brewing				Others
	Wineeries					Total	Oleed processing	Wheat processing	processing and trading	biochemical	materials						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:																	
Sales to external customers	1,081,079	127,597	1,569,955	1,515,637	-	4,294,268	2,681,473	503,922	869,428	319,069	220,177	-	-	-	4,594,069	8,888,337	
Intersegment sales	-	-	-	-	-	-	19,487	-	7,977	1,209	-	-	(28,673)	-	-	-	
Other revenue	8,155	4,150	2,666	74	2,766	17,811	54,511	1,292	1,405	42,276	(885)	168	(580)	98,187	115,998		
Segment results	210,635	(14,458)	80,824	(1,074)	(30,202)*	245,725	128,716	2,188	80,629	26,348	36,784	(7,239)	-	267,426	513,151		
Interest and dividend income						55,298									2,990	58,288	
Finance costs						(19,125)									(64,966)	(84,091)	
Share of profits of associates	-	-	24,214	-	-	24,214	54,656	-	-	4,320	-	-	-	-	58,976	83,190	
Profit before tax						306,112									264,426	570,538	
Tax						(72,944)									(24,657)	(97,601)	
Profit for the period						233,168									239,769	472,937	

* Included a stamp duty expense of HK\$20,771,000 arising from the distribution of the entire issued share capital of China Agri-Industries.

4. REVENUE

Revenue, which is the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period.

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Other income		
Gross rental income	5,025	9,965
Bank interest income	7,194	18,344
Dividend income from available-for-sale investments	18,763	39,796
Dividend income from investments at fair value through profit or loss	55	148
Government grants	23,327	69,450
Tax refunds	18,776	3,239
Others	8,552	5,115
	81,692	146,057
Gains		
Gain on disposal of by-products and scrap items	5,015	7,655
Fair value gain on investments at fair value through profit or loss	–	1,306
Gain on foreign exchange, net	889	19,268
	5,904	28,229
	87,596	174,286
Represented by:		
Other income and gains attributable to discontinued operations (note 8)	–	101,177
Other income and gains attributable to continuing operations reported in the condensed consolidated income statement	87,596	73,109
	87,596	174,286

5. FINANCE COSTS

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Interest on:		
Bank loans and overdrafts wholly repayable within five years	14,292	68,461
Loans from a fellow subsidiary	5,227	22,359
Total interest expense on financial liabilities not at fair value through profit or loss	19,519	90,820
Less: Interest capitalised	(5,361)	(6,729)
	14,158	84,091
Attributable to discontinued operations (note 8)	–	64,966
Attributable to continuing operations reported in the condensed consolidated income statement	14,158	19,125
	14,158	84,091

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging: #

	For the six months ended 30 June	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Cost of inventories sold	6,479,353	7,243,659
Fair value losses of derivative instrument transactions not qualifying as hedges	–	39,283
Provision against inventories	–	3,730
Cost of sales	6,479,353	7,286,672
Fair value losses on investments at fair value through profit or loss	6,775	–
Depreciation	109,060	151,615
Recognition of prepaid land premiums	1,272	3,764
Staff costs (including directors' remuneration)	270,020	213,514
Impairment of receivables	2,625	6,693
Impairment of items of property, plant and equipment *	–	58,520
Loss on disposal of items of property, plant and equipment	1,851	356

The disclosures presented in this note include those amounts charged in respect of discontinued operations.

* During the six months ended 30 June 2007, impairment was recognised in the condensed consolidated income statement in respect of certain items of property, plant and equipment as a result of the closure of a production line.

7. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2007: 17.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Current – Mainland China		
Provision for the period	81,916	134,997
Overprovision in prior periods	–	(1,340)
Tax rebate	–	(22,684)
Deferred	1,243	(13,372)
Total tax charge for the period	83,159	97,601
Represented by:		
Tax charge attributable to discontinued operations (note 8)	–	24,657
Tax charge attributable to continuing operations reported in the condensed consolidated income statement	83,159	72,944
	83,159	97,601

8. DISCONTINUED OPERATIONS

Pursuant to the Spin-off in the prior period as detailed in note 1 to the condensed consolidated interim financial information, the Group discontinued its oilseed processing, wheat processing, rice trading and processing, brewing materials businesses, and biofuel and biochemicals businesses carried out by the Spin-off Group. The Spin-off was completed on 21 March 2007.

