華潤創業有限公司
China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

- Unaudited consolidated turnover and profit attributable to the Company's shareholders increased 20.2% and 36.5% respectively, to approximately HK$63,959 million and HK$2,235 million
- The Board of Directors recommended an interim dividend of HK$0.15 per share.

FINANCIAL HIGHLIGHTS

For the six months ended 30 June	**2012 (Unaudited)** *HK$ million*	2011 (Unaudited and Restated)[1] *HK$ million*
Turnover	**63,959**	53,230
Profit attributable to shareholders of the Company	**2,235**	1,637
Basic earnings per share[2]	**HK$0.93**	HK$0.68
Interim dividend per share	**HK$0.15**	HK$0.15

	At 30 June 2012 (Unaudited) *HK$ million*	At 31 December 2011 (Unaudited and Restated)[1] *HK$ million*
Equity attributable to shareholders of the Company	**39,200**	37,839
Non-controlling interests	**12,988**	12,633
Total equity	**52,188**	50,472
Consolidated net borrowings	**-**	-
Gearing ratio[3]	**Net cash**	Net cash
Net assets per share (book value):	**HK$16.33**	HK$15.77

Notes:
1. As a result of the adoption of HKAS 12 (Amendments), the Group changed its accounting policy on deferred taxation related to investment properties. This amendment has been applied retrospectively and certain 2011 comparatives are restated accordingly. Profit attributable to shareholders of the Company for the six months ended 30 June 2011 have been increased by approximately HK$68 million and the equity attributable to shareholders of the Company as at 31 December 2011 has been increased by approximately HK$1,485 million.
2. Diluted earnings per share for the six months ended 30 June 2012 and 2011 are HK$0.93 and HK$0.68, respectively.
3. Gearing ratio represents the ratio of consolidated net borrowings to total equity.

ANALYSIS OF TURNOVER AND PROFIT

	Turnover		Profit Attributable to Shareholders of the Company ("PAS")		PAS excluding the effect of asset revaluation and major disposal of non-core assets/investments (Note 1)	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012	2011	**2012**	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited and Restated)	**(Unaudited)**	(Unaudited)
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
Retail	**42,125**	34,367	**1,754**	1,098	**650**	674
Beer	**14,633**	12,830	**375**	329	**375**	329
Food	**5,114**	4,855	**144**	193	**144**	187
Beverage	**2,289**	1,366	**30**	58	**30**	58
	64,161	53,418	**2,303**	1,678	**1,199**	1,248
Elimination of inter-segment transactions	**(202)**	(188)	–	**–**	–	–
Net corporate interest and expenses	**–**	–	**(68)**	(41)	**(68)**	(41)
Total	**63,959**	53,230	**2,235**	1,637	**1,131**	1,207

Notes:

1. For the analysis of PAS excluding the effect of asset revaluation and major disposal of non-core assets/investments, the effect of the following transactions have been excluded in PAS of the respective division:

    a. Net gain on disposal of non-core investments and net valuation surplus on investment properties with an aggregate amount of approximately HK$1,104 million (2011: HK$424 million) have been excluded from the results of Retail division.

    b. Net valuation surplus on investment properties of approximately HK$6 million has been excluded from the 2011 results of the Food division.

CHAIRMAN’S STATEMENT

HALF-YEAR RESULTS

In the first half of 2012, the unresolved Eurozone credit crisis has continued to overshadow the global economy and dampen economic growth in China. Despite the market volatility, the Group's core businesses - retail, beer, food and beverage continued to deliver satisfactory performance through both organic growth and expansion from acquisition. By pursuing to become the largest consumer goods company in China, we have continued our strong track record of sustainable development over the years. These equip the Group in a better competitive position to capture economic benefit when China’s economic growth resumes acceleration.

The Group's unaudited consolidated turnover for the six months ended 30 June 2012 increased 20.2% to approximately HK$63,959 million. Unaudited consolidated profit attributable to the Company's shareholders amounted to HK$2,235 million, representing an increase of 36.5% year-on-year. Excluding the after-tax effect of asset revaluation and major disposals, the Group’s unaudited underlying consolidated profit attributable to the Company’s shareholders for the six months ended 30 June 2012 decreased by 6.3% to HK$1,131 million.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.15 per share for the six months ended 30 June 2012 (2011: HK$0.15 per share), payable on or around 15 October 2012 to shareholders whose names appear on the Register of Members of the Company on 3 October 2012.

