Dali Foods Group Company Limited
達利食品集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3799)

CLARIFICATION ANNOUNCEMENT

This announcement is made to categorically deny, refute and clarify the allegations or comments concerning the Group published by FG Alpha Management on Twitter on 7 June 2017.

Save as disclosed in this announcement, after having made due and careful enquiries with respect to the Group as is reasonable in the circumstances, the Board confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that need to be disclosed under Part XIVA of the SFO.

The Board would recommend the Shareholders and potential investors to exercise extreme caution when dealing in the securities of the Company.

This announcement is made by Dali Foods Group Company Limited (the "**Company**" or "**Dali**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09(2)(a) of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)("**SFO**").

Reference is made to allegations or comments concerning the Group (the "**Allegations**") published by FG Alpha Management ("**FG Alpha**" or "**FG Alpha Management**") on Twitter on 7 June 2017. This announcement is made to categorically deny, refute and clarify the Allegations. The board (the "**Board**") of directors (the "**Directors**") of the Company does not have any information about the identity of FG Alpha Management, nor any Director or senior management of the Group has been approached or interviewed by FG Alpha Management to address or clarify the Allegations prior to its publication.

As mentioned in the Allegations, "Daniel David is shorting the Company". **The Board would therefore recommend the shareholders of the Company (the "Shareholders") and potential investors to exercise extreme caution when dealing in the securities of the Company**.

ALLEGATIONS OR COMMENTS CONCERNING THE GROUP PUBLISHED FG ALPHA MANAGEMENT ON THE TWITTER

1. **Allegation relating to advertisement spending**

   Company's response

   It is alleged that "Based on CTR reports from 2012-2014, Dali's advertisement spending is ranked higher than Want Want's, conflicting with Dali's and Want Want's annual reported numbers. From 2014-2016, Dali's A&P expense tripled but its CTR ranking decreased."

   a) — CTR, known as CTR Market Research Co., Ltd. in full name, is one of the authoritative market research institutions in China. The data on advertising fees collected from the top ranking branded enterprises as set forth in the CTR report are generally based on the standard publication rates quoted by various media, hence the top ranked enterprises on the ranking list in the CTR report are enterprises with annual media budget in billions of Renminbi. However, no enterprise is in fact required to pay such a huge amount of advertising fees, because a substantial discount rate will apply.

   — In China, except for a few television stations where the standard publication rates are relatively close to the actual execution price (with a discount rate ranging from 20% to 50%), even larger discounts normally exist between the standard publication rates and the actual execution price in substantially all television stations. Each of the television stations will determine its own discount policy by considering its cooperation with various branded customers on an independent and individual basis. Different policies may have huge differences (the difference in discount rates among various television stations may be as much as several dozen times), it is almost impossible to predict the actual advertising fees for the entire enterprise by using the standard publication rate.

— For Dali itself, the operation in advertising placement has always been an advantage for Dali, with the form and characteristics mainly as follows: 1) the cooperation between Dali and Star TV channels is mainly through direct communication with the enterprises, and without going through third party agents, no agent fees will be involved; 2) the placement strategy of Dali is mainly focused on Star TV channels with hard and broad profile, high frequency and commercials of extremely popular advertising image, more emphasis will be placed on the coverage of consumers in various market segments than hotspot programs to increase the performance-to-price ratio; 3) Dali has established cooperative relationship with most Star TV channels in much earlier days, and has been maintaining high frequency, hard and broad profile and continuous cooperation with them. To become the basic customer in cooperation with most channels is the key for Dali to obtain more preferential policy granted by Star TV channels.

— While the price for advertisements on satellite TV stations each year has been increasingly higher every year for their continuous increase in market share and influence, the adjustment for enterprises, including Dali, which have continuous collaboration with the satellite TV stations earlier, is smaller. Generally, Dali has been in collaboration with each of the satellite TV stations on the basis of appropriate adjustments based on the performance in the previous year of the TV stations on the market. In fact, Dali has been, to a considerable extent, enjoying pioneer bonus.