The results of the Spin-off Group for the period are presented below:

	For the six months ended 30 June	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Revenue	–	4,594,069
Cost of sales	–	(4,147,676)
Gross profit	–	446,393
Other income and gains	–	101,177
Expenses	–	(277,154)
Finance costs	–	(64,966)
Share of profits of associates	–	58,976
Profit before tax from the discontinued operations	–	264,426
Tax related to pre-tax profit	–	(24,657)
Profit for the period from the discontinued operations	–	239,769
Attributable to:		
Equity holders of the Company	–	195,831
Minority interests	–	43,938
	–	239,769

Further details of the assets and liabilities of the Spin-off Group distributed are set out in note 16 to the condensed consolidated interim financial information.

9. DIVIDENDS

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Interim – HK2.4 cents (2007: Nil) per ordinary share	66,993	–
Special interim *	–	6,234,148
	66,993	6,234,148

* The special interim dividend paid represented the net assets distributed as a result of the distribution of the Company's entire equity interest in China Agri-Industries. Further details are set out in notes 1 and 16 to the condensed consolidated interim financial information.

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

The calculations of basic earnings per share are based on:

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the earnings per share calculation:		
From continuing operations	241,567	181,443
From discontinued operations	–	195,831
	241,567	377,274
Shares		
Number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,791,383,356	2,791,383,356

A diluted earnings per share for the period ended 30 June 2008 and 30 June 2007 has not been disclosed as no diluting effect existed during those periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group acquired items of property, plant and equipment at a total cost of HK\$150,973,000 (2007: HK\$911,250,000), excluding property, plant and equipment acquired through business combination.

In addition, in the prior period, items of property, plant and equipment with an aggregate amount of approximately HK\$6,047,547,000 were distributed on 21 March 2007 as a result of the Spin-off.

Items of property, plant and equipment with a net book value of HK\$3,686,000 (2007:HK\$4,712,000) were disposed of by the Group during the six months ended 30 June 2008, resulting in a net loss on disposal of HK\$1,851,000 (2007: HK\$356,000).

12. ACCOUNTS AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivables are non-interest-bearing and are normally settled within one to three months and one to six months, respectively.

An aged analysis of the accounts and bills receivables as at the balance sheet date, based on the invoice date and net of impairment, is as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Outstanding balances with ages:		
Within 3 months	786,671	635,103
3 to 12 months	305,866	357,641
1 to 2 years	2,531	4,430
Over 2 years	–	5
	1,095,068	997,179

The carrying amounts of the accounts and bills receivables approximate to their fair values.

13. ACCOUNTS AND BILLS PAYABLES

An aged analysis of accounts and bills payables at the balance sheet date, based on the invoice date, is as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Outstanding balances with ages:		
Within 3 months	918,540	708,303
3 to 12 months	67,528	98,024
1 to 2 years	8,752	7,744
Over 2 years	972	1,244
	995,792	815,315

Accounts and bills payables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively. The carrying amounts of the accounts and bills payables approximate to their fair values.

14. SHARE CAPITAL

Shares

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Authorised:		
4,000,000,000 ordinary shares of HK\$0.10 each	400,000	400,000
Issued and fully paid:		
2,791,383,356 ordinary shares of HK\$0.10 each	279,138	279,138

On 15 April 2008, the board of directors proposed a resolution in relation to a share premium cancellation pursuant to Section 46 of the Companies Act 1981 of Bermuda, which has been approved by the shareholders in a special resolution on 19 May 2008 and was later approved by the registrar of companies of Bermuda on 3 June 2008. Therefore, the share premium of the Company of approximately HK\$3,660,432,000 was reduced and the Company's contributed surplus was credited for the same amount.

14. SHARE CAPITAL (continued)

Share options

On 21 November 2006, the shareholders of the Company conditionally approved and adopted a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating senior management personnel and key employees of the Group, and provide eligible participants to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company. Eligible participants include, but not limited to, any directors (excluding independent non-executive directors), officers and employees of the Group, or any other person on the board of directors may proposed. The Scheme became effective on 21 November 2006 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date and expire on 20 November 2016.

The maximum number of shares of the Company which may be issued upon exercise of all share options granted under the Scheme or any other share option scheme shall not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Scheme unless otherwise approved by the shareholders in a general meeting of the Company. The maximum number of shares issued and to be issued on exercise of all share options granted and to be granted to each eligible participant in the Scheme during any 12-month period is limited to 1% of the shares of the Company in issue at the relevant time unless otherwise approved by the shareholders in a general meeting of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors. In addition, any share options granted to a substantial shareholder of the Company, or to any of its associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, during any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted commences after a certain vesting period and ends on a date which is not later than seven years from the date of offer.