STRATEGY IMPLEMENTATION

The retail division was the major profit contributor to the Group, accounting for more than 50% of the underlying consolidated profit attributable to the Company's shareholders. Capitalizing on our extensive network comprising over 4,000 stores across China, the Group reinforced its market leadership by adhering to its national strategy with an emphasis on regional dominance and multi-format business platform. During the period under review, the Group successfully completed the acquisition of Jiangxi Hongkelong Department Store Investment Company Limited and extended its footprint in Jiangxi region. Other than the acquisition, the Group continued to expand its network by opening new stores, mainly in existing regions. The expansion can help foster stronger regional dominance in future. Besides, the Group continued to offer better shopping experience to customers by adopting trade-up strategy, enriching product mix and upgrading shopping environment. The Group also formed alliances with prominent mainland property developers to bring in the Group’s multi-format stores in the same shopping mall for customers. These alliances will enhance the Group's rental bargaining power.

Thanks to consistent strategy on building up market share of our beer division in past years, we continued to be the leader in the China market with market share over 22% in the first half of 2012. The increase in market share, driven by both organic expansion and acquisitions, can secure our market leader position and improve our profitability through economies of scale. The Group exerted efforts on upgrading the product mix to mitigate the cost pressure of raw material and improve profitability during the period under review. These gave us an impetus for our strategic roadmap to achieve higher market share in future.

The Group's food division was dedicated to be the largest supplier of Chinese foodstuffs in Hong Kong and was actively expanding the China market by leveraging brand reputation of "五豐 Ng Fung". To capture the rising demand for quality products, the Group maintained its strategy by offering reliable and high quality food to consumers in China. Besides, the food division also actively explored the opportunity on synergy and co-operation with the retail operation during the period under review.

The Group's beverage division expanded rapidly in the first half of 2012 by the sales of both packaged water products of its flagship "怡寶 C'estbon" brand and beverage products of "麒麟 Kirin" brand. The Group successfully built up its scale in Guangdong and extended to Sichuan and Hunan. In the long run, the Group targets to launch differentiated products from existing ones in the market with the help on research and development from Kirin Holdings Company, Limited. The enriched product mix can assist the Group to become a powerful contender in China's non-alcoholic beverage sector.

PROSPECTS

Looking ahead, we believe the short-term operating environment in China will still be affected by global economy. Under such situation, the Group maintained surplus cash resources through its operation and disposal of certain non-core assets or investments, including an investment property in Hong Kong. The central government’s initiatives to promote consumer spending in its "12th Five-Year Plan" made us more optimistic about the future development of consumer goods industry. The cash reserve can facilitate the expansion of the Group which can capture the benefits from rebound of China economy in future.

The Group’s historical track records have also demonstrated a good balance achieved on both strategy and operation. We will continue our expansion plan thoroughly and intensify our control in risk management, cash and asset management to face with the change of global economic environment.

APPRECIATION

Lastly, on behalf of the Board, I would like to extend my sincere gratitude to all shareholders, customers and business associates for their ever-persistent support. I would also like to thank our management and staff for their dedication and wholehearted commitment to the Company.

QIAO SHIBO
Chairman

Hong Kong, 17 August 2012

2012 INTERIM RESULTS

The Directors of China Resources Enterprise, Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCCOUNT

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited and Restated)
	Notes	***HK$ million***	*HK$ million*
Turnover	*5*	**63,959**	53,230
Cost of sales		**(48,310)**	(39,986)
Gross profit		**15,649**	13,244
Other income	*6*	**1,767**	1,040
Selling and distribution expenses		**(11,212)**	(9,037)
General and administrative expenses		**(2,530)**	(2,199)
Finance costs	*7*	**(192)**	(87)
Share of net results of associates		**19**	(14)
Profit before taxation		**3,501**	2,947
Taxation	*8*	**(764)**	(845)
Profit for the period	*9*	**2,737**	2,102
Attributable to:			
Shareholders of the Company		**2,235**	1,637
Non-controlling interests		**502**	465
		2,737	2,102
Earnings per share	*11*		
Basic		**HK$0.93**	HK$0.68
Diluted		**HK$0.93**	HK$0.68

