



達利食品集團有限公司

DALI FOODS GROUP COMPANY LIMITED

Stock Code : 3799



INTERIM REPORT

2016

Contents

CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	4
MANAGEMENT DISCUSSION AND ANALYSIS	5
OTHER INFORMATION	18
REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	21
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	22
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	24
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	26
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	28
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	30

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Xu Shihui (許世輝)
(Chairman and Chief Executive Officer)
Mr. Zhuang Weiqiang (莊偉強)
Ms. Xu Yangyang (許陽陽)

Non-executive Directors

Ms. Xu Biying (許碧英)
Ms. Hu Xiaoling (胡曉玲)

Independent Non-executive Directors

Mr. Cheng Hanchuan (程漢川)
Mr. Liu Xiaobin (劉小斌)
Dr. Lin Zhijun (林志軍)

AUDIT COMMITTEE

Dr. Lin Zhijun (林志軍) *(Chairman)*
Ms. Hu Xiaoling (胡曉玲)
Mr. Cheng Hanchuan (程漢川)

REMUNERATION COMMITTEE

Dr. Lin Zhijun (林志軍) *(Chairman)*
Ms. Xu Yangyang (許陽陽)
Mr. Liu Xiaobin (劉小斌)

NOMINATION COMMITTEE

Mr. Xu Shihui (許世輝) *(Chairman)*
Mr. Liu Xiaobin (劉小斌)
Mr. Cheng Hanchuan (程漢川)

JOINT COMPANY SECRETARIES

Mr. Tu Zhiqian (涂志潛)
Ms. Cheng Pik Yuk (鄭碧玉)

AUTHORISED REPRESENTATIVES

Ms. Xu Yangyang (許陽陽)
Ms. Cheng Pik Yuk (鄭碧玉)

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 03799

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Linkou, Zishan
Hui'an, Fujian Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2702, 27th Floor, China Resources Building
26 Harbour Road
Wan Chai, Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Uglund House
Grand Cayman, KY1-1104
Cayman Islands

COMPANY'S WEBSITE

<http://www.dali-group.com>

AUDITORS

Ernst & Young
Certified Public Accountants

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

Maples Fund Service (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

Financial Highlights

For the six months ended June 30,

	2016	2015	
	RMB' 000	RMB' 000	Change (%)
Revenue	9,020,555	8,504,456	6.1%
Gross profit	3,532,988	2,843,609	24.2%
Gross profit margin	39.2%	33.4%	5.8 percentage points
EBITDA	2,371,245	2,147,359	10.4%
Net profit	1,641,564	1,517,061	8.2%
Net profit margin	18.2%	17.8%	0.4 percentage point
Earnings per share	RMB 0.12	RMB 0.13	-0.1%
Dividend	N/A	N/A	N/A

Management Discussion and Analysis

INDUSTRY ENVIRONMENT

In the first half of 2016, under the new norm of stable growth together with structural adjustment, China's economy slowed down and achieved a growth rate lower than expected. Since the first half of the year, national GDP grew by 6.7% on a year-on-year basis and per capita disposable income of residents rose by 8.7% on a year-on-year basis, both slower than those in the past. Affected by the macro-environment, China's snack food and beverage market experienced a slowdown in growth momentum though remained stable overall. In particular, the total retail sales of consumer goods and the retail sales of grain, oil, food and beverages, recorded a decline in growth rates of 0.3%, 0.3% and 3.1% respectively on a year-on-year basis, despite stable growth overall. Another factor that affected the market in the first half of the year was the flood disaster occurred in several regions in China which has influenced consumer demand (especially beverages) as well as production supply to a certain extent.

While confronting market challenge, the snack food and beverage industry is also undergoing structural adjustment. As consumers increasingly pursue stylish and personalized products, the product structure of the industry has shown a trend of diversification; high quality and innovative products are favored by consumers. Under these changes, industry players were required to constantly innovate products and enhance product quality, and timely introduce new products that adapt to the changing demand and consumption habits of consumers. Furthermore, with structural adjustment of sales channels, sales and marketing strategies of players also need to improve accordingly.

BUSINESS REVIEW

Despite the challenging market environment, the Group continued to uphold the multi-brand, multi-category strategy. Operation-wise, we focus on improving product quality, optimizing product structure and strengthening market position of key products; extended and strengthened sales channels and laid solid foundation in traditional, modern key accounts, e-commerce, specialty and catering channels to enhance the penetration; improved production efficiency by refining production plan, improving production process and reasonably using production capacity; refined internal management and recruited talented personnel to upgrade the management, thereby providing consumers with high-quality and safe products and also creating good returns for shareholders.

For the first half of 2016, the Group's revenue increased by 6.1% to RMB9,021 million, of which revenue from the food and beverage segments increased by 3.0% and 5.5%, respectively. Gross profit reached RMB3,533 million. Gross profit margin was 39.2% for the six months ended June 30, 2016, representing an increase of 5.8 percentage points as compared to the same period of last year. The gross profit from the food and beverage segments was RMB1,651 million and RMB1,876 million respectively, representing a year-on-year increase of 22.3% and 25.6% respectively. Gross profit margin of the food and beverage segments was 34.6% and 46.0% respectively for the six months ended June 30, 2016, representing an increase of 5.5 percentage points and 7.4 percentage points as compared to the same period of last year. Selling expenses as a percentage of revenue was 15.7% for the six months ended June 30, 2016, representing an increase of 5.0 percentage points as compared to the same period of last year. The increase was primarily due to increased investment on marketing activities especially the promotion of products with high gross profit margins. Operating margin increased by 0.6%, reflecting the effect of the Group's product structure upgrade (increased proportion of high-margin product). Net profit increased by 8.2% to RMB1,642 million and net profit margin was 18.2% for the six months ended June 30, 2016, representing an increase of 0.4 percentage point as compared to the same period of last year.

Management Discussion and Analysis

Food Business

Despite the overall weak growth of food consumption, sales of all three major kinds of products achieved growth in the first half of 2016 as a result of our strength of having multi-brand and multi-category and our purpose to fulfil the leisure demand other than the hunger of consumers which is, therefore, benefited from enhanced mass consumption ability and consumer demand upgrade. We also continued to improve product quality through R&D investment, and in the meantime strived to optimize product structure during sales. As a result, shares of revenues from new products and high-margin products increased accordingly.

Bread, cakes and pastries products, which are the product categories of Dali with the best competitive advantage, continued to maintain a leading market share. Our traditional advantaged products such as chocolate pie, soft bread and rolls recorded a steady growth in sales in the first half of the year. This is firstly because our brand has established a strong position in the minds of consumers, and secondly because we continued to upgrade the production process of part of these products, improve product quality and update the packaging specifications in a timely manner according to the market changes. Meanwhile, our new products have achieved good sales performance as well, such as the croissants products, of which the production equipment and technology are imported from Europe. Due to the innovative product nature, the product was well received by consumers immediately after being launched to the market especially the modern channels where it received good feedbacks, and its sales continued to grow in the first half of this year. In the first half of 2016, sales of bread, cakes and pastries products amounted to RMB3,028 million, representing an increase of 0.8% over the same period of last year.

