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 2014

- Unaudited consolidated turnover amounted to approximately HK$83,506 million, representing an increase of 16.2%
- Unaudited consolidated profit attributable to the Company's shareholders amounted to HK$929 million, representing a decrease of 8.7%
- The Board of Directors recommended an interim dividend of HK$0.11 per share

FINANCIAL HIGHLIGHTS

For the six months ended 30 June	2014 (Unaudited) *HK$ million*	2013 (Unaudited) *HK$ million*
Turnover	**83,506**	71,857
Profit attributable to shareholders of the Company	**929**	1,018
Basic earnings per share[1]	**HK$0.39**	HK$0.42
Interim dividend per share	**HK$0.11**	HK$0.13
	At 30 June 2014 (Unaudited) ***HK$ million***	At 31 December 2013 (Audited) *HK$ million*
Equity attributable to shareholders of the Company	**50,518**	44,073
Non-controlling interests	**21,105**	15,538
Total equity	**71,623**	59,611
Consolidated net borrowings	**-**	1,167
Gearing ratio[2]	**Net Cash**	2.0%
Net assets per share (book value):	**HK$21.01**	HK$18.34

Notes:
1. Diluted earnings per share for the six months ended 30 June 2014 and 2013 are HK$0.39 and HK$0.42, respectively.
2. Gearing ratio represents the ratio of consolidated net borrowings to total equity.

ANALYSIS OF TURNOVER AND PROFIT

	Turnover Six months ended 30 June		Profit Attributable to Shareholders of the Company ("PAS") Six months ended 30 June		PAS excluding the effect of asset revaluation and major disposal of non-core assets/investments (Note) Six months ended 30 June	
	2014 (Unaudited) *HK$ million*	2013 (Unaudited) *HK$ million*	**2014 (Unaudited) *HK$ million***	2013 (Unaudited) *HK$ million*	**2014 (Unaudited) *HK$ million***	2013 (Unaudited) *HK$ million*
Retail	**52,589**	47,907	**700**	637	**439**	624
Beer	**18,475**	16,078	**417**	358	**417**	358
Food	**8,035**	5,004	**(72)**	71	**(72)**	71
Beverage	**5,057**	3,375	**66**	39	**66**	39
	84,156	72,364	**1,111**	1,105	**850**	1,092
Elimination of inter-segment transactions	**(650)**	(507)	**-**	–	**-**	–
Net corporate interest and expenses	**-**	-	**(182)**	(87)	**(182)**	(87)
Total	**83,506**	71,857	**929**	1,018	**668**	1,005

Note:

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

a. Net valuation surplus on investment properties with an aggregate amount of approximately HK$261 million (2013: HK$13 million) has been excluded from the results of Retail division.

CHAIRMAN'S STATEMENT

HALF-YEAR RESULTS

In the first half of 2014, China's economic growth remained slow as challenges lingered. Faced with adversity, the Group nevertheless focused on the long-term sustainable growth of its businesses – retail, beer, food and beverage – as planned, in particular the completion of the formation of a joint venture retail business with Tesco PLC ("Tesco"). We are excited by the partnership, because it not only combines the strengths of two industry-leading corporations, but also creates opportunities for us to become excellent in terms of market leadership, brand value, e-commerce, global sourcing and operational standards. Our strengthened competitiveness reinforces our confidence in seizing future growth opportunities which propel us to pursue the Group's vision of becoming a world renowned retail and consumer goods company.

For the six months ended 30 June 2014, the Group recorded consolidated turnover of approximately HK$83,506 million, representing an increase of 16.2% year-on-year. Consolidated profit attributable to the Company's shareholders amounted to HK$929 million, representing a decrease of 8.7% year-on-year. Excluding the after-tax effect of asset revaluation and major disposals, the Group's underlying consolidated profit attributable to the Company's shareholders for the six months ended 30 June 2014 would have decreased by 33.5%.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.11 per share for the six months ended 30 June 2014 (2013: HK$0.13 per share), payable on or around 13 November 2014 to shareholders whose names appear on the Register of Members of the Company on 3 October 2014. The interim dividend is to be payable in cash, with an option to receive new and fully paid shares in lieu of cash (the "Scrip Dividend Scheme"). Such interim dividend will not be subject to any withholding tax in Hong Kong.

A circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 17 October 2014. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme. It is expected the dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders on or around 13 November 2014.

STRATEGY IMPLEMENTATION

Following the strategy of "market leadership with outstanding brands, operational excellence and synergies among its businesses", during the period under review, the Group made strides in its journey to becoming a world renowned retail and consumer goods company.

On the retail front, confronted with slower growth in the retail market due to a government-directed austerity campaign and intense competition from the rapid growth of the e-commerce business, the Group is dedicated to building up its long-term differentiation by teaming with international retail giant Tesco by continuing to implement the proven strategy of refining and innovating its multi-format store network and expanding its network in regions where the Group has already established a presence. Leveraging Tesco's worldwide experience, the retail business will create ample synergies upon integration and ensure the sound development of its e-commerce and global sourcing. In the short run, the top priority of the business is to improve the operational efficiency of the joint venture in order to realize its full potential and to strengthen its profitability. In addition, both parties will work closely on overseas learning and experience sharing to foster talents for the sustainability of the business. With these strategies, we are confident that the joint venture is poised to become the leading multi-format retailer in Greater China.

The beer division delivered solid growth momentum as a result of the Group's continuous efforts in various initiatives, particularly the rapid growth of the division's premium beers and the successful integration of Kingway beer. The Group's flagship "雪花 Snow" brand continued to be the best-selling single beer brand in China in terms of volume. The overall beer business has a market share of approximately 23% in China. One significant factor in this impressive performance was the division's long-term cooperation with SABMiller PLC ("SABMiller"). This year marks our 20th year of cooperation, and we expect our collaboration to continue to generate strong returns to the Group in the future. The success of our joint efforts with SABMiller leads us to believe that the partnership between the Group and Tesco will also lead to long-term success.

The food division strengthened its national footprint and furthered the growth of its high potential business. During the period under review, the rice business recorded rapid growth and has established a protocol for expanding its nationwide presence. The division will continue to explore synergies with the Group's retail business and to look for opportunities to team up with other market leaders in the industry to accelerate its expansion.

The beverage division achieved remarkable sales growth during the review period mainly due to the sales of "怡寶 C'estbon" purified water. In addition to solidifying its operational efficiency, the division will step up its efforts in product research and development and promotional activities to better cater for customer demand. The division will continue to optimize its marketing strategy to enhance its brand image nationwide and to reinforce its leadership in the market.

In the first half of 2014, the Group continued to invest in the construction of specialized IT systems designed for systematic information analysis to enhance the operational efficiency and cost effectiveness of the businesses. Supported by a team of more than 800 professionals, the IT systems were incorporated with an Enterprise Resource Planning ("ERP") system, Customer Relationship Management ("CRM") system, as well as other systems relating to the consumer goods industries. In the future, the Group will continue to optimize the IT systems.

The Group has always put strong emphasis on internal controls and risk management in order to strengthen corporate governance. As at the end of June 2014, the Group employed approximately 130 specialists to perform relevant functions in these areas. Together with its partners with international experience, we believe the Group can safeguard a high level of corporate governance to its stakeholders.

PROSPECTS

Looking forward into the second half of 2014, the continuation of the Chinese government's anti-extravagance policy, the accelerated competition from the e-commerce industry and the consolidation of the loss from Tesco stores in China since the formation of the joint venture with Tesco on 28 May 2014 are likely to affect the performance of the retail business. However, we remain optimistic about the long-term development of the Group's retail business after forming an alliance with Tesco. We believe the immense synergies of the joint venture have yet to be tapped. Although we expect there will be a significant drop in our overall profitability of the Group for the fact that we need time in the short to medium term during the running-in period to turn around the performance of the Tesco stores in China which are currently loss-making and to integrate those stores with our other supermarket businesses, our overall capabilities are strengthened by the formation of the joint venture, and we are well prepared to face the uncertainties ahead and to capitalize on promising opportunities as they arise.