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited and Restated)
	HK$ million	*HK$ million*
Profit for the period	**2,737**	2,102
Other comprehensive income/(expenses):		
Exchange differences on translating foreign operations	**(226)**	704
Fair value adjustment on derivative financial instruments	**4**	10
Surplus on revaluation of properties	**62**	-
Income tax relating to:		
– surplus on revaluation of properties	**(25)**	-
Other comprehensive income for the period, net of tax	**(185)**	714
Total comprehensive income for the period	**2,552**	2,816
Attributable to:		
Shareholders of the Company	**2,128**	2,123
Non-controlling interests	**424**	693
	2,552	2,816

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2012 (Unaudited) HK$ million	At 31 December 2011 (Unaudited and Restated) HK$ million
Non-current assets			
Fixed assets			
- Investment properties		**11,473**	11,180
- Interests in leasehold land held for own use under operating leases		**6,179**	5,901
- Other property, plant and equipment		**35,663**	33,159
Goodwill		**14,877**	10,755
Other intangible assets		**301**	310
Interests in associates		**431**	432
Available for sale investments		**28**	31
Prepayments		**1,342**	305
Deferred taxation assets		**868**	762
		71,162	62,835
Current assets			
Stocks		**19,500**	20,715
Trade and other receivables	*12*	**9,709**	11,534
Taxation recoverable		**61**	51
Pledged bank deposits		**409**	258
Cash and bank balances		**24,354**	18,256
		54,033	50,814
Current liabilities			
Trade and other payables	*13*	**(47,961)**	(45,487)
Derivative financial instruments		**(4)**	(8)
Short term loans		**(9,335)**	(7,092)
Taxation payable		**(646)**	(610)
		(57,946)	(53,197)
Net current liabilities		**(3,913)**	(2,383)
Total assets less current liabilities		**67,249**	60,452
Non-current liabilities			
Long term loans		**(13,015)**	(8,442)
Deferred taxation liabilities		**(1,339)**	(1,006)
Other non-current liabilities		**(707)**	(532)
		(15,061)	(9,980)
		52,188	50,472
Capital and reserves			
Share capital		**2,400**	2,399
Reserves		**36,800**	35,440
Equity attributable to shareholders of the Company		**39,200**	37,839
Non-controlling interests		**12,988**	12,633
Total equity		**52,188**	50,472

Notes:

1. Independent review

The interim results for the six months ended 30 June 2012 are unaudited and have been reviewed by the Company's Audit Committee.

2. Basis of preparation

The interim results announcement has been presented in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited .

A full set of unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 ("interim financial information") which has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" will be published as soon as practicable.

3. Principal accounting policies

The accounting policies used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2011 except for the adoption of certain revised standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2012.

The Group has not early applied the new standards and amendments that have been issued by the HKICPA but are not yet effective. The Group has already commenced an assessment of the impact of these new standards and amendments but is not yet in a position to state whether these new standards and amendments would have a material impact on its results of operations and financial position.

4. Change in accounting policy

In previous periods, the deferred tax consequences are assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the carrying amount of the property. As a result of the adoption of HKAS 12 (Amendments), the Group changed its accounting policy on deferred taxation related to investment properties. Under the amendments, investment properties that are measured using the fair value model are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 and the comparative figures have been restated accordingly.

The effects on the consolidated financial statements are as follows:

	As previously reported HK$ million	Effect of adoption of amendments to HKAS 12 HK$ million	As restated HK$ million
Consolidated Profit and Loss account for the period ended 30 June 2011			
Taxation	(913)	68	(845)
Profit for the period	2,034	68	2,102
Profit attributable to shareholders of the company	1,569	68	1,637
Earnings per share – Basic	HK$0.65	HK$0.03	HK$0.68
Earnings per share – Diluted	HK$0.65	HK$0.03	HK$0.68
Consolidated Balance Sheet as at 31 December 2011			
Deferred taxation liabilities	(2,496)	1,490	(1,006)
Non-controlling interests	12,628	5	12,633
Retained profits	17,195	1,485	18,680

5. Turnover and segment information

Operating segments

	Retail *HK$ million*	Beer *HK$ million*	Food *HK$ million*	Beverage *HK$ million*	Elimination *HK$ million*	Total *HK$ million*
For the six months ended 30 June 2012						
Turnover						
External sales	42,083	14,585	5,018	2,273	-	63,959
Inter-segment sales*	42	48	96	16	(202)	-
Total	42,125	14,633	5,114	2,289	(202)	63,959
Segment result**	2,238	1,040	252	65		3,595
Unallocated corporate expenses						(52)
Interest income						150
Finance costs						(192)
Profit before taxation						3,501
Taxation						(764)
Profit for the period						2,737
For the six months ended 30 June 2011 (Restated)						
Turnover						
External sales	34,330	12,788	4,762	1,350	-	53,230
Inter-segment sales*	37	42	93	16	(188)	-
Total	34,367	12,830	4,855	1,366	(188)	53,230
Segment result**	1,505	1,069	299	80		2,953
Unallocated corporate expenses						(50)
Interest income						131
Finance costs						(87)
Profit before taxation						2,947
Taxation						(845)
Profit for the period						2,102

* Inter-segment sales were charged at prevailing market rates.