Copico potato chips target young consumers in the mass consumer market with a stylish brand image. Product flavor continues to be enriched and the quality continues to be enhanced as the production process upgrades. Meanwhile, we also flexibly adjust packaging and product pricing to accommodate the needs of young consumers. In the first half of 2016, sales of chips and fries products amounted to RMB981 million, representing a year-on-year increase of 5.4%.

Biscuit products were one of our product types that achieved superior growth in the first half of the year. The “Landy Castle” butter cookies launched in 2014 is one of the few high-end biscuits in China. By introducing the production equipment and technology from Europe, we have been able to match the product quality with international brands. Once launched to the market, the product quickly became the first choice of many families for self-consumption and gifts to friends and relatives during festivals in China. In 2016, with the good momentum generated from the high-quality reputation of Landy Castle, we successfully launched Zhenhao Cookie (甄好曲奇) which better satisfied consumers’ daily need for middle and high-end biscuits through accurate market positioning and pricing strategy. In the first half of 2016, sales of biscuit products amounted to RMB762 million, representing a year-on-year increase of 8.9%, of which sales of cookies increased by 39.3% on a year-on-year basis.

Beverage Business

Our beverage segment focuses on high-growth market segments, maintains excellent sales performance by leveraging product quality and differentiated positioning, and continues to maintain growth in the first half of 2016.

Energy drinks. With growing demand for “refreshing remind and replenishing energy” (提神醒腦、補充體力) in life of the younger generation, high-intensity mental workers and long hour workers such as drivers, the energy drinks have been leading the growth of the overall food and beverage market. Since the production of energy drinks is subject to strict review by China Food and Drug Administration, the entry barrier is relatively high. Through the promotion slogan of “Drink Hi-Tiger, refreshing and invigorating” (喝樂虎, 提神抗疲勞) and great marketing efforts, Hi-Tiger has established a strong brand image in the minds of consumers. We achieved leaps and bounds growth by capitalizing on Dali’s extensive and well-established nationwide distribution network, coupled with targeted and creative marketing strategies and differentiated product positioning and pricing. The PET bottled energy drinks we launched focus on convenience and have met the consumption demand of specific groups and differentiated from other similar products. Meanwhile, Hi-Tiger has also achieved good sales results in tier-1 and tier-2 cities. In the first half of 2016, Hi-Tiger continued the rapid growth momentum and generated revenue of RMB1,092 million, representing an increase of 71.4% on a year-on-year basis.

Herbal tea. Although the overall herbal tea market faced some challenges in the first half of the year, Heqizheng herbal tea, which focused more on PET-bottled products (600 ml and 1.5 liters) with higher price-performance ratio compared to similar products, has met the demand from outdoor, catering and household. We have adopted advanced rending extraction technology while highlighting the traditional cultural atmosphere of the brand, and achieved sufficient differentiation of the products from its competitors in terms of package, brand image and flavor. As a result, the product maintained stable consumer group and hence steady increase in sales. In the first half of 2016, revenue of herbal tea amounted to RMB1,511 million, representing a year-on-year increase of 4.4%.

Plant-based and milk beverages. Affected by a general downtrend in the segment and intense competition, sales of plant-based and milk beverages experienced a decline to some extent as compared to the same period of last year. However, plant-based beverage products conform to the concept of healthy consumption. We are still optimistic about their overall prospects and will focus our efforts in the development of new products in the future. In the first half of 2016, revenue of plant-based and milk beverages amounted to RMB837 million, representing a decline of 18.9% on a year-on-year basis.

Continuing to Maintain the Highest Standards of Product Quality

In the first half of 2016, building on the existing high quality of our products, the Group continued to improve and enhance the quality by implementing raw material safety controls and raw material quality improvement initiatives to further enhance operating efficiency. For example, we have established a group testing centre, adopted food safety testing equipment such as gas chromatography, liquid chromatography, thermostatic fluorescent polymerase chain reaction to conduct multi-dimensional food safety risk investigation and control on raw materials, auxiliary materials and finished products to further ensure food safety. Meanwhile, the Group has established its research and development center and reorganized the R&D structure by installing additional R&D equipment such as TURBISCAN AGS multi-angle laser light scattering instrument (product stability testing) and germfree rooms for testing packaging, enhanced the level of R&D and innovation, and continued to enhance product quality and operation efficiency.

Management Discussion and Analysis

As a domestic food and beverage enterprise in China, the Group will continue to uphold our commitment to producing high quality products. We will continue to innovate and improve to address the constantly evolving consumer demand and provide safe, healthy, convenient and tasty food and beverage products to consumers nationwide.

Channels Expansion

In the first half of 2016, the Group continued to increase investment in non-traditional channels such as modern retail, catering, specialty channel and e-commerce to support the further optimization of the channel structure through team adjustment and product mix adjustment. Revenue contribution from our key accounts (直營商超) continued to enhance and regional key accounts customers continued to grow. Meanwhile, the Group is also actively laying out plans for e-commerce platform and increasing the products sold online by measures including building dedicated teams, opening flagship store, establishing cooperative relations with online customer-to-customer platforms and distributors, and cooperating with group purchase websites. As a result, revenue from e-commerce achieved substantial uplift.

The Group has also been reinforcing vertical traditional channel construction while expanding the channel coverage horizontally. The number of our distributors has increased to 4,169, and distribution channels in original weak areas were strengthened. Meanwhile, we further enhanced the level of meticulous management and strengthen direct control over the retail end market through adopting the “direct operation” models in the beverage segment, which help us better understand the needs of consumers, thereby more strategically deploying market resources. These measures achieved excellent outcome in tier-1 and tier-2 cities.

Team Building

All along, we strongly believe that talent is the utmost core competitiveness and the most valuable assets of an enterprise. Therefore, we have always focused on team building. Since the listing of the Company in 2015, the brand influence of Dali has been further reinforced. The attractiveness of the platform of the Company to elites has also been enhanced. In the first half of the year, we increased our efforts in introducing high-end talents of various types and introduced experienced high-caliber talents in various aspects such as business management, marketing and product research and development. Besides, we continued to optimize our management structure and enhanced the overall competitiveness of our team, laying a solid basis for the long-term growth of the enterprise.