The exercise price of share options shall be the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the company's share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

14. SHARE CAPITAL (continued)

Share options (continued)

On 27 September 2007, a total of 20,618,800 share options were granted to certain directors and employees of the Group in respect of their services to the Group with an exercise price of HK\$4.952 per share. The price of the Company's shares on the date of grant was HK\$4.95 per share. The vesting periods of these share options range from 27 September 2007 to 26 September 2011 and the exercise periods range from 27 September 2009 to 26 September 2014.

The following share options were outstanding under the Scheme:

	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>
At 1 January 2008	4.952	20,478
Forfeited during the period	–	(194)
At 30 June 2008	4.952	20,284

The vesting periods, exercise prices and exercise periods of the share options outstanding as at 30 June 2008 are as follows:

Number of options granted to			Vesting period	Exercise price	Exercise period
Directors	Employees	Total		per share	
<i>'000</i>	<i>'000</i>	<i>'000</i>		<i>HK\$</i>	
1,820	4,941	6,761	27-9-2007 to 26-9-2009	4.952	27-9-2009 to 26-9-2014
1,820	4,942	6,762	27-9-2007 to 26-9-2010	4.952	27-9-2010 to 26-9-2014
1,820	4,941	6,761	27-9-2007 to 26-9-2011	4.952	27-9-2011 to 26-9-2014
5,460	14,824	20,284			

The fair value of the share options outstanding as at 30 June 2008 was approximately HK\$31,704,000 (HK\$1.563 each) of which the Company recognised a share option expense of HK\$5,524,000 during the period.

15. ACQUISITION OF AN ASSOCIATE

On 31 January 2008, the Group entered into a sale and purchase agreement with a connected party, Coca-Cola South Asia Holdings, Inc., to acquire a 21% equity interest of Coca-Cola Bottlers Manufacturing Holdings Limited ("CCBMH"), at a cash consideration of RMB148,280,000 (approximate HKD161,057,000). CCBMH holds a 100% equity interest of Coca-Cola Bottlers Manufacturing (Dongguan) Co., Ltd., which is principally engaged in the production of still beverages under the trademarks of The Coca-Cola Company and its affiliates. The acquisition was completed on 21 February 2008. Further details of this acquisition are set out in the Company's circular dated 21 February 2008.

The Group's share of the fair values of the identifiable assets and liabilities of CCBMH as at the date of acquisition is HK\$197,221,000, which resulted in an excess of fair value of net assets acquired over cost of HK\$36,164,000 recognised as an income included in the "Share of profits of associates" on the face of the condensed consolidated income statement.

16. SPIN-OFF OF CHINA AGRY-INDUSTRIES

On 21 March 2007, the Company span off China Agri-Industries by way of a special interim dividend where the Company's interest in China Agri-Industries, representing the entire issued share capital of China Agri-Industries, was distributed to the shareholders of the Company. Further details of the Spin-off are set out in note 1 to the condensed consolidated interim financial information.

A summary of assets and liabilities of the Spin-off Group distributed by the Company as a result of the Spin-off is as follows:

	<i>HK\$'000</i>
Net assets distributed:	
Total non-current assets	8,175,766
Total current assets	8,110,213
Total current liabilities	(7,953,863)
Total non-current liabilities	(917,582)
Minority interests	(1,180,386)
Special interim dividend	<u>6,234,148</u>

An analysis of the net outflow of cash and cash equivalents in respect of the distribution of the Spin-off Group is as follows:

	<i>HK\$'000</i>
Cash and bank balances distributed and net outflow of cash and cash equivalents in respect of the distribution of the Spin-off Group	<u>(1,291,561)</u>

17. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

The Group had the following transactions with related parties during the period:

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Transactions with fellow subsidiaries:		
Sales of goods	11,455	99,605
Purchases of goods	2,412,532	397,739
Operating lease rental paid	3,332	2,284
Interest expense	5,227	22,359
Commission paid	–	191
Brokerage fee paid	–	636
Transactions with the ultimate holding company:		
Sales of goods	6,574	–
Management fee paid	–	755
Transactions with associates:		
Sales of goods	5,789	21,124
Purchases of goods	–	387,797
Transactions with related companies*:		
Sales of goods	–	13,566
Purchases of goods	1,423,890	1,843,958

* Related companies are companies under significant influence by the Group's ultimate holding company.