** Segment result represents earnings before interest income, finance costs and taxation.

6. Other income

	Six months ended 30 June	
	2012	2011
	HK$ million	*HK$ million*
Other income includes the following:		
Interest income	**150**	131
Valuation gain on investment properties	**915**	442
Profit on disposal of available for sale investments	**2**	-
Profit on disposal of fixed assets	**-**	32

7. Finance costs

	Six months ended 30 June	
	2012	2011
	HK$ million	*HK$ million*
Interest on bank loans and other loans wholly repayable within five years	**156**	64
Financing charges	**41**	23
	197	87
Less: Amount capitalised in cost of qualifying assets	**(5)**	-
	192	87

8. Taxation

	Six months ended 30 June	
	2012	2011 (Restated)
	HK$ million	*HK$ million*
Current taxation		
Hong Kong	**76**	71
Chinese Mainland	**740**	618
Overseas	**3**	3
	819	692
Deferred taxation		
Hong Kong	**(12)**	11
Chinese Mainland	**(43)**	142
	764	845

Hong Kong Profit Tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the period.

Chinese Mainland income tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries in the Chinese Mainland. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

9. Profit for the period

	Six months ended 30 June	
	2012	2011
	HK$ million	*HK$ million*
Profit for the period has been arrived at after charging:		
Depreciation		
- Owned assets	**1,652**	1,427
Amortisation of other intangible assets (included in general and administrative expenses)	**8**	10
Cost of goods sold	**48,136**	39,822

10. Dividends

At the board meeting held on 21 March 2012, the directors proposed a final dividend of HK$0.32 per ordinary share for the year ended 31 December 2011. Such proposal was subsequently approved by shareholders on 25 May 2012. The 2011 final dividend paid was approximately HK$768 million (2010: HK$912 million).

At the board meeting held on 17 August 2012, the directors declared an interim dividend of HK$0.15 per ordinary share (2011: interim dividend of HK$0.15 per ordinary share). Based on the latest number of shares in issue at the date of this announcement, the aggregate amount of the dividend is estimated to be HK$360 million (2011: HK$360 million).

11. Earnings per share

	Six months ended 30 June	
	2012	2011 (Restated)
	HK$ million	*HK$ million*
The calculation of the basic and diluted earnings per share is based on the following data:		
Earnings		
Profit attributable to shareholders of the Company for the purposes of calculating basic and diluted earnings per share	**2,235**	1,637
	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,399,791,301**	2,398,572,175
Effect of dilutive potential ordinary shares:		
- Share options	**3,943,064**	5,216,277
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,403,734,365**	2,403,788,452

12. Trade and other receivables

Included in trade and other receivables are trade receivables and their aging analysis is as follows:

	At 30 June 2012 ***HK$ million***	At 31 December 2011 *HK$ million*
0 – 30 days	**1,022**	883
31 – 60 days	**210**	235
61 – 90 days	**125**	85
> 90 days	**279**	282
	1,636	1,485

The Group normally trades with its customers under the following credit terms:
(a) cash upon delivery; or
(b) open credit within 60 days

13. Trade and other payables

Included in trade and other payables are trade payables and their aging analysis is as follows:

	At 30 June 2012 ***HK$ million***	At 31 December 2011 *HK$ million*
0 – 30 days	**9,897**	10,739
31 – 60 days	**2,876**	2,333
61 – 90 days	**3,199**	3,688
> 90 days	**2,203**	1,786
	18,175	18,546

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Retail

The Group’s retail division reported turnover of HK$42,125 million and attributable profit of HK$1,754 million in the first half of 2012, representing increases of 22.6% and 59.7% year-on-year respectively. Excluding the after-tax revaluation surplus and the disposal of the non-core assets, the division’s attributable profit for the first half of 2012 decreased by 3.6% year-on-year.