PERFORMANCE FOR THE SIX MONTHS ENDED JUNE 30, 2016

The Group's revenue for the six months ended June 30, 2016 was RMB9,021 million, increased by 6.1% from RMB8,504 million for the same period of 2015. The Group's revenue from sales of food and beverage increased by 3.0% and 5.5% to RMB4,771 million and RMB4,082 million respectively for the six months ended June 30, 2016. Gross profit of the Group for the six months ended June 30, 2016 was RMB3,533 million, increased by 24.2% from RMB2,844 million for the same period of 2015. Gross profit margin of the Group for the six months ended June 30, 2016 was 39.2%, risen by 5.8 percentage points from 33.4% for the same period of 2015.

The net profit attributable to owners of the parent of the Company for the six months ended June 30, 2016 was RMB1,642 million, increased by 8.2% from RMB1,517 million for the same period of 2015.

For the six months ended June 30, 2016, the Group's revenue from other business was RMB168 million and the Group's gross profit margin of other business was 3.6%.

Business

Revenue

The Group's total revenue for the six months ended June 30, 2016 reached RMB9,021 million, representing a year-on-year increase of 6.1%, among which, the food segment increased by 3.0% and the beverage segment increased by 5.5%.

The table below sets forth the Group's revenue by segment and by product category for the periods indicated:

Revenue	For the six months ended June 30,				
	2016 RMB (million)	% of Revenue	2015 RMB (million)	% of Revenue	First half of 2016 vs. first half of 2015 %
Food					
Bread, Cakes and Pastries	3,028	33.6	3,003	35.3	0.8
Chips, Fries and Others	981	10.9	931	11.0	5.4
Biscuits	762	8.4	700	8.2	8.9
Segment Total	4,771	52.9	4,634	54.5	3.0
Beverage					
Herbal Tea	1,511	16.7	1,448	17.0	4.4
Plant-based and Milk Beverage	837	9.3	1,032	12.1	(18.9)
Energy Drinks	1,092	12.1	637	7.5	71.4
Other Beverages	642	7.1	754	8.9	(14.9)
Segment Total	4,082	45.2	3,871	45.5	5.5
Others	168	1.9	—	—	—
Segment Total	168	1.9	—	—	—
Total	9,021	100.0	8,504	100.0	6.1

Management Discussion and Analysis

Food Products Business

The Group's sales of food products for the six months ended June 30, 2016 was RMB4,771 million, increased by 3.0% from RMB4,634 million for the same period of 2015. The increase in revenue of the Group's food segment was primarily due to our strengthening marketing campaigns, the improvement of the quality of our existing products, the enhanced sales efforts for new products, as well as the further penetration into the modern retail channel, specialty channel and e-commerce channel. For example, in the first half of the year, we have enhanced our promotion effort for "Guozhen Bread (菓真麵包)" which was launched in 2015 and "Zhenhao Cookie (甄好曲奇)", and their new package, unique taste and high quality were widely welcomed by the consumers.

Beverage Products Business

The Group's sales of beverage products for the six months ended June 30, 2016 was RMB4,082 million, increased by 5.5% from RMB3,871 million for the same period of 2015. The increase was primarily due to the increase in sales of Hi-Tiger energy beverage. Notwithstanding the general downturn in the industry, our beverage business still achieved a stable growth, reflecting the advantages of our multi-brand and multi-category structure.

The Group's revenue generated from sales of energy drinks for the six months ended June 30, 2016 was RMB1,092 million, increased by 71.4% from RMB637 million for the same period of 2015. Such substantial growth is attributable to the successful brand positioning of Hi-Tiger and strong marketing efforts. The market potential of energy drinks was gradually revealed by the increasing awareness of energy drinks among the consumers in China. Since its launch in 2013 and benefiting from the differentiated positioning and unique marketing strategy, Hi-Tiger has been recording rapid growth. In the first half of the year, Hi-Tiger continued to maintain its rapid growth pace. We will continue to focus on the growth of Hi-Tiger as to our beverage segment by fully exploring its developing potential. Meanwhile, we will also enhance marketing supports to the distributors. The increase of sales of beverage products was also, to a lesser extent, attributable to the increased sales of the herbal tea products, which was due to the growth in the sales of the PET-bottled herbal tea. Suffering from the general market downturn and rigorous competition, the sales of plant-based and milk beverage recorded a certain decrease as compared to the same period of last year. However, as plant-based beverage products are consistent with the concept of health, we have a positive view towards such beverage as a whole, and will invest our resources on the new products development in the future.

Other

The Group's trading income was generated from the sale of packaging materials in relation to the production of food and beverage.

Cost of Sales

The Group's cost of sales primarily comprises raw materials, costs of packaging materials, manufacturing costs (such as depreciation, amortization and utilities), wages and salaries, and tax surcharges.

The Group's wide variety of products use a diverse range of raw materials and packaging materials. The primary raw materials for our food products include eggs, flour, sugar and palm oil, while the primary raw materials for our beverage products include sugar, powdered milk, mesona and peanuts. The main packaging materials that the Group purchases from third parties include polyester chips, cardboard boxes, cans and aseptic pack cartons. Most of these raw materials, such as sugar, flour and palm oil, are commodities, whose prices generally fluctuate according to market condition.

The Group's cost of sales for the six months ended June 30, 2016 was RMB5,488 million, decreased by 3.1% from RMB5,661 million for the same period of 2015, among which, the cost of sales for food products decreased by 5.0% and the cost of sales for beverage products decreased by 7.2%. The decreases in the cost of sales for the six months ended June 30, 2016 were primarily due to the changes in the prices of raw materials and packaging materials. The decrease of the Group's cost of sales was primarily driven by the decreases in the average purchase prices for certain major raw materials (such as eggs, palm oil, mesona and powdered milk) and the packaging materials (primarily polyester chips).

The cost of sales for other business was RMB162 million for the six months ended June 30, 2016 (for the six months ended June 30, 2015: nil).

Gross Profit and Gross Profit Margin

The Group's gross profit represents revenue less cost of sales, and the gross profit margin represents gross profit divided by revenue, expressed as a percentage. The Group's gross profit for the six months ended June 30, 2016 was RMB3,533 million, increased by 24.2% from RMB2,844 million for the same period of 2015. The Group's gross profit margin reached 39.2% for the six months ended June 30, 2016, representing an increase of 5.8 percentage points from the same period of 2015. The Group's gross profit margin of food products was 34.6% for the six months ended June 30, 2016, representing an increase of 5.5 percentage points from the same period of 2015, and the gross profit margin of beverage products was 46.0%, representing an increase of 7.4 percentage points from the same period of 2015.

The Group's gross profit margin of other business was 3.6% for the six months ended June 30, 2016.