17. RELATED PARTY TRANSACTIONS (continued)**(b) Outstanding balances with related parties**

Except for the following, the balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries as at the balance sheet date were unsecured, interest-free and had no fixed terms of repayment:

- (1) the loans from a fellow subsidiary of HK\$158,008,000 (31 December 2007: HK\$145,237,000), which bear interest at rates ranging from 5.91% to 6.57% (31 December 2007: 5.02% to 5.83%) per annum;
- (2) the amounts due to minority shareholders of subsidiaries of HK\$92,044,000 (31 December 2007: HK\$75,047,000), which are financing in nature and are not repayable within one year from the balance sheet date; and
- (3) the amount due to the ultimate holding company of HK\$22,735,000 (31 December 2007: HK\$21,358,000), which is not repayable within one year from the balance sheet date.

The carrying amounts of balances with related parties approximate to their fair values.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Short term employee benefits	2,105	1,916
Pension scheme contributions	65	44
Equity-settled share option expenses	926	–
Total compensation paid to key management personnel	3,096	1,960

18. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to ten years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Within one year	32,833	27,128
In the second to fifth years, inclusive	49,590	31,407
After five years	98,543	69,127
	180,966	127,662

19. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 18 above, the Group had the following capital commitments at the balance sheet date:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	19,080	10,132
Acquisition of an additional interest in an associate:		
Contracted, but not provided for	306,923	288,338
	326,003	298,470

Other than disclosed above, the Group did not have any significant commitments or contingent liabilities as at the balance sheet date (31 December 2007: Nil).

20. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information was approved and authorised for issue by the board of directors on 22 September 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company through its subsidiaries and associated companies focuses on branded food and beverage businesses, and operates four principal businesses being wine, beverages, consumer-pack edible oil and confectionery.

During the period under review,

- The aggregate turnover (including continuing operations and discontinued operations) for the six months ended 30 June 2008 (the "interim period") was HK\$8,156 million, representing a decrease of 8% over the same period of last year.
- Profit attributable to equity holders of the Company for the interim period amounted to HK\$242 million, 36% less than that in the same period of last year.
- Basic earnings per share for the interim period were HK8.65 cents, a decrease of 36% compared with HK13.52 cents per share in the same period of last year.

During the six months ended 30 June 2007, the Company declared a special interim dividend to distribute the Company's entire interest in the issued share capital of China Agri-Industries Holdings Limited ("CAIH"), for the purpose of a separate listing of the shares of CAIH on the Main Board of Hong Kong Stock Exchange. The listing was completed on 21 March 2007 (the "Spin-off"). The result announcement for the six months ended 30 June 2007 covers the financial results of CAIH up to 21 March 2007.

On the basis that the Spin-off was completed on 1 January 2007, the comparison of the financial results of the Group during the interim period with the financial results of the continuing businesses of the Group ("Pro Forma Group") for the same period of last year are as follows:

- The turnover of the Group for the interim period amounted to HK\$8,156 million. This is an increase of 90% compared with that of the Pro Forma Group in the amount of HK\$4,294 million in the same period of last year;
- Profit attributable to equity holders of the Company for the interim period amounted to HK\$242 million. This is an increase of 19% compared with that of the Pro Forma Group in the amount of HK\$202 million in the same period of last year (excluding the expenses for stamp duty in connection with the Spin-off);
- Basic earnings per share for the interim period increased 19% or HK1.4 cents per share to HK8.65 cents compared with basic earnings per share of the Pro Forma Group of HK7.25 cents in the same period of last year (excluding the expenses for stamp duty in connection with the Spin-off).

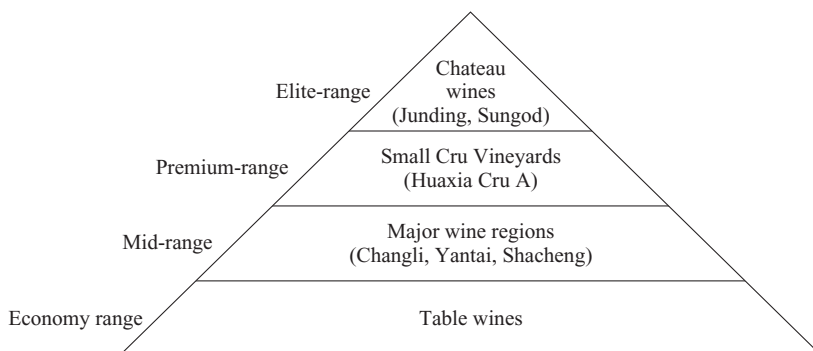
The performance of the Group during the period under review together with other information are set out below.