We will also fully utilize our economies of scale in each of our businesses to enhance operational efficiency and strengthen our profitability as a whole. We will continue to optimize our development strategy and strengthen our national footprint to grow our businesses.

APPRECIATION

Lastly, on behalf of the Board, I would like to conclude by expressing my sincere gratitude to our valued shareholders, customers and business associates for their trust and support. I would also like to thank our management and colleagues for their efforts and dedication, which have helped us realize our goal of bringing quality lives to our customers.

CHEN LANG
Chairman

Hong Kong, 21 August 2014

2014 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 2014 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCCOUNT

		For the six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	***HK$ million***	*HK$ million*
Turnover	*4*	**83,506**	71,857
Cost of sales		**(62,124)**	(53,822)
Gross profit		**21,382**	18,035
Other income	*5*	**1,451**	794
Selling and distribution expenses		**(16,654)**	(13,256)
General and administrative expenses		**(3,340)**	(2,950)
Finance costs	*6*	**(320)**	(153)
Share of net results of associates		**1**	8
Share of net results of joint ventures		**(23)**	-
Profit before taxation		**2,497**	2,478
Taxation	*7*	**(1,041)**	(1,002)
Profit for the period	*8*	**1,456**	1,476
Attributable to:			
Shareholders of the Company		**929**	1,018
Non-controlling interests		**527**	458
		1,456	1,476
Earnings per share	*10*		
Basic		**HK$0.39**	HK$0.42
Diluted		**HK$0.39**	HK$0.42

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$ million	*HK$ million*
Profit for the period	**1,456**	1,476
Other comprehensive income/(expenses):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**(470)**	770
Fair value adjustment on available for sale investments	**8**	(13)
Reclassification adjustments:		
– release of exchange differences upon disposal of subsidiaries	**(6)**	(13)
	(468)	744
Items that will not be reclassified to profit or loss:		
Surplus on revaluation of properties	**-**	191
Income tax relating to:		
– surplus on revaluation of properties	**-**	(104)
	-	87
Other comprehensive income/(expenses) for the period, net of tax	**(468)**	831
Total comprehensive income for the period	**988**	2,307
Attributable to:		
Shareholders of the Company	**609**	1,606
Non-controlling interests	**379**	701
	988	2,307

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**At 30 June 2014 (Unaudited) *HK$ million***	At 31 December 2013 (Audited) *HK$ million*
Non-current assets			
Fixed assets			
- Investment properties		**17,920**	15,952
- Interests in leasehold land held for own use under operating leases		**10,097**	8,492
- Other property, plant and equipment		**54,066**	44,673
Goodwill		**21,008**	19,428
Other intangible assets		**533**	562
Interests in associates		**363**	388
Interests in joint ventures		**2,331**	-
Available for sale investments		**147**	142
Prepayments		**1,181**	876
Deferred taxation assets		**1,693**	1,540
		109,339	92,053
Current assets			
Stocks		**25,144**	25,021
Trade and other receivables	*11*	**18,389**	16,428
Taxation recoverable		**147**	251
Pledged bank deposits		**145**	336
Cash and bank balances		**26,826**	21,200
		70,651	63,236
Current liabilities			
Trade and other payables	*12*	**(77,180)**	(69,178)
Short term loans		**(13,350)**	(3,357)
Taxation payable		**(948)**	(1,155)
		(91,478)	(73,690)
Net current liabilities		**(20,827)**	(10,454)
Total assets less current liabilities		**88,512**	81,599
Non-current liabilities			
Long term loans		**(12,236)**	(19,346)
Deferred taxation liabilities		**(2,124)**	(1,831)
Other non-current liabilities		**(2,529)**	(811)
		(16,889)	(21,988)
		71,623	59,611
Capital and reserves			
Share capital		**15,401**	2,403
Reserves		**35,117**	41,670
Equity attributable to shareholders of the Company		**50,518**	44,073
Non-controlling interests		**21,105**	15,538
Total equity		**71,623**	59,611

Notes:

1. **Independent review**

   The interim results for the six months ended 30 June 2014 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 2014 ("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 2013 except for the adoption of certain new and 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 2014.