The following table sets forth the Group's gross profits, gross profit contribution and gross profit margins by segment for the periods indicated:

	2016			2015		
	Amount RMB (million)	% of total gross profit %	Gross profit margin %	Amount RMB (million)	% of total gross profit %	Gross Profit margin %
Food products	1,651	46.7	34.6	1,350	47.5	29.1
Beverage products	1,876	53.1	46.0	1,494	52.5	38.6
Other	6	0.2	3.6	—	—	—
Total	3,533	100.0	39.2	2,844	100.0	33.4

The increase in the Group's gross profit margin was primarily due to the increased sales of products with higher gross profit margins, including products such as Hi-Tiger energy drinks, Zhenhao Cookie, chips and herbal tea, and the decreases in the average purchase prices of some major raw materials and packaging materials, such as eggs, palm oil, mesona, milk powder and polyester chips.

Management Discussion and Analysis

From the beginning of 2016, as to our food segment, the Group slightly increased the average selling prices of some traditional products sold to distributors so that we could conduct more marketing campaigns to strengthen the sales channels with a view to strengthening our control over the end market. As to our beverage segment, the Group has adopted the “direct operation” model which led to an increase of the average selling price for sales to distributors. In addition, the increased use of the modern channels by the Group would also cause the average selling price for sales to distributors to rise. These factors may increase our gross profit margin accordingly.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the six months ended June 30, 2016 was RMB1,420 million, increased by 56.4% from RMB908 million for the same period of 2015. As a percentage of revenue, the Group's selling and distribution expenses amounted to 15.7% for the six months ended June 30, 2016, representing an increase of 5.0 percentage points from 10.7% for the same period of 2015. These increases were primarily due to an increase of RMB334 million in promotion expenses. As a percentage of revenue, the Group's promotion expenses increased from 3.74% for the six months ended June 30, 2015 to 7.20% for the same period of 2016. These increases were primarily because from the beginning of 2016, the Group conducted more marketing campaigns to expand its sales and particularly allocated its marketing resources to products with higher profits. The increase in the selling expenses was attributable to the adoption of the “direct operation” model in the beverage segment since the second half of 2015 and the increased sales from the modern channels. The increase of the Group's selling and distribution expenses was also attributable to the increase in the number of sales staff and the increase in their wages and salaries.

Administrative Expenses

The Group's administrative expenses for the six months ended June 30, 2016 was RMB189 million, increased by 8.6% from RMB174 million for the same period of 2015. As a percentage of revenue, the Group's administrative expenses amounted to 2.1% for the six months ended June 30, 2016, representing an increase of 0.1 percentage point from 2.0% for the same period of 2015. These increases were primarily due to the increase in the average salaries and number of our management staff members.

Profit before Tax

As a result of the foregoing, the Group's profit before tax for the six months ended June 30, 2016 was RMB2,092 million, increased by 10.6% from RMB1,891 million for the same period of 2015.

Income Tax Expenses

The Group's income tax expenses for the six months ended June 30, 2016 was RMB450 million, increased by 20.3% from RMB374 million for the same period of 2015. The Group's effective tax rate amounted to 21.5% for the six months ended June 30, 2016, representing an increase of 1.7 percentage points from 19.8% for the same period of 2015, primarily because, as in the first half of 2015, the three companies, Chengdu Dali Foods Co., Ltd., Yunnan Dali Foods Co., Ltd. and Gansu Dali Foods Co., Ltd., were approved to enjoy a preferential tax rate of 15% from 2014, the actual income tax expenditure in the first half of 2015 was a result of deducting the overpaid income tax expenditure in 2014 calculated based on the preferential tax rate.

Liquidity and Financial Resources

Cash and Borrowings

The Group financed its liquidity requirements mainly by the proceeds from its operating activities.

As at June 30, 2016, the Group had pledged deposits and cash and cash equivalents in the aggregate amount of RMB6,982 million (as at December 31, 2015: RMB8,956 million). This decrease was primarily attributable to, for the six months ended June 30, 2016, the payment of dividends of RMB1,460 million, the repayment of other borrowings of RMB1,500 million and the investment in available-for-sale financial assets which resulted in the decrease in cash flow of RMB845 million and the increase in the net operating cash flow of RMB1,879 million. 37% and 59% of the Group's cash and cash equivalents as at June 30, 2016 were denominated in RMB and HKD respectively.

As at June 30, 2016, the Group did not have any borrowings (as at December 31, 2015: RMB1,500 million).

The Group's gearing ratio as at June 30, 2016 was 16.2% (as at December 31, 2015: 24.7%), which is total liability divided by the capital plus total liability.

Given the proceeds from the listing and the future cash flows generated from operating activities, the Group has sufficient cash to meet its capital needs. The management is also prepared to make careful arrangements and decisions based on changes in domestic and international financial environments.

Capital Expenditures and Capital Commitments

The Group had capital expenditures of RMB136 million for the six months ended June 30, 2016 (for the six months ended June 30, 2015: RMB263 million), relating primarily to the production facilities at Xiamen Dali Trading Co., Ltd., Yunnan Dali Foods Co., Ltd. and Shenyang Dali Foods Co., Ltd., as well as the newly purchased production lines for both the food and beverage segments.

As at June 30, 2016, the Group's capital commitments relating to property, plant and equipment were RMB227 million (as at June 30, 2015: RMB229 million), which were primarily for the construction of certain production facilities and purchases of production lines.

Management Discussion and Analysis

Use of Proceeds from the Listing

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on November 20, 2015 with net proceeds from the global offering of approximately HK\$8,665 million (after deduction of underwriting fees and commissions and estimated expenses payable by the Company in connection with the global offering). According to the intended use as set out in the section headed “Future Plans and Use of Proceeds” in the prospectus dated November 10, 2015 (the “Prospectus”), the amount utilized as at June 30, 2016 was as follows:

Items	Percentage	Net Proceeds (HK\$ million)		
		Available	Utilized	Unutilized
Development, introduction and promotion of new products	20%	1,733	25	1,708
Expansion and upgrade of production facility and manufacturing network	20%	1,733	148	1,585
Enhancing presence in sales channels and promoting brands	20%	1,733	289	1,444
Potential acquisitions and business cooperation	30%	2,600	—	2,600
Working capital and other general corporate purposes	10%	866	200	666

The Company has no intention to use the proceeds contrary to the descriptions as stated in the Prospectus.

Inventories

The Group’s inventories consist primarily of raw materials, packaging materials and, to a lesser extent, finished goods. The Group’s inventories as at June 30, 2016 was RMB699 million, decreased by 24.8% from RMB930 million as at December 31, 2015, primarily due to the improved inventory control management, increased inventory management efficiency and the strengthening in managing production and sales to reduce stocks in finished goods and raw materials.