The Group’s retail division mainly consists of supermarkets, “中藝 Chinese Arts & Crafts” stores, “華潤堂 CR Care” stores, “采活 VIVO” health and beauty stores and “Pacific Coffee” shops. As at the end of June 2012, the Group operated over 4,000 stores in China, of which approximately 80% were self-operated while the rest were franchised.

During the period under review, China’s GDP growth rate retreated slightly while home purchase restrictions imposed by the central government remained in place. Lackluster domestic consumption along with slower overall retail sales growth posted challenges to the Mainland retail industry. Despite the setback in China’s consumer price index, the division’s same store sales increased by 5.7% year-on-year for the period under review. The sales growth of the Group’s retail division was mainly attributable to the opening of new stores and the contribution from the newly acquired Jiangxi Hongkelong Department Store Investment Company Limited.

Slower economic growth, accompanied by the increases in minimum wage levels across regions which accounted for the increase in labor costs, have affected the division’s operating profitability. Accordingly, the division carried out various initiatives to control operating costs, such as leveraging synergies arising from its multi-format business, enhancing bargaining power over the leases and establishing an energy management system to promote energy savings in its retail stores, as well as optimizing its labor structure and hiring system.

To further enhance its market share, the division continued to build coverage in new regions and to review its product mix and operational strategy. By fostering strategic cooperation with national property developers, the division managed to establish a presence in multiple formats at various high-quality commercial properties. In addition, the division will continue to optimize its supply chain management and emphasize staff training and the recruitment of new talents. The division will also focus on improving the operation of new stores and loss-making stores.

Looking ahead, the Group’s retail division is committed to its strategy of national expansion with an emphasis on strong regional leadership and creating synergies with its multi-format business platform. In addition to stepping up its efforts in developing its mature business formats in major regional markets to consolidate its leading position, the division will also accelerate its expansion into third-to-fourth tier cities, as well as into counties, towns and villages. The division will continue to establish direct trading bases between farmers and supermarkets, food safety model shops and environmental protection and energy saving model shops. Moreover, the division will accelerate the renovation and brand transition of the newly-acquired stores with an aim of improving customers’ shopping experience and store image. Concerted effort are also being made to stimulate sales and profitability through enhancing the standardization of retail formats and implementing lean management measures while promoting standardization of operational flow.

Beer

The Group’s beer division reported turnover and attributable profit of HK$14,633 million and HK$375 million respectively in the first half of 2012, representing increases of 14.1% and 14.0% over the corresponding period of 2011.

The Group’s beer division continued to enhance its production capacity through the construction and acquisition of breweries as well as the reconfiguration and expansion of existing breweries, while implementing effective promotions as well as strengthening of the management and establishment of its distribution channels with the aim of boosting beer sales. However, the relatively lower temperature recorded in most regions, along with the prolonged rainy and cloudy periods in the mid- to downstream and southern part of Yangtze River in the first quarter, have affected the Group’s overall growth of beer sales for the first half of the year. The Group’s beer sales volume increased by 6% year-on-year to approximately 5,366,000 kiloliters, of which sales volume of the Group’s national “雪花 Snow” brand increased by 8% to approximately 4,863,000 kiloliters, accounting for more than 90% of the Group’s total sales volume of beer.

During the period under review, the division’s overall operating costs, including primary and secondary raw materials costs, generally increased. By leveraging its economies of scale, the Group’s beer division further enhanced its procurement, production and energy efficiency so as to alleviate cost pressures. At the same time, the division was proactive in exploring market opportunities and debuting new products to boost sales volume. Sales of premium beer products were lifted, optimizing the division's product mix, which in turn raised average selling prices and stabilized profitability.

The division’s newly-built and acquired breweries in Henan and Zhejiang commenced operation during the period under review. As at the end of June 2012, the Group operated more than 80 breweries in China with an aggregate annual production capacity of more than 16,000,000 kiloliters.

Looking ahead, the Group’s beer division will continue to carry out marketing campaigns for the “雪花 Snow” brand in order to strengthen the brand’s reputation and customer loyalty. The division will reinforce the promotion of its premium beer to optimize its product mix and strengthen its centralized procurement system. At the same time, the division will continue to seek and evaluate investment opportunities prudently while pursuing organic growth, so as to attain a higher market share and maintain its leading market position.

Food

The Group’s food division reported turnover of HK$5,114 million and attributable profit of HK$144 million in the first half of 2012, representing an increase of 5.3% and a decrease of 25.4% year-on-year respectively.