WINE BUSINESS

The Group's wine business is principally engaged in production, marketing and sale of wines under the "Greatwall" and "長城" brands in China. The business consists of the entire value chain from vineyards and wine-making to marketing and sale. The Group owns three wineries and two chateaus in Yantai, Shacheng and Changli, three of the best wine production regions in China.

During the period under review, the sales volume of Greatwall wines increased by 18% from 49,084 tonnes in the same period of last year to 58,000 tonnes. The turnover of the business was HK\$1,493 million, representing an increase of 38% over the same period of last year.

In addition to the three major wine ranges introduced under the "Greatwall" brand last year (namely, Huaxia Vineyard Small Cru, Star and Coastal ranges), we have further defined our product structure as follows:



The primary purposes of this new structure are to help consumers understand better our products from a quality perspective, to highlight our unique wine producing regions, and to enable more precise brand positioning and marketing activities. Our brand promotion strategy which has concentrated on the promotion of our high quality product offerings has enhanced brand awareness and resulted in the increase of the overall sales. Meanwhile, our sole suppliership of the Beijing Olympic Games has proved to be a great success in enhancing our brand image.

The sales platform in Beijing was successfully replicated in the Northwest, Southwest and Guangdong regions during the first half of 2008. These sales platforms are designed to provide a uniform sales policy in every sales territory. With our improved sales capability, we have reduced our reliance on distributors to initiate sales and promotion of our wine ranges. The efficiency of our sales network, as well as our control over sales points, were both enhanced. Our sales team has increased from 300 people at the end of last year to over 500 people currently. Due to optimisation of our product portfolio and increase in prices, the gross profit margin of wine increased from 50.5% in the same period of last year to 56.1% in the period under review.

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In the second half of the year, we will focus in promoting Chateau Sungod, another of Greatwall's quality vineyards, in addition to Chateau Junding. Through the promotion of high quality wines from Chateau Sungod, we expect that the brand image of Greatwall wine to be further enhanced.

During the period under review, the revenue from Shaoxing wine amounted to HK\$13 million, representing an increase of 16% compared with the same period of last year. Gross profit margin increased from 34.4% in the same period of last year to 50.8% in the period under review as a result of an improvement in the sales mix, with a greater proportion of premium sales.

BEVERAGES BUSINESS

The Group's Coca-Cola beverages bottling group is one of the three principal bottling groups producing Coca-Cola beverages in the PRC. We currently operate seven bottlers and hold direct or indirect minority interests in a further eight bottlers. The seven bottlers of the Group are engaged in the production, bottling, sale and distribution of Coca-Cola beverages, including sparkling beverages and still beverages such as fruit juices, water and tea in twelve provinces and three other cities in the PRC under franchise agreements with The Coca-Cola Company.

During the period under review, attributable to our success in the formation and implementation of our marketing strategy and with the contribution from the two bottlers in Shandong Province which were acquired by the Group in October 2007, the consolidated turnover of the business was HK\$2,450 million, representing an increase of 56% over the same period of last year.

During the first half of the year, we have made strenuous efforts to promote a new tea beverage, "Original Leaf", which resulted in a significant increase in the revenue from the sale of tea beverages. Our success in the distribution of "Original Leaf" and "Minute Maid" has helped to broaden our product mix in the still beverage segment. Our marketing activities in support of the sponsorship of the Beijing Olympic Games have strengthened the awareness of the Coca-Cola brand in the PRC, which is expected to benefit the future growth of our business. We have devoted significant resources to establish an efficient distribution network infrastructure. In addition to direct distributorships, we have introduced cooperative arrangements with distributors at the county, town and village level. Our new bottling plant in Jiangxi and another new bottling plant in Xinjiang are expected to commence production at the end of 2008. Following the commissioning of these two plants, we will operate a total number of nine bottling plants. We believe we have great growth potential in the central and western China market covered by our franchise, and our beverage business will continue its strong long-term growth trend.

CONSUMER-PACK EDIBLE OIL BUSINESS

The consumer-pack edible oil business is engaged principally in the sale of consumer-pack edible oil in the PRC under the “福臨門” and “Fortune” brands. During the period under review, the sales volume of the business was 312,000 tonnes, an increase of 79% over the same period of last year and the revenue was HK\$4,101 million, an increase of 171% over the same period of last year. Due to the significant increase in raw material costs and end selling prices being limited by the price controls imposed by the government, the gross profit margin of the business dropped dramatically to 3.6% from 9.9% in the same period of last year.