The following table sets forth the Group’s inventory turnover days during the periods indicated:

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Inventory turnover days ⁽¹⁾	26.7	29.3

Note:

- (1) Inventory turnover days for each six-month period equals the average of the beginning and ending inventory for that period divided by cost of sales for that period and multiplied by 180 days.

The Group’s inventory turnover days were 26.7 days as at June 30, 2016, representing a decrease of 2.6 days from 29.3 days as at June 30, 2015, primarily due to our improved management of inventory levels and the decrease in inventories.

Trade and Bills Receivables

The Group's trade and bills receivables refer to the Group's accounts receivable balance from its customers, primarily including distributors and key accounts. The Group's trade and bills receivables as at June 30, 2016 was RMB324 million, increased by 123.4% from RMB145 million as at December 31, 2015, primarily due to the increase in the sales and that the balance of trade and bills receivables are usually lower at the end of a year because of the strong efforts to collect receivables at the end of a year.

The following table sets forth the Group's trade and bills receivables turnover days for the periods indicated:

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Trade and bills receivables turnover days ⁽¹⁾	4.7	4.5

Note:

- (1) Trade and bills receivables turnover days for each six-month period equals the average of the beginning and ending balances of trade and bills receivables for that period divided by revenue for that period and multiplied by 180 days.

Trade and Bills Payables

The Group's trade and bills payables primarily include trade payables and, to a lesser extent, bills payables for purchases of raw materials and packaging materials. The Group's trade and bills payables as at June 30, 2016 was RMB805 million, decreased by 16.5% from RMB964 million as at December 31, 2015, which was due to the decrease in the purchase prices of some major raw materials and packaging materials.

The following table sets forth the Group's trade and bills payables turnover days for the periods indicated:

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Trade and bills payables turnover days ⁽¹⁾	29.0	28.8

Note:

- (1) Trade and bills payables turnover days for each six-month period equals the average of the beginning and ending trade and bills payables for that period divided by cost of sales for that period and multiplied by 180 days.

Management Discussion and Analysis

Foreign Currency Risk

The Group's businesses are primarily located in Mainland China and nearly all transactions are conducted in RMB. As nearly all of the Group's assets and liabilities were denominated in RMB, the subsidiaries of the Company in Mainland China were not subject to significant foreign currency risk. As at June 30, 2016, the Group's assets and liabilities denominated in HKD were mainly held by the Company and certain subsidiaries incorporated outside Mainland China which had currencies other than RMB as their functional currencies. The Company and those subsidiaries incorporated outside Mainland China also held bank balances denominated in RMB, from which foreign currency exposures arise. The Company has not undertaken any hedging policy.

Contingent Liabilities

As at June 30, 2016, the Group had no significant contingent liabilities.

Asset Pledge

As at June 30, 2016, the Group's bills payable were secured by pledges of its short-term deposits in the amount of RMB9.4 million (as at June 30, 2015: RMB21.5 million).

Available-for-sale Investments

As at June 30, 2016, the Group's total available-for-sale investments amounted to RMB1,718.5 million, representing an increase of 103.6% as compared to RMB844.1 million as at December 31, 2015. This was primarily because the Company purchased wealth management products due to our ample cash flows, which resulted in higher balances at the end of the reporting period. During the six months ended June 30, 2016, the increase in the fair value of the Group's available-for-sale investments was RMB29.1 million and the investment return of the available-for-sale investments of this period that had been realized is RMB18.1 million.

The Group's available-for-sale investments as at June 30, 2016 comprise structured bank deposits (the "**Structured Bank Deposits**") and investment in wealth management plans (the "**Wealth Management Plans Investments**"). They are all principal guaranteed, have floating interest rates and fixed terms of repayment, the nature of which is substantially similar to term deposits or cash savings accounts. Currently, purchasing this type of wealth management products such as principal guaranteed structured deposits issued by high quality depository institutions is one of the major treasury approaches adopted by the Company for cash management apart from deposits with financial institutions. The purpose is to reasonably improve the cash interest income without exposing ourselves to principal risk. In light of such nature, the Group expects to obtain stable returns before the respective expiry dates of such available-for-sale investments.

Breakdown of the available-for-sale investments during the six months ended June 30, 2016

During the six months ended June 30, 2016, eight Structured Bank Deposits, five Wealth Management Plans Investments and 14 open-ended RMB investment products (the "**Open-ended RMB Investment Products Investments**") have been made or invested in by the Company or redeemed by the relevant depository institutions.

For the Structured Bank Deposits, the principal amount ranges from RMB70.0 million to RMB350.0 million, and the size of each of the Structured Bank Deposits relative to the Company's total assets as at June 30, 2016 ranges from 0.5% to 2.4%. As at June 30, 2016, one of the eight Structured Bank Deposits has matured. The value of each of the outstanding Structured Bank Deposits as at June 30, 2016 ranges from RMB70.9 million to RMB350.8 million.

For the six months ended June 30, 2016, the change in fair value of each of the Structured Bank Deposits ranges from an increase of RMB0.1 million to an increase of RMB4.9 million, the return of the Structured Bank Deposits that had been realized is RMB2.8 million and the unrealized return ranges from RMB0.1 million to RMB4.9 million.

For the Wealth Management Plans Investments, the principal amount ranges from RMB65.0 million to RMB235.0 million, and the size of each of the Wealth Management Plans Investments relative to the Company's total assets as at June 30, 2016 ranges from 0.5% to 1.6%. As at June 30, 2016, three of the five Wealth Management Plans Investments have matured. The value of each of the outstanding Wealth Management Plans Investments as at June 30, 2016 ranges from RMB103 million to RMB238.3 million.

For the six months ended June 30, 2016, the change in fair value of each of the Wealth Management Plans Investments ranges from an increase of RMB0.8 million to an increase of RMB3.7 million, the return of the Wealth Management Plans Investments that had been realized ranges from RMB0.8 million to RMB6.3 million and the unrealized return ranges from RMB2.2 million to RMB3.3 million.

For the Open-ended RMB Investment Products Investments, the principal amount ranges from RMB6 million to RMB49.7 million, and the size of each of the Open-ended RMB Investment Products Investments relative to the Company's total assets as at June 30, 2016 ranges from 0.04% to 0.3%. As at June 30, 2016, all of the 14 Open-ended RMB Investment Products Investments have been redeemed.

For the six months ended June 30, 2016, the change in fair value of each of the Open-ended RMB Investment Products Investments ranges from an increase of RMB6,000 to an increase of RMB58,000 and the return of the Open-ended RMB Investment Products Investments that had been realized ranges from RMB6,000 to RMB58,000.

Human Resources and Staff Remuneration

As at June 30, 2016, the Group had a total of 37,542 employees (as at June 30, 2015: 35,939). The Group's employees are remunerated with reference to their positions, performance, experience and prevailing salary trends in the market. In addition to basic salaries, the Company provides various staff benefits to its employees.