   The adoption of these new and revised standards, amendments and interpretations has had no material effect on the results or financial positions of the Group for the current and prior accounting periods. Accordingly, no prior period adjustments are required.

   The Group has not early applied the new standards, amendments and interpretation 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 and revised standards and amendments but is not yet in a position to state whether these new and revised standards and amendments would have a material impact on its results of operations and financial position.

4. 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 2014						
Turnover						
External sales	52,532	18,425	7,526	5,023	-	83,506
Inter-segment sales*	57	50	509	34	(650)	-
Total	52,589	18,475	8,035	5,057	(650)	83,506
Segment result**	1,122	1,291	50	142		2,605
Unallocated corporate expenses						(103)
Interest income						315
Finance costs						(320)
Profit before taxation						2,497
Taxation						(1,041)
Profit for the period						1,456
For the six months ended 30 June 2013						
Turnover						
External sales	47,857	15,994	4,657	3,349	-	71,857
Inter-segment sales*	50	84	347	26	(507)	-
Total	47,907	16,078	5,004	3,375	(507)	71,857
Segment result**	1,119	1,135	160	90		2,504
Unallocated corporate expenses						(62)
Interest income						189
Finance costs						(153)
Profit before taxation						2,478
Taxation						(1,002)
Profit for the period						1,476

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

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

5. Other income

	Six months ended 30 June	
	2014	2013
	HK$ million	*HK$ million*
Other income includes the following:		
Interest income	**315**	189
Valuation gain on investment properties	**259**	17

6. Finance costs

	Six months ended 30 June	
	2014	2013
	HK$ million	*HK$ million*
Interest on bank loans and other loans wholly repayable within five years	**211**	143
Financing charges (including exchange gain or loss)	**111**	15
	322	158
Less: Amount capitalised in cost of qualifying assets	**(2)**	(5)
	320	153

7. Taxation

	Six months ended 30 June	
	2014	2013
	HK$ million	*HK$ million*
Current taxation		
Hong Kong	**89**	84
Chinese Mainland	**968**	912
	1,057	996
Deferred taxation		
Hong Kong	**(3)**	2
Chinese Mainland	**(13)**	4
	1,041	1,002

Hong Kong Profit Tax is calculated at 16.5% (2013: 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.

8. Profit for the period

	Six months ended 30 June	
	2014	2013
	HK$ million	*HK$ million*
Profit for the period has been arrived at after charging:		
Depreciation		
- Owned assets	**2,193**	1,763
Amortisation of other intangible assets (included in general and administrative expenses)	**26**	13
Cost of goods sold	**61,949**	53,637

9. Dividends

At the board meeting held on 20 March 2014, the directors proposed a final dividend of HK$0.14 per ordinary share for the year ended 31 December 2013 in cash form, with an option to receive new and fully paid shares of the Company in lieu of cash. Such proposal was subsequently approved by shareholders on 30 May 2014. The 2013 final dividend paid was approximately HK$337 million (2012: HK$360 million).

At the board meeting held on 21 August 2014, the directors declared an interim dividend of HK$0.11 per ordinary share (2013: interim dividend of HK$0.13 per ordinary share). The interim dividend is to be payable in cash, with an option to receive new and fully paid shares of the Company in lieu of cash. 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$265 million (2013: HK$313 million).

10. Earnings per share

	Six months ended 30 June	
	2014	2013
	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	**929**	1,018

	2014	2013
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,403,754,753**	2,402,342,811
Effect of dilutive potential ordinary shares:		
- Share options	**1,067,058**	2,137,755
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,404,821,811**	2,404,480,566

11. Trade and other receivables

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

	At 30 June 2014	At 31 December 2013
	HK$ million	*HK$ million*
0 – 30 days	**1,934**	1,205
31 – 60 days	**371**	341
61 – 90 days	**246**	126
> 90 days	**527**	573
	3,078	2,245