High volatility of raw material prices in the first half of 2008 has caused the consolidation of the edible oil industry. Due to increase in sales volume, the distribution expense ratio decreased, partially offset by the negative impact of reduced gross profit margin. The cost of soybean oil has declined since August, 2008 which has eased cost pressure, and consequently gross profit margin has improved. In the first half of the year, we have leveraged on the consumers' knowledge and acceptance of the “福臨門” brand and launched the “福臨門” seasoning sauces which produced satisfactory sales results in trial cities.

It is expected that the consumer-pack edible oil market in China will maintain a 15% growth over the next three to five years. We will maintain a diversified product line and continue to optimise our product range to increase the ratio of high gross profit margin products to capitalize on the trend to healthier, premium quality products. We will also continue to improve our control over our distribution channels. It is expected that by the end of the year, the number of retail outlets served directly by us will increase from 5,000 in year 2007 to 20,000. In addition, we intend to extend our product offerings in seasoning sauces under the “福臨門” brand with further additions to this range introduced in the second half of the year.

CONFECTIONERY BUSINESS

The Group produces and distributes chocolates and confectionery products in China under the “Le Conte” and “金帝” brands. During the period under review, sales were adversely affected by the snowstorms in Southern China at the beginning of the year which coincided with our peak selling season. As a result, the turnover decreased to HKD112 million by 12% compared with the same period of last year.

By April 2008, we appointed a new management team for the confectionery business and it is now actively taking action on a number of fronts including rationalising the product line, brand building, market positioning and improving distribution.

30 June 2008

PROSPECTS

In summary, our wine and beverage businesses recorded a strong growth in the first half of the year. Trading conditions proved very demanding for our consumer-pack edible oil and confectionery businesses although there should be ample room for improvement.

We will continue focus on the creation of valuable brands and the establishment of extensive sales channels to supply our customers nationwide. Our goal is to achieve a leadership position in the food and beverages industry in China and create greater value for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group's equity attributable to equity holders of the Company stood at HK\$4,884 million, representing an increase of 7% compared with that of the Group as at 31 December 2007. As at 30 June 2008, the Group's cash and bank deposits totalled approximately HK\$1,001 million (31 December 2007: approximately HK\$1,397 million), and the Group's net current assets were approximately HK\$1,738 million (31 December 2007: approximately HK\$1,763 million).

Based on the above and the current bank and other borrowings and banking facilities available to the Group, the management believes that the Group's financial resources are sufficient for debt payments, day-to-day operations and capital expenditures.

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. The management is of the view that the appreciation of Renminbi will have positive effect on the Group and the exchange rate exposure of the Group is limited.

CAPITAL STRUCTURE

During the period under review, there were no changes to the share capital of the Company. As at 30 June 2008, the total number of issued shares of the Company was 2,791,383,356 shares.

As at 30 June 2008, the Group had no significant borrowings apart from certain bank loans and loans from a fellow subsidiary totaling HK\$438 million (31 December 2007: HK\$392 million). During the period under review, all the Group's bank borrowings carried annual interest rates ranging between 3.00% and 5.91% (31 December 2007: between 3.00% and 6.48%), while other borrowings carried annual interest rates ranging from 5.913% to 6.57% (31 December 2007: from 5.02% to 5.83%).

As at 30 June 2008, net assets attributable to equity holders of the Company were HK\$4,884 million (31 December 2007: HK\$4,559 million) and the net cash of the Group (cash and bank deposits less interest-bearing bank and other borrowings) was amounted to HK\$563 million (31 December 2007: HK\$1,005 million).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2008, the Group had no material contingent liabilities.

As at 30 June 2008, certain bank loans of the Group were secured by charges over certain bank deposits and fixed assets with net book value of approximately HK\$17.6 million (31 December 2007: HK\$104 million).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2008, the Group employed approximately 11,178 staff in mainland China and Hong Kong (31 December 2007: 11,000). Employees are paid according to their performance, experience and prevailing trade practices, and are provided with on-the-job and professional training. Employees in Hong Kong receive retirement benefits, either under the Mandatory Provident Fund exempted ORSO scheme or under the Mandatory Provident Fund scheme. There is a similar scheme for employees in mainland China. Details concerning employee benefit schemes are set out in the paragraph headed "Summary of Significant Accounting Policies" under sub-heading "Employee Benefits" in the 2007 Annual Report of the Company.

The Company has adopted a share option scheme (the "Scheme") to reward eligible employees of the Group (including executive directors and non-executive directors of the Company) according to individual merit. During the period under review, the Company did not grant any share options pursuant to the Scheme but 194,000 of the share options granted were forfeited. Accordingly, as at 30 June 2008, the total number of outstanding options was 20,283,600.