The Company adopted a share option scheme on August 25, 2015. The Company has not granted any options as of the date of this interim report.

The Group provides continuing education and training programs to its employees to improve their skills. The Group also adopts evaluation programs through which its employees can receive feedback on their performance.

For the six months ended June 30, 2016, the total employee benefits expenses (including Directors' remuneration) were RMB771 million (for the six months ended June 30, 2015: RMB662 million).

PROSPECTS

Looking ahead to the second half of the year, although the market environment will still pose influences, we will continue to adhere to the strategy of product upgrade to enhance the quality of existing products and upgrade the product packaging specifications by improving the production process, and meanwhile continue to launch new products. Product categories with high growth among the existing products such as energy drinks, herbal tea, potato chips and cookies remain the focus of our work in the second half of the year. We will continue to consolidate our advantages in traditional channels, enhance the standard of the management of distributors and strengthen control over retail terminals, and enhance construction of modern channels and e-commerce platforms. We will continue to adhere to prudent financial management policies and maintain healthy operating cash flow. We will also continue to pay attention to merger and acquisition opportunities and choose the most appropriate timing to enhance our corporate strength through mergers and acquisitions by capitalizing on our strong financial strength.

2016 is the first full financial year after Dali went listing. We will uphold the value of "Creating Quality with Heart", reinforce our efforts and work more effectively to drive the enterprise towards a higher level.

Other Information

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended June 30, 2016 (for the same period in 2015: nil).

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE

As at June 30, 2016, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), were as follows:

- i. Interest in shares or underlying shares of the Company

Name of directors	Capacity/Nature of interest	Number of shares (long positions)	Approximate percentage of shareholding interest
Mr. Xu Shihui	Interest in controlled corporation Interest of spouse	11,640,000,000	85%
Ms. Xu Yangyang	Interest in controlled corporation	11,640,000,000	85%

- ii. Interest in shares of associated corporations of the Company

Name of directors	Name of associated corporation	Capacity/Nature of interest	Number of shares in the associated corporation	Percentage of shareholding
Mr. Xu Shihui	Divine Foods Limited (“Divine Foods”)	Interest in controlled corporation	50	50%
		Interest of spouse ⁽¹⁾	10	10%
Ms. Xu Yangyang	Divine Foods	Interest in controlled corporation	40	40%

Notes:

- (1) By virtue of the SFO, Mr. Xu Shihui has deemed interest in shares of Divine Foods held by his spouse, Ms. Chen Liling, which represents 10% of the shareholding interest in Divine Foods.

Save as disclosed above, as at June 30, 2016, none of the directors and the chief executive of the Company had or were deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified under Divisions 7 and 8 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2016, the following persons (other than the directors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholders	Capacity/Nature of interest	Number of shares (long positions)	Approximate percentage of interest in the Company
Divine Foods	Beneficial owner	11,640,000,000	85%
Divine Foods-1 Limited ⁽¹⁾ ("Divine Foods-1")	Interest in controlled corporation	11,640,000,000	85%
Divine Foods-2 Limited ⁽¹⁾ ("Divine Foods-2")	Deemed interest as an associate of a substantial shareholder	11,640,000,000	85%
Divine Foods-3 Limited ⁽¹⁾ ("Divine Foods-3")	Interest in controlled corporation	11,640,000,000	85%
Ms. Chen Liling ⁽¹⁾⁽²⁾	Interest of spouse	11,640,000,000	85%

Notes:

- (1) Divine Foods is 50%, 10% and 40% legally owned by Divine Foods-1, Divine Foods-2 and Divine Foods-3 respectively, which in turn are separately wholly-owned by Mr. Xu Shihui, Ms. Chen Liling and Ms. Xu Yangyang respectively.
- (2) Mr. Xu Shihui and Ms. Chen Liling are spouses. Accordingly each of Mr. Xu Shihui and Ms. Chen Liling is deemed, or taken to be, interested in all shares and underlying shares in which their spousal counterpart is interested in for the purpose of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") on August 25, 2015 to enable the Company to grant share options to qualified participant as incentive for their commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders, and to maintain or attract business relationship with the qualified participant whose contributions are or may be beneficial to the growth of the Group. Information of the Share Option Scheme is detailed in the Prospectus of the Company.

No share option has been granted under the Share Option Scheme since the listing of the Company.

Other Information

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules. The Board considered that for the six months ended June 30, 2016, the Company has complied with the applicable code provisions set out in the CG Code, save and except for code provisions A.1.8 and A.2.1. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Under the code provision A.1.8, the Company should arrange appropriate insurance cover in respect of any legal action against its directors. As at the date of this interim report, the Company has arranged the appropriate insurance cover for the directors.

Under the code provision A.2.1, the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company has appointed Mr. Xu Shihui as both the chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the chairman and chief executive officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive directors and independent non-executive directors.

COMPLIANCE WITH MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the directors and the relevant employees (who likely possess inside information of the Company) (the “**Securities Dealing Code**”) on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all directors and all of them have confirmed that they have complied with the Model Code and the Securities Dealing Code for the six months ended June 30, 2016.

AUDIT COMMITTEE

The interim report of the Group for the six months ended June 30, 2016 has been reviewed by the audit committee of the Company (the “**Audit Committee**”). The Audit Committee is of the opinion that such financial report complies with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended June 30, 2016.

Report on Review of Interim Condensed Consolidated Financial Statements



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Dali Foods Group Company Limited

(Incorporated in the Cayman Islands as an exempted company with limited liability)

Introduction

We have reviewed the accompanying interim condensed consolidated financial information set out on pages 22 to 48, which comprises interim condensed consolidated statement of financial position of Dali Foods Group Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) as at June 30 2016, and the related interim consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by Hong Kong Institute of Certified Public Accountants.