The Group normally trades with its customers under the following credit terms:
(a) cash upon delivery; or
(b) open credit from 30 to 90 days

12. Trade and other payables

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

	At 30 June 2014	At 31 December 2013
	HK$ million	*HK$ million*
0 – 30 days	**19,414**	17,919
31 – 60 days	**3,538**	3,787
61 – 90 days	**1,496**	1,406
> 90 days	**3,202**	2,710
	27,650	25,822

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Retail

The Group’s retail division reported turnover of HK$52,589 million and attributable profit of HK$700 million in the first half of 2014, representing increases of 9.8% and 9.9% year-on-year, respectively. Excluding the after-tax revaluation surplus, the division’s attributable profit for the first half of 2014 declined by 29.6% year-on-year. The decrease in attributable profit was mainly a result of the formation of the Group’s joint venture with Tesco PLC (“Tesco”) on 28 May 2014, which has diluted the profit contributed to the Group by the retail division.

The Group’s retail division mainly consists of “華潤萬家 CR Vanguard” supermarkets, “中藝 Chinese Arts & Crafts” stores, “華潤堂 CRCare” stores, “采活 VIVO” health and beauty stores and “太平洋咖啡 Pacific Coffee” shops. As at the end of June 2014, the Group operated over 4,700 stores in China, of which approximately 84% were self-operated while the rest were franchised.

During the period under review, the retail market recorded slower growth due to continuous pressure from the slowdown in domestic macro-economic growth. The central government’s strict enforcement of frugality which affected sales of high-end products and stored value cards; in addition, the growth in e-commerce sales has diverted some consumers from physical stores. The Group’s retail division recorded a decrease in same store sales of 1.4% year-on-year.

With overall retail market being affected by the accelerated expansion of e-commerce, the Group believes that the joint venture with Tesco will bring in great value by optimization of all-round capacity of the Group's retail operation on e-commence.

The normal salary increment within the industry and increases in wage levels, as well as the cost in relation to the integration with Tesco, exerted pressure on the profitability of the Group’s retail division. As such, the division implemented various initiatives to control operating costs in a comprehensive manner, including rationalizing its labor structure and hiring system, establishing an energy management system to speed up energy savings optimization at its retail stores, as well as leveraging synergies through its multi-format business to enhance bargaining power in lease negotiations, etc. Besides, the joint venture with Tesco is believed to generate ample synergies after integration, like staff workforce rationalization, purchasing power enhancement, IT and logistics optimization and others.

Meanwhile, by actively pushing forward integration with Tesco, the division continued to expand into new markets and review its product mix and operational strategy to further enhance the division’s market share and to reinforce its national influence. During the period under review, the division opened its first hypermarket in Urumqi, Xinjiang. “太平洋咖啡 Pacific Coffee” shops and “采活 VIVO” health and beauty stores continued to open new stores in first-to-second tier cities, further enhancing the national influence of the Group’s retail business.

Looking ahead, the division will refine and innovate its multi-format store network and expand its network in regions where the Group has already established a presence. By enhancing resource allocation, operational balance and efficiency, the division aims to become the market leader in the retail industry. In the meantime, the division will secure significant cost and operating synergies, as well as faster growth and enhanced profitability through a compelling combination of local expertise and international best practices. The division is set to provide better retail service for customers in China.

Notwithstanding that the above-mentioned joint venture with Tesco is a strategic move to benefit the long-term operations of the Group's business, the Group is expected to have a significant drop in the overall profitability for the year ending 31 December 2014. The performance of the Group will be likely affected by the consolidation of loss-making Tesco stores in China and extended cost pressure of the Group's retail operation, if the slowdown of the economic growth in China continues and the intense competition in the industry, mainly arising from e-commerce, extends.

Whilst the Group will strive to turn around the performance of the China Tesco stores as soon as practicable, it is expected that the China Tesco stores, which are now part of the joint venture with Tesco, would continue to suffer net losses in the short to medium term during the running-in period in light of the current economic conditions in China and the time required to integrate those stores with the Group's other supermarket business. The Group will continue to monitor the situation and will update the market as and when appropriate.