— According to the CTR report, Dali is benefited from fees for brand and the strategy and advantages of advertisement placing on media. Satellite TV stations consist of a few 1-tier platforms and a majority of 2- and 3-tier platforms, with which Dali enjoys more substantial advantage for its strategy of advertisements placing mainly on satellite TV stations with greater coverage and supplemented with other media; as such, while fees for Dali is doesn't in fact not great, as shown in the CTR report.

b) From 2014 to 2016, advertisement expenses of Dali were 324 million, 324 million and 374 million respectively, the increase was relatively stable, and there was no significant increase of Dali's advertisement expenses; the significant increase of A&P expenses of Dali (A&P expenses from 2014 to 2016 were 484 million, 1.086 billion and 1.563 billion) mentioned by FG Alpha was due to the increase of promotion fee instead of increase of media advertisement fee.

c) As for FA Alpha's accusation of Dali's advertising costs, there is no strong relevance between the data cited and Dali's financial data. What is more, FA Alpha did not make any in-depth analysis of Dali's published advertising expenditure data.

2. **Allegation relating to cash advances from controlling shareholder before IPO**

It is alleged that "Dali took questionable cash advances from its controlling shareholder in the years leading up to its IPO"

Company's response

a) In the Consolidated Statements of Financial Position on page 233 and the Consolidated Statements of Cash Flows on page I-11 in the IPO Prospectus of Dali, disclosure on the amount due to the Controlling Shareholders by Dali was set out below. In 2012, the Group had new advances in the amount of RMB 843,644,000 due to the Controlling Shareholders, which were mainly used for the purchase and construction of plants and production lines for the new factories which commenced operations during the same year in Henan, Guangdong, Jiangsu, Nanchang and other regions. In 2013, the Group had new advances in the amount of RMB976,998,000 due to the Controlling Shareholders, which were mainly used for the purchase and construction of the plants and new production lines for the factories under construction in Hebei and Shaanxi. Such amounts due to the Controlling Shareholders were non-trading in nature, unsecured, non-interest bearing and repayment would be required on demand.

		31 December			30 June
	Section II	**2012**	**2013**	**2014**	**2015**
	Notes	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Due to the Controlling Shareholders	36(d)	862,023	1,335,594	204,411	—

	Section II Notes	For the year ended 31 December 2012 RMB'000	2013 RMB'000	2014 RMB'000	For the six months ended 30 June 2014 RMB'000 (Unaudited)	2015 RMB'000
Advances from the Controlling Shareholders		843,644	976,998	48,503	37,311	80,731
Repayment of advances from the Controlling Shareholders		(575,096)	(503,427)	(1,231,591)	(582,329)	(285,142)

b) In 2012 and 2013, the Group's new factories in operation and under construction still required a significant amount of capital to purchase and construct plants and production lines in addition to initial capital investment. When considering the financing methods, the Group did not choose bank borrowings and capital increase, after having considered the following aspects: 1) the finance cost of bank borrowings was relatively high; 2) the process of capital increase was relatively complicated; 3) capital increase might increase the cost of reorganization of the Group in future. Whereas obtaining advances from the Controlling Shareholders was a more common financing method used by non-listed private enterprises in Mainland China due to the low cost of capital (non-interest bearing), and the transfer of funds was more flexible. Based on the above analysis, the Group selected the option of obtaining advances from the Controlling Shareholders in 2012 and 2013 to finance the funds required for the plants and equipment in the new factories.

c) Dali had fully repaid the above amount due to the Controlling Shareholders prior to 30 June 2015, and no borrowings of similar nature had occurred again so far which was fully in compliance with the relevant requirements of the Stock Exchange.

d) Since explanation on this arrangement was fully given in the IPO Prospectus (please refer to the sections headed "History, Development and Reorganization - Reorganization" and "Financial Information"), the query from FG Alpha was groundless.