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

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 (“HKSRE 2410”) “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Ernst & Young
Certified Public Accountants
Hong Kong

August 22, 2016

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2016

	Notes	Six months ended June 30,	
		2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
REVENUE	4(a)	9,020,555	8,504,456
Cost of sales	5(a)	(5,487,567)	(5,660,847)
Gross profit		3,532,988	2,843,609
Other income and gains	4(b)	173,540	129,867
Selling and distribution expenses		(1,420,414)	(908,076)
Administrative expenses		(189,468)	(173,994)
Finance costs	6	(4,705)	—
PROFIT BEFORE TAX	5	2,091,941	1,891,406
Income tax expense	7	(450,377)	(374,345)
PROFIT FOR THE PERIOD		1,641,564	1,517,061
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		29,078	—
Reclassification adjustment for gains included in the consolidated statement of profit or loss – gain on disposal		(17,989)	—
Income tax effect		(2,772)	—
Exchange differences on translation of foreign operations		8,317	—
		100,414	14,803
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		108,731	14,803

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2016

	Note	Six months ended June 30,	
		2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		108,731	14,803
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,750,295	1,531,864
Profit attributable to:			
Owners of the parent		1,641,564	1,517,061
Total comprehensive income attributable to:			
Owners of the parent		1,750,295	1,531,864
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted			
– For profit for the period		RMB 0.12	RMB 0.13

Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2016

	Notes	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	3,990,814	4,134,010
Prepaid land lease payments	11	597,594	592,742
Intangible assets		1,444	1,591
Prepayments		90,521	72,971
Deferred tax assets		45,181	25,711
Total non-current assets		4,725,554	4,827,025
CURRENT ASSETS			
Inventories	12	699,141	929,523
Trade and bills receivables	13	324,072	144,953
Prepayments, deposits and other receivables		99,397	94,772
Available-for-sale investments	14	1,718,504	844,113
Pledged deposits		9,435	21,481
Cash and cash equivalents		6,972,240	8,935,420
Total current assets		9,822,789	10,970,262
CURRENT LIABILITIES			
Trade and bills payables	15	805,404	964,170
Other payables and accruals		1,075,147	984,524
Other borrowings		—	1,500,000
Tax payable		157,971	149,497
Total current liabilities		2,038,522	3,598,191
NET CURRENT ASSETS		7,784,267	7,372,071
TOTAL ASSETS LESS CURRENT LIABILITIES		12,509,821	12,199,096
NON-CURRENT LIABILITIES			
Deferred revenue		316,978	296,975
Total non-current liabilities		316,978	296,975
NET ASSETS		12,192,843	11,902,121

Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2016

	Note	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	112,712	112,712
Reserves		12,080,131	11,789,409
Total equity		12,192,843	11,902,121

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2016

	Share capital RMB' 000 (note 16)	Share premium RMB' 000*	Merger reserve RMB' 000*	Available-for-sale investment revaluation reserve RMB' 000*	Statutory reserve RMB' 000*	Exchange fluctuation reserve RMB' 000*	Retained profits RMB' 000*	Total RMB' 000
At January 1, 2016	112,712	8,175,478	(23,165)	7,062	893,253	144,344	2,592,437	11,902,121
Profit for the period	—	—	—	—	—	—	1,641,564	1,641,564
Other comprehensive income for the period:								
Changes in fair value of available-for-sale investments, net of tax	—	—	—	8,317	—	—	—	8,317
Exchange differences on translation of foreign operations	—	—	—	—	—	100,414	—	100,414
Total comprehensive income for the period	—	—	—	8,317	—	100,414	1,641,564	1,750,295
Final 2015 dividend declared	—	(1,459,573)	—	—	—	—	—	(1,459,573)
At June 30, 2016 (Unaudited)	112,712	6,715,905	(23,165)	15,379	893,253	244,758	4,234,001	12,192,843

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2016

	Share capital RMB' 000	Share premium RMB' 000*	Merger reserve RMB' 000*	Available- for-sale investment revaluation reserve RMB' 000*	Statutory reserve RMB' 000*	Exchange fluctuation reserve RMB' 000*	Retained profits RMB' 000*	Total RMB' 000
At January 1, 2015	1	—	(23,165)	—	500,564	—	72,801	550,201
Profit for the period	—	—	—	—	—	—	1,517,061	1,517,061
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	—	—	14,803	—	14,803
Total comprehensive income for the period	—	—	—	—	—	14,803	1,517,061	1,531,864
Issue of shares	60	1,109,921	—	—	—	—	—	1,109,981
At June 30, 2015 (Audited)	61	1,109,921	(23,165)	—	500,564	14,803	1,589,862	3,192,046

* These reserve accounts comprise the consolidated reserves of RMB12,080,131,000 and RMB3,191,985,000 in the interim condensed consolidated statement of financial position as at June 30, 2016 and June 30, 2015, respectively.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2016

	Notes	Six months ended June 30,	
		2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,091,941	1,891,406
Adjustments for:			
Fair value gains, net:			
available-for-sale investments (transfer from equity on disposal)	4(b)	(17,989)	—
(Gain)/loss on disposal of items of property, plant and equipment, net	4(b)/5(c)	(8)	131
Finance costs	6	4,705	—
Depreciation	5(c)	267,706	249,669
Amortization of prepaid land lease payments	5(c)	6,534	5,877
Amortization of intangible assets	5(c)	359	407
Impairment of inventories	5(c)	59	292
Government grants recognized in profit or loss		(10,767)	(7,543)
		2,342,540	2,140,239
Decrease in pledged deposits		12,046	2,855
Increase in trade and bills receivables		(179,119)	(35,508)
Increase in prepayments, deposits and other receivables		(4,625)	(14,636)
Decrease in inventories		230,323	366,327
(Decrease)/increase in trade and bills payables		(158,766)	241,749
Increase in other payables and accruals		100,768	76,043
Cash generated from operations		2,343,167	2,777,069
Tax paid		(464,145)	(370,418)
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,879,022	2,406,651

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2016

	Note	Six months ended June 30,	
		2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(150,247)	(213,509)
Proceeds from disposal of items of property, plant and equipment		51	1,257
Additions to prepaid land lease payments		(11,386)	(32,189)
Purchases of intangible assets		(212)	(36)
Receipts of assets related government grants		30,770	6,037
Advance to a related party		—	(13,000)
Proceeds from disposal of an available-for-sale investments		963,687	—
Purchases of available-for-sale investments		(1,809,000)	—
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(976,337)	(251,440)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from other borrowing		—	5,000
Advances from the Controlling Shareholders	18(a)	—	80,731
Repayment of advances from the Controlling Shareholders		—	(285,142)
Repayment of other borrowings		(1,500,000)	—
Interest paid		(6,706)	—
Proceeds from issue of shares		—	1,109,981
Repayment of amounts due to a related party in connection with the Reorganization		—	(649,021)
Dividends paid		(1,459,573)	—
Dividends paid to a related party		—	(1,125,756)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(2,966,279)	(864,207)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		8,935,420	1,291,004
Effect of foreign exchange rate changes		100,414	628,851
CASH AND CASH EQUIVALENTS AT END OF PERIOD		6,972,240	1,934,658

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

1. CORPORATE INFORMATION

Dali Foods Group Company Limited (the “Company”) is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on November 20, 2015.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the manufacture and sale of food and beverage in Mainland China.

In the opinion of the Company’s directors, the holding company of the Company is Divine Foods Limited (the “Parent”), a company established in the British Virgin Islands. The ultimate controlling shareholders of the Company are Mr. Xu Shihui, Ms. Chen Liling and Ms. Xu Yangyang (together known as the “Controlling Shareholders”).