The options granted pursuant to the Scheme are effective for seven years, exercisable over five years after 24 months from the date on which they are granted subject to the satisfaction of certain requirements under the Scheme.

CHANGE IN THE STRUCTURE OF THE GROUP

During the period under review, a subsidiary of the Company completed the acquisition of 21% of shares in Coca-Cola Bottlers Manufacturing Holdings Limited on 21 February 2008. Details of which were disclosed in the 2007 Annual Report of the Company.

Save as the aforesaid, there were no material changes in the structure of the Group.

INTERIM DIVIDEND

The Directors declared the payment of an interim dividend of HK2.4 cents per share in respect of the six months ended 30 June 2008, which will be payable on 13 November 2008 to shareholders whose names appear on the Register of Members of the Company on 30 October 2008.

30 June 2008

CLOSURE OF REGISTERS

The Register of Members of the Company will be closed from Monday, 27 October 2008 to Thursday, 30 October 2008, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged at the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Friday, 24 October 2008.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the interests and short positions of the directors and their associates in the shares and underlying shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have or were deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register of members of the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") (together, "Discloseable Interests") were as follows:

(a) Discloseable Interests in the shares and underlying shares of the Company

Name of director	Nature of interest	Number of shares held	Total number of shares	Approximate percentage of issued share capital (Note 3)
Mr. Ning Gaoning	Beneficial Owner	880,000 (Note 2)	880,000	0.03%
Mr. Qu Zhe	Beneficial Owner	670,000 (Note 1)	1,550,000	0.06%
	Beneficial Owner	880,000 (Note 2)		
Mr. Mak Chi Wing, William	Beneficial Owner	800,000 (Note 2)	800,000	0.03%
Mr. Ma Jianping	Beneficial Owner	800,000 (Note 2)	800,000	0.03%

Name of director	Nature of interest	Number of shares held	Total number of shares	Approximate percentage of issued share capital (Note 3)
Ms. Luan Xiuju	Beneficial Owner	700,000 (Note 2)	700,000	0.03%
Mr. Zhang Zhentao	Beneficial Owner	700,000 (Note 2)	700,000	0.03%
Ms. Wu Wenting	Beneficial Owner	700,000 (Note 2)	700,000	0.03%

Notes:

1. Long positions in the shares of the Company, other than pursuant to equity derivatives such as share options, warrants or convertible bonds.
2. Long positions in the underlying shares of the Company under share options granted to directors pursuant to a share option scheme of the Company.
3. The percentages are calculated based on the total number of shares of the Company in issue as at 30 June 2008, i.e., 2,791,383,356 shares.

(b) Discloseable Interests in the shares and underlying shares of an associated corporation, China Agri-Industries Holdings Limited ("CAIH")

Name of director	Nature of interest	Number of shares held	Total number of shares	Approximate percentage of issued share capital (Note 2)
Mr. Ning Gaoning	Beneficial Owner	700,000 (Note 1)	700,000	0.02%

Notes:

1. Long positions in the underlying shares of CAIH under share options granted to Mr. Ning Gaoning pursuant to a share option scheme of CAIH.
2. The percentage is calculated based on the total number of shares of CAIH in issue as at 30 June 2008, i.e., 3,593,905,356 shares.

Save as disclosed herein, as at 30 June 2008, none of the directors or their associates had any other Discloseable Interests.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The interests and short positions of substantial shareholders (as defined in the Listing Rules) in the shares and underlying shares of the Company as at 30 June 2008, as recorded in the register of interests required to be kept under Section 336 of the SFO, were as follows:

(a) Aggregate long positions in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares and underlying shares as at 30 June 2008:

Substantial shareholders	Notes	Capacity and nature of interest	Number of shares held	Approximate percentage of aggregate interests in issued share capital*
Wide Smart Holdings Limited ("Wide Smart")	(1)	Directly beneficially owned	1,922,550,331	68.87%
COFCO (BVI) No. 108 Limited ("COFCO BVI")	(1)	Directly beneficially owned	140,000,000	5.02%
COFCO (Hong Kong) Limited ("COFCO (HK)")	(1)	Directly beneficially owned	10,138,000	0.36%
	(1) & (2)	Through controlled corporations	2,062,550,331	73.89%
COFCO Limited ("COFCO")	(1) & (3)	Through controlled corporations	2,072,688,331	74.25%

Notes:

- (1) Long positions in the shares of the Company.
- (2) COFCO (HK) is deemed to be interested in 2,062,550,331 shares in aggregate held by Wide Smart and COFCO BVI since COFCO (HK) is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO BVI.
- (3) COFCO is deemed to be interested in 2,072,688,331 shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK) since COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO (HK).