For further information, Tesco will assist in funding of the Group's restructuring cost by injection of HK$4,325 million in aggregate, of which HK$2,325 million will be applied for general business purposes within the joint venture and HK$2,000 million will be used upon discretion of the Group management. Further details of the joint venture, including the net losses of Tesco's China operations for the full financial years of 2012 and 2013 and the six months ended 25 August 2013, are set out in the circular of the Company dated 25 February 2014.

Beer

The Group's beer division reported turnover and attributable profit of HK$18,475 million and HK$417 million, respectively, in the first half of 2014, representing increases of 14.9% and 16.5% year-on-year, respectively.

The division's sales volume increased by 9% year-on-year to approximately 6,301,000 kiloliters for the first half of 2014, of which the sales volume of the Group's national "雪花 Snow" brand increased by 5% to approximately 5,520,000 kiloliters, accounting for approximately 90% of the Group's total beer sales volume. In the second quarter, a number of strong regions along the Yangtze River experienced weaker growth in sales volume relative to other domestic markets due to low temperatures and high rainfall. The division, however, maintained its overall growth momentum in sales volume with the benefit of the Group's continuous efforts to improve its production capacity, strengthen its brand promotions, implement targeted measures to optimize the efficiency of its distribution network, and promote the division's premium beers. The successful integration of Kingway beer also boosted the division's sales volume.

During the period under review, in response to the intensifying market competition and FIFA World Cup, the division ramped up investment in its promotions and marketing activities in a moderate manner. By leveraging its centralized procurement and economies of scale, the division further enhanced its production efficiency so as to relieve cost pressures. Meanwhile, the division continued to enhance its product mix to lift the average selling prices of its products and to consolidate its overall profitability.

As at the end of June 2014, the Group operated more than 95 breweries in China with aggregate annual production capacity of over 19,000,000 kiloliters.

Looking ahead, the Group’s beer division will continue to carry out marketing campaigns for its “雪花 Snow” brand in order to strengthen the brand’s reputation and customer loyalty. The division will reinforce the promotion of its premium beers to optimize its product mix. At the same time, the division will continue to seek and evaluate investment opportunities in a prudent manner and will at the same time pursue organic growth in order to expand its market share and to consolidate its leading market position.

Food

The Group’s food division reported turnover of HK$8,035 million for the first half of 2014, representing an increase of 60.6% year-on-year; and attributable loss of HK$72 million for the first half of 2014, as compared to attributable profit of HK$71 million for the same period last year. During the period under review, the division was undergoing business transition, with the rice and other new businesses being established and incurring high marketing expenses, which affected the overall profitability of the division.

In respect of the division’s operation in Hong Kong, the live pigs market remained sluggish due to abundant supply in the market. Although the market began to pick up in the second quarter, overall selling prices of live pigs are persistently low; moreover, the costs of raw materials such as feeds remained at high levels, putting pressure on the profitability of the livestock rearing operation. Faced with the downturn in the live pigs market, the division will strengthen its competitiveness and profitability by enhancing its management standards for livestock rearing and enhancing the quality and structure of live pig procurement.

As for the meat operation in China, through the vigorous expansion of the division’s first-tier meat wholesale business and carved meat business, and by increasing the number of specialized meat retail stores in various cities, the division achieved significant growth in turnover as compared to the same period last year; in addition, domestic live pig prices in China continued to decline, which in turn led to lower procurement costs and an improvement in profitability.

As for the division’s assorted foodstuffs operation, the Group implemented an aggressive strategy to promote sales of condiments. The Group stepped up its promotional efforts to increase its market share and enhance overall profitability.

During the period under review, the rice business achieved rapid year-on-year sales growth through acquisitions and increased investment in bolstering distribution channels for market expansion. The division has started to establish a nationwide presence. By means of adjusting its management structure to keep up with business growth and improving reputation of “五豐 Ng Fung” branded rice products, the division continued to grow its market share and to gradually achieve economies of scale.