With respect to the division’s meat operation in China, the prices of live pigs and pork continued their downward trend. Coupled with strengthened bargaining power over suppliers to reduce costs as well as stronger brand influence brought about by specialized retail meat stores across various cities, the meat operation recorded year-on-year increase in sales volume and gross profit.

As for the division’s assorted foodstuff operation in China, the sales volume of ice cream products was affected by unfavorable weather conditions and slower economic growth. By modifying its product mix, together with significant inroads made in neighboring markets such as

Jiangsu and Anhui, the operation recorded growth in turnover. Furthermore, the operation proactively optimized its product mix to alleviate rising cost pressures and consolidated its competitive advantage.

With respect to the division's operation in Hong Kong, the Hong Kong livestock distribution operation maintained its leadership in terms of market share in the region's live pig market. The frozen food distribution operation was influenced by the overall excess market supply during the period under review, thereby causing turnover to decrease year-on-year, which in turn affected operating profit.

Benefitting from the enhancement of product mix, the Group's marine fishing and aquatic products processing operation demonstrated growth in turnover. However, operating profit was affected by rising diesel price and labor costs in the first half of the year.

Looking ahead, China remains a key market for the growth of the Group's food division. In addition to enhancing the operational efficiency of its existing businesses, the division will also adhere to its development strategy of strengthening brand-building, expansion into new market and well-planned strategic mergers and acquisitions to further expand its business in the China market.

Beverage

The Group's beverage division reported turnover of HK$2,289 million and attributable profit of HK$30 million for the first half of 2012, representing an increase of 67.6% and a decrease of 48.3% year-on-year, respectively. The decrease in attributable profit was mainly from the result of diluted earnings contribution from the formation of a joint venture with Kirin Holdings Company, Limited in mid-August 2011.

With its flagship "怡寶 C'estbon" brand of purified water and the active promotion of beverage products of the "麒麟 Kirin" operation, the Group's beverage division recorded total sales volume of approximately 1,685,000 kiloliters in the first half of 2012, representing an increase of 39% year-on-year. During the period under review, the packaged water operation reported a marked increase in sales volume, especially in provinces such as Guangdong, Hunan, Sichuan, Guangxi, Jiangxi and Hainan, which delivered rapid growth in both turnover and sales volume. The "麒麟 Kirin" operation has started to sell its existing products through distribution channels of the packaged water operation in areas such as Guangdong, Hunan and Sichuan, and has also been aided by the enhancement in the product mix management and its pricing system. The drop in the prices of major primary and secondary raw materials, including packaging materials and sugar, has alleviated the pressure from rising operating costs. Additionally, in a move to further enhance brand awareness and recognition, the division will step up its marketing and promotional efforts in order to improve operating results.

The beverage market in China continues to show considerable growth potential, paving the way for the Group's beverage division to maintain relatively high growth in sales volume. Riding on its extensive distribution capabilities in China, the division will promote products bearing the "麒麟 Kirin" brand in the market throughout most of the areas covered by the division's operation to the ultimate benefit of consumers.

FINANCIAL REVIEW

Capital and Funding

As at 30 June 2012, the Group's consolidated cash and bank balance amounted to HK$24,763 million. The Group's borrowings as at 30 June 2012 were HK$22,350 million with HK$9,335 million repayable within 1 year, HK$13,011 million repayable after 1 year but within 5 years and HK$4 million repayable after 5 years. Committed borrowing facilities available to the Group but not drawn as at 30 June 2012 amounted to approximately HK$600 million.

The Group was at a net cash position as at 30 June 2012 and 31 December 2011.

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 30 June 2012, 21.8% of the Group's cash deposit balances was held in Hong Kong dollars, 53.3% in Renminbi and 24.6% in US dollars; whereas 76.6% of the Group's borrowings was denominated in Hong Kong dollars and 4.7% in Renminbi and 18.7% in US dollars. The Group's borrowings are principally on a floating rate basis. To mitigate the interest rate exposure, the Group entered into certain interest rate swaps to hedge part of its borrowings.

As the majority of the Group's assets, liabilities, revenue and payments are denominated in functional currencies of the respective group entity, the expected foreign currency exposure is minimal.

Pledge of Assets

As at 30 June 2012, assets with a carrying value of HK$1,160 million (31 December 2011: HK$306 million) were pledged for bank borrowings and notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2012.