* The percentages are calculated based on the total number of shares of the Company in issue as at 30 June 2008, i.e., 2,791,383,356 shares.

(b) Aggregate short positions in the shares and underlying shares of the Company

As at 30 June 2008, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

Save as disclosed herein, as at 30 June 2008, the Company had not been notified of any persons other than the substantial shareholders above who had long positions or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register of interests required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme was adopted by the Company on 21 November 2006 and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

INFORMATION ON SHARE OPTIONS

Details of the movements in the number of options granted to the directors and eligible employees of the Group pursuant to the Scheme of the Company and outstanding at the beginning and at the end of the period review are as follows:

Name or category of participant	Number of share options					At 30 June 2008	Date of grant of share options	Exercise period of share options	Price of Company's Share		
	At 1 January 2008	Granted during the period	Exercised during the period	Forfeited during the period	At 30 June 2008				Exercise price of share options	At grant date of options	At exercise date of options
								HK\$	HK\$	HK\$	
Directors											
Mr. Ning Gaoning	880,000	-	-	-	880,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	-	
Mr. Qu Zhe	880,000	-	-	-	880,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	-	
Mr. Mak Chi Wing, William	800,000	-	-	-	800,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	-	
Ms. Luan Xiuju	700,000	-	-	-	700,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	-	
Mr. Ma Jianping	800,000	-	-	-	800,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	-	
Mr. Zhang Zhentao	700,000	-	-	-	700,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	-	
Ms. Wu Wenting	700,000	-	-	-	700,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	-	

Name or category of participant	Number of share options				At 30 June 2008	Date of grant of share options	Exercise period of share options	Price of Company's Share		
	At 1 January 2008	Granted during the period	Exercised during the period	Forfeited during the period				Exercise price of share options	At grant date of options	At exercise date of options
							HK\$	HK\$	HK\$	
Other Employees										
In aggregate	15,017,600	-	-	(194,000)	14,823,600	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	-
	<u>20,477,600</u>	<u>-</u>	<u>-</u>	<u>(194,000)</u>	<u>20,283,600</u>					

CORPORATE GOVERNANCE

In the opinion of the directors, during the six months ended 30 June 2008, the Company complied with the principles and code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules, except for the following deviation:

Code Provision E.1.2

Code provision E.1.2 provides that the chairman of the board should attend the Company's annual general meeting. The chairman of the board did not attend the annual general meeting of the Company held on 19 May 2008 due to other commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Upon specific enquiries of all directors, all directors have confirmed that they fully complied with the required standards set out in the Model Code during the six months ended 30 June 2008.

The Company also adopted a code of securities transactions by relevant employees to govern securities transactions of those employees who may possess or have access to price sensitive information.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with specific written terms of reference in accordance with the requirements of the Code. The primary duties of the remuneration committee include, without limitation, establishing a formal and transparent procedure for developing policies on remuneration, determining the terms of the specific remuneration package of each executive director and senior management. The remuneration committee currently consists of three members and two of them are independent non-executive directors. The remuneration committee is chaired by Mr. Yuen Tin Fan, Francis. The other committee members are Mr. Stephen Edward Clark and Mr. Qu Zhe.

AUDIT COMMITTEE

The Company has established an audit committee with specific written terms of reference in accordance with the requirements of the Code. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal control procedures. During the period under review, the audit committee consists of three members who are independent non-executive directors. The audit committee was chaired by Mr. Tan Man Kou. The other committee members are Mr. Stephen Edward Clark and Mr. Yuen Tin Fan, Francis. Mr. Tan passed away on 14 August 2008 due to an illness. Currently, the audit committee consists of only two members. The Company will do its utmost to identify a suitably qualified candidate with the appropriate professional qualifications or accounting or related financial management expertise to fill the vacancy left by Mr. Tan to ensure full compliance with Rules 3.10(2) and 3.21 of the Listing Rules.

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2008 together with the management and the independent auditors and has reviewed the internal auditors' report for the period under review with the Company's internal auditor.

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

Neither the Company nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities during the period under review.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation to former independent non-executive director Mr. Tan Man Kou, who passed away on 14 August 2008, for his valuable contribution to the Company during his tenure.

Last but not least, we would like to extend our appreciation to the shareholders for their continuous support and our appreciation to the management and all the staff for their dedication and hard work.

By Order of the Board
China Foods Limited
Qu Zhe
Managing Director

Hong Kong, 22 September 2008