Looking ahead, the Group’s food division will continue to focus on the domestic market and will enhance its operational efficiency to accommodate its development strategy through continuous expansion. By means of the promotion and marketing of the “五豐 Ng Fung” brand, the Group will further enhance the division’s profitability.

Beverage

The Group’s beverage division reported turnover and attributable profit of HK$5,057 million and HK$66 million, respectively, for the first half of 2014, representing increases of 49.8% and 69.2% year-on-year, respectively.

The division's total sales volume increased by 42% year-on-year to approximately 3,222,000 kiloliters in the first half of 2014. This increase is mainly attributable to the remarkable growth in the sales volume of "怡寶 C'estbon" purified water. During the period under review, to further solidify its market-leading position in southern China, the division's purified water business deepened its market penetration and reinforced its competitive edge by focusing on its core markets in Guangdong, Hunan, and Sichuan provinces and expanding its sales network in their adjacent regions. At the same time, the purified water business propelled the expansion of the "怡寶 C'estbon" brand across the country through television and internet advertisements, as well as offline marketing and promotional activities such as sponsorship of the "Transformers 4" movie and the "Let's go home" microfilm, which contributed to sales growth for the division.

Faced with market competition in the industry, the division actively enhanced its marketing and promotional efforts for beverage products during the period under review, and launched marketing campaigns during the FIFA World Cup period to increase brand awareness and recognition. In addition, the division focused on certain key cities to boost synergistic investments in sales channels for beverage products with those of packaged water to reinforce the division's market competitiveness.

Looking ahead, in the face of the diversified marketing measures in the industry and the continuous innovation of beverage products, both of which have led to intensifying market competition, the division will, besides further improving its operational efficiency, reinforce its efforts in product research and development and promotional activities to meet customer demand. The division will also optimize its marketing strategy to enhance its brand image so as to increase its market share.

FINANCIAL REVIEW

Capital and Funding

As at 30 June 2014, the Group's consolidated cash and bank balance amounted to HK$26,971 million. The Group's borrowings as at 30 June 2014 were HK$25,586 million with HK$13,350 million repayable within 1 year, HK$12,233 million repayable after 1 year but within 5 years and HK$3 million repayable after 5 years.

The Group was at a net cash position as at 30 June 2014. On the basis of the Group's net borrowings relative to the shareholders' funds and non-controlling interests, the Group's gearing was approximately at 2.0% as at 31 December 2013.

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 30 June 2014, 13.9% of the Group's cash deposit balances was held in Hong Kong dollars, 80.3% in Renminbi and 5.8% in US dollars; whereas 60.4% of the Group's borrowings was denominated in Hong Kong dollars and 17.3% in Renminbi and 22.3% in US dollars. The Group's borrowings are principally on a floating rate basis.

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 2014, assets with a carrying value of HK$1,999 million (31 December 2013: HK$514 million) were pledged for bank loans and notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2014.

Employees

As at 30 June 2014, the Group, excluding its associated companies and joint ventures, had a staff size of around 223,000, amongst which about 98% 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, 18 November 2010 and 21 March 2012, incorporates almost all of the Code Provisions set out in the Corporate Governance Code ("CG 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, save and except the following:

In respect of Code Provision A.4.1 of the CG 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.

In respect of Code Provision A.5.6 of the CG Code, the Board did not have a policy concerning diversity of the Board members but the Board is actively considering the adoption of the relevant policy.

In respect of Code Provision C.1.2 of the CG Code, the Company has not provided all members of the Board with monthly updates to enable the Board as a whole and each Director to discharge their duties. However, the Company has based on business situation, provided to the Board from time to time, updated business information to enable the Board as a whole and each Director to discharge their duties.

In respect of Code Provision D.1.4 of the CG 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.

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 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 3 October 2014 (Friday) to 9 October 2014 (Thursday), 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 30 September 2014 (Tuesday).

By order of the Board
CHEN LANG
Chairman

Hong Kong, 21 August 2014

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. Wei Bin, Mr. Yan Biao, Mr. Chen Ying and Mr. Wang Yan. The Independent Non-executive Directors are Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. Cheng Mo Chi, Moses, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.