3. **Allegation relating to capital expenditure**

It is alleged that "FG Alpha Management consulted an industry expert to estimate Dali's capex spend in 2013-2014. Their cumulative estimate for both years is about RMB 1 billion less than Dali reported".

Company's response

a) Our capital expenditures in 2013 and 2014 have been disclosed in the Prospectus and below set outs further breakdown of our capital expenditures in 2013 and 2014:

Dali Foods Group's Capital Expenditure for 2013 and 2014

Unit: RMB million

Items	2013 Amount	2014 Amount
10 croissant production lines	84	36
8 PET production lines	330	110
13 two/three-piece can production lines	54	180
5 Landy Castle production lines		75
11 potato chips production lines		34
Hebei Dali capital expenditure (excluding the above production lines)	210	13
Shaanxi Dali capital expenditure (excluding the above production lines)	62	123
Purchases of land use rights by Jilin Dali, Ma'anshan Dali, Yunnan Dali and Fujian Dali	24	22
Other assets*	218	193
Total	**982**	**786**

* Other assets include the addition and alterationof industrial buildings of the subsidiary of the Group, and the aquisition of certain machinery equipment, and office equipment

b) In addition, Hebei Dali's land premium (of approximately 300 mu) and plant construction cost (of approximately 96,000 sq.m.) amounted to a total of RMB128 million, investments in food and beverage production lines were RMB 38 million and RMB186 million, respectively, annualized production capacities were 30,240 tonnes and 178,200 tonnes, respectively; Shaanxi Dali's land premium (of approximately 310 mu) and plant construction cost (of approximately 90,000 sq.m.) amounted to a total of RMB100 million, investments in food and beverage production lines were RMB 29 million and RMB130 million, respectively, annualized production capacities were 21,120 tonnes and 123,200 tonnes, respectively.

c) Our capital expenditures during 2012 to 2016 accounted for approximately 11%, 8%, 5%, 3% and 3% of our total revenue, respectively, with an average of 6% of our total revenue, which are comparable to or lower than our comparable companies whose relevant percentages arrange from 7% to 13%.

d) It is alleged that FG Alpha Management consulted an industry expert to estimate our capital expenditure in 2013 to 2014. However, background of such industry expert and the methodology, assumptions and basis of the estimation by such industry expert are not disclosed in the Allegations, and therefore we are unable to make a more direct clarification to such allegation.

4. **Allegation relating to operating expenses and salary**

It is alleged that "Based on FG Alpha Management's research, the Company's operating expenses and salary are unbelievable lower than publicly traded peers".

Company's response

a) The percentage of sales management fee to the revenue of Dali during the years from 2012 to 2016 was 8.3%，8.3%，9.1%，14.1%，18.0%, respectively; the lower percentage (particularly during the years from 2012 to 2014) of which was due to that 1) the sales model adopted by Dali was different with that of some of its competitors, this means that Dali would offer lower ex-factory price to its distributors who will enjoy higher gross profit margin as they will undertake most of the sales work, as a result of which the percentage of sales costs borne by Dali was lower since its distributors assume a significant portion of the promotion expenses and personnel expenses; 2) the management fees were low because the headquarter of Dali is located at Huian County, Fujian Province, where there are very low salaries of administrative staff and office expenses for the headquarter.

b) Starting from 2014 and 2015, along with the rapid growth of higher-margin Hi-Tiger energy drink, in order to enhance our pipeline control，particularly over the beverage business that demands strong pipeline control, Dali began to make adjustment to the previous sales model by correspondingly raising the ex-factory price and increasing the promotion expenses and personnel expenses borne by itself when decreasing the expenses borne by its distributors. Furthermore, the higher-margin Hi-Tiger energy drink experienced rapid growth since it was launched in 2013, resulting in an increase in the percentage of sales management fees of Dali in 2016 to 18.0%.