Employees

As at 30 June 2012, the Group, excluding its associated companies, had a staff size of around 203,000, amongst which about 96% were employed in the Chinese Mainland, whilst the rest were mainly in Hong Kong and overseas. Remuneration packages are assessed in accordance with the nature of job duties, individual performance and market trends with built-in merit components, paid in the form of cash bonuses.

CORPORATE GOVERNANCE

The Company recognises that the development and maintenance of a good and solid framework of corporate governance suitable to the needs of the Group requires commitment and continuous vigilance. The Directors firmly believe that sensible corporate governance practice is essential to vigorous but steady growth of the Group.

The Company has implemented its own corporate governance standards and objectives since November 2003. On 8 April 2005, the Board approved the Company's "Corporate Governance Practice Manual" ("Corporate Governance Manual"). The Corporate Governance Manual, which was revised on 31 March 2009 and 18 November 2010, incorporates almost all of the Code Provisions and some of the Recommended Best Practices for the time being set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Listing Rules. Pursuant to the amendments to Appendix 14 of the Listing Rules that came into effect on 1 April 2012, the Corporate Governance Manual was further revised on 21 March 2012 to incorporate almost all of the Code Provisions set out in the Corporate Governance Code ("New Code") contained in Appendix 14 of the Listing Rules. The Corporate Governance Manual can be downloaded from our website and copies are available on request to the Company Secretary.

The Company has complied with the Code Provisions set out in the CG Code during the period from 1 January 2012 to 31 March 2012 and the New Code during the period from 1 April 2012 to 30 June 2012, save and except the following:

In respect of Code Provision A.4.1 of the CG Code and the New Code, all the non-executive directors are not appointed for a fixed term. The Board does not believe in any arbitrary term of office. The current arrangement will give the Company sufficient flexibility to organize the composition of the Board to serve the needs of the Group. Further, the Articles of Association of the Company requires that one-third of the Directors (including executive and non-executive directors) shall retire each year and every director shall be subject to retirement by rotation at least once every three years. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

Further, in respect of Code Provision A.6.7 of the New Code, Mr. Du Wenmin, Mr. Yan Biao, Mr. Shi Shanbo and Dr. Zhang Haipeng, the Non-Executive Directors, and Dr. Li Ka Cheung, Eric and Dr. Cheng Mo Chi, the Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 25 May 2012 due to other business engagement or travel overseas.

In respect of Code Provision D.1.4 of the New Code, the Company did not have formal letters of appointment for Directors. However, the Directors are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors", and, if applicable, "Guide for Independent Non-Executive Directors" published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors of the Company. Besides, the Directors are required to comply with the requirements under the Listing Rules, legal and other regulatory requirements.

In respect of Code Provision E.1.2 of the CG Code and the New Code, Mr. Qiao Shibo was not in Hong Kong due to business appointments overseas and therefore could not attend the annual general meeting of the Company held on 25 May 2012.

On 8 April 2005, the Company has adopted its own Code of Ethics and Securities Transactions (“Code of Ethics”) which apply to the Directors and other specified individuals including the Group's senior management and persons who are privy to price sensitive information of the Group. To further improve the effectiveness in the actual application of the Code of Ethics, the Company has since fine-tuned the Code of Ethics on 6 April 2006, 4 April 2007, 31 March 2009 and 18 November 2010 (“New Code of Ethics”). Both the Code of Ethics and the New Code of Ethics are on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) in Appendix 10 of the

Listing Rules. Having made specific enquiry of all Directors, the Company is not aware of any non-compliance with the standards set out in the Code of Ethics, the New Code of Ethics and the Model Code by any Director throughout the interim period.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 3 October 2012 (Wednesday) to 9 October 2012 (Tuesday), both days inclusive. In order to be eligible for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Tricor Standard Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 28 September 2012 (Friday).

By order of the Board
LAI NI HIUM, FRANK
Chief Financial Officer,
Executive Director and
Company Secretary

Hong Kong, 17 August 2012

As at the date of this announcement, the Executive Directors of the Company are Mr. Chen Lang (Chairman), Mr. Hong Jie (Chief Executive Officer), Mr. Liu Hongji (Vice Chairman) and Mr. Lai Ni Hium, Frank (Chief Financial Officer). The Non-executive Directors are Mr. Du Wenmin, Mr. Yan Biao, Mr. Wei Bin, Mr. Huang Daoguo and Mr. Chen Ying. The Independent Non-executive Directors are Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. Cheng Mo Chi, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.