c) The operating expenses as disclosed by Dali have been consistent with its business model, when comparing Dali's profit margin which better reflects the Company's comprehensive profitability with that of other public traded peers, then the approximately 20% of Dali's profit margin in 2016 fell within normal range.

d) Monthly salary per employee in Dali is about RMB4,200 and is within normal bands in China's food and beverage industry. In the composition of Dali's staff, the number of production workers and first-line sales representatives combined represents 77% of the total number of staff, comparatively higher than other players in the industry. However, skill requirement and training costs for such production workers and first-line sales representatives remain relatively low, thus salaries required to pay for them are low accordingly. A typical salary monthly paid to one of the aforesaid employees is RMB3,000 or so. Due to the fact that much of the promotion and personnel expenses are borne by Dali's distributors as set forth in (a), most of the first-line sales representatives of Dali receive their addition portion of earnings from relevant distributors. In addition, administration staff of Dali's headquarter are mainly recruited from local Huian where Dali is based. A typical monthly paid salary in Huian headquarter is about RMB8,000, ranking high among the local standards but still comparatively much lower than that in first-tier cities.

5. **Allegation relating to inconsistent SAT and SAIC filings**

It is alleged that "Inconsistencies between Dali (PRC) and Fujian Dali, across SAT and SAIC files, are reminiscent of Price Frog and Tianhe in that reported SAIC information does not match SAT data."

Company's response

a) The total taxation amount (on non-consolidated statement basis) of Dali PRC (known as "Dali Foods Group Company Limited" in full name) for 2015 was RMB345 million, which was consistent with the total taxation amount of Dali PRC for 2015 under the SAIC system without inconsistency.

b) FG Alpha alleged that: 1) According to the "Top 100 Fujian Taxation Enterprises in 2015" under the SAT system in Fujian, Dali PRC was one of the top 100 enterprises and ranked 81st among the top 100 enterprises; 2) In 2015, the minimum taxation amount to qualify for the above ranking list was RMB271 million. According to available public information, the two points stated above were true, but these two points were not inconsistent with the total taxation amount of RMB345 million for Dali PRC for the year of 2015;

for example, according to zx.czvv.com at Website Informer, the total taxation amount of the enterprise with 82nd ranking in the list was RMB304 million (the taxation amounts of other enterprises with rankings close to Dali PRC were not disclosed in that system).

c) FG Alpha also mentioned Fujian Dali (known as "Fujian Dali Foods Group Co., Ltd." in full name) in the Allegations. However, Fujian Dali and Dali PRC are two different companies, Fujian Dali is currently a company outside the Company, and Dali PRC is a company wholly-owned by the Company which is listed on the Hong Kong Stock Exchange, the taxation or industrial and commercial information of these two companies are not comparable.

d) The Company confirmed that both Dali Foods Group Company Limited and Fujian Dali Foods Group Co., Ltd. have no inconsistency between their reported total taxation amounts in the SAIC and SAT systems, respectively.

CONCLUSIONS

Based on the clarifications as stated above, the Board is of the view that the Allegations were made without due consideration of the underlying facts and based on selective and biased information, and are considered to be inappropriate and misleading.

Save as disclosed in this announcement, after having made enquiries with respect to the Group as is reasonable in the circumstances, the Board confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that needs to be disclosed under Part XIVA of the SFO.

The Company will consider and adopt all reasonable measures to protect the interest of the Shareholders, including but not limited to take necessary legal actions against FG Alpha Management for the publication of the Allegations.

By order of the Board
Dali Foods Group Company Limited
達利食品集團有限公司
Xu Shihui
Chairman

Hong Kong, 8 June 2017

As at the date of this announcement, the directors of the Company are Mr. XU Shihui, Mr. ZHUANG Weiqiang and Ms. XU Yangyang being the executive directors; Ms. XU Biying and Ms. HU Xiaoling being the non-executive directors; Mr. CHENG Hanchuan, Mr. LIU Xiaobin and Dr. LIN Zhijun being the independent non-executive directors.