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on August 22, 2016.

2.1 BASIS OF PRESENTATION

The interim condensed consolidated financial statements for the six months ended June 30, 2016 have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except available-for-sale investments, which have been measured at fair value. The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of the new and revised standards and interpretation as of January 1, 2016, noted below.

- a) The following new standard and amendment to standards are mandatory for the first time for the financial year beginning January 1, 2016:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of HKFRSs</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

- b) The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKAS 7	<i>Disclosure Initiative¹</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>
HKFRS 9	<i>Financial Instruments²</i>
Amendments to HKFRS 2	<i>Classification and Measurement of the Share-based Payment Transaction²</i>
HKFRS 15	<i>Revenue from Contract with Customers²</i>
HKFRS 16	<i>Leases³</i>

1 Effective for annual periods beginning on or after January 1, 2017

2 Effective for annual periods beginning on or after January 1, 2018

3 Effective for annual periods beginning on or after January 1, 2019

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and has three reportable operating segments as follows:

- a) Manufacturing and sale of food;
- b) Manufacturing and sale of beverage;
- c) Others.

Management monitors the gross profit of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

	Six months ended June 30, 2016 (Unaudited)				Six months ended June 30, 2015 (Audited)		
	Food RMB' 000	Beverage RMB' 000	Others RMB' 000	Total RMB' 000	Food RMB' 000	Beverage RMB' 000	Total RMB' 000
Segment revenue							
Sales to external customers	4,771,267	4,081,366	167,922	9,020,555	4,633,728	3,870,728	8,504,456
Segment gross profit	1,651,007	1,876,152	5,829	3,532,988	1,349,522	1,494,087	2,843,609
<i>Reconciliation:</i>							
Other income and gains				173,540			129,867
Selling and distribution expenses				(1,420,414)			(908,076)
Administrative expenses				(189,468)			(173,994)
Finance costs				(4,705)			—
Profit before tax				2,091,941			1,891,406
Other segment information:							
Depreciation and amortization	68,886	179,474	—	248,360	62,659	169,339	231,998
Capital expenditure							
Allocated	67,597	56,379	—	123,976	73,999	117,731	191,730
Unallocated				12,175			71,613
				136,151			263,343

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Since over 90% of the Group's revenue and operating profit were generated from the sale of food and beverage in Mainland China and over 90% of the Group's non-current assets were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about a major customer

Since none of the Group's sale to a single customer amounted to 10% or more of the Group's total revenue for the reporting period, no major customer information is presented in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the net invoiced value of goods sold, after allowances for rebate and trade discounts.

An analysis of revenue, other income and gains is as follows:

(a) Revenue:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Sale of goods	9,020,555	8,504,456

(b) Other income and gains:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Bank interest income	66,575	5,470
Government grants*	68,033	102,478
Income from sales of scrap, net	20,422	19,697
Gain on disposal of available-for-sale investments	17,989	—
Gain on disposal of items of property, plant and equipment	8	18
Others	513	2,204
	173,540	129,867

* Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies in connection with enterprise expansion and efficiency enhancement. There are no unfulfilled conditions or contingencies related to these grants.

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived after charging/(crediting):

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
(a) Cost of sales:		
Cost of inventories sold	4,839,045	4,969,627
(b) Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	698,699	592,069
Pension scheme contribution, social welfare and other welfare	72,643	70,252
	771,342	662,321
(c) Other items:		
Depreciation	267,706	249,669
Amortization of prepaid land lease payments	6,534	5,877
Amortization of intangible assets	359	407
Promotion and advertising expenses	845,543	457,467
Logistics expense	251,793	228,998
Auditors' remuneration	1,500	54
Research and development costs	25,874	24,324
Minimum lease payments under operating leases:		
Land and buildings	8,520	8,520
Foreign exchange differences, net	5,285	6,503
Fair value gains, net:		
available-for-sale investments (transfer from equity on disposal) (note 4(b))	(17,989)	—
Bank interest income (note 4(b))	(66,575)	5,470
Loss on disposal of items of property, plant and equipment	—	131
Government grants (note 4(b))	(68,033)	(102,478)
Impairment of inventories	59	292

The depreciation of property, plant and equipment and amortization of prepaid land lease payments and other intangible assets are included in "administrative expenses", "selling and distribution expenses" and "cost of sales" in the interim condensed consolidated statement of profit or loss.

Research and development costs are included in "administrative expenses" and "cost of sales" in the interim condensed consolidated statement of profit or loss.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Interest on other borrowings	4,705	—

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% (the six months ended June 30, 2015: 16.5%). No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended June 30, 2016 (the six months ended June 30, 2015: Nil).

Under the Income Tax Law of the People's Republic of China (the "PRC"), the Company's subsidiaries that are established in the PRC are subject to income tax at a base rate of 25% (the six months ended June 30, 2015: 25%), except for some subsidiaries which are subject to preferential income tax rate of 15%, approved by the relevant local tax authorities in 2015, in different periods ranging from January 1, 2014 to December 31, 2020.

The major components of income tax expense are as follows:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Current tax:		
Income tax in the PRC for the period	472,619	354,833
Deferred tax	(22,242)	19,512
Total tax charge for the period	450,377	374,345

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

8. DIVIDENDS

A final dividend of HK\$0.126 (equivalent to approximately RMB0.107) per ordinary share totalling HK\$1,725,459,000 (equivalent to approximately RMB1,459,573,000) was paid in April 2016. The board of directors resolved not to declare any interim dividend for the six months ended June 30, 2016 (six months ended June 30, 2015: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended June 30, 2016 and 2015.

The calculation of basic earnings per share is based on:

	Six months ended June 30,	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
<hr/>		
Earnings		
Profit attributable to ordinary equity holders of the parent	1,641,564	1,517,061
<hr/>		
	Number of shares	
	June 30,	June 30,
	2016	2015
	(Unaudited)	(Audited)
<hr/>		
Shares		
Weighted average number of ordinary shares in issue during the period	13,694,117,500	11,715,271,233
<hr/>		
Earnings per share		
Basic and diluted (RMB)	0.12	0.13

The weighted average number of ordinary shares, used to calculate the basic earnings per share for the six months ended June 30, 2015 includes the weighted average of 360,000,000 ordinary shares issued to CDH Delicacy Holdings Limited and 11,640,000,000 ordinary shares issued to the Parent which were deemed to have been issued throughout the period.

10. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended June 30, 2016, the Group acquired items of property, plant and equipment at a cost of RMB124,553,000 (the six months ended June 30, 2015: RMB198,165,000).

Items of property, plant and equipment with a net book value of RMB43,000 were disposed of by the Group during the six months ended June 30, 2016 (the six months ended June 30, 2015: RMB1,388,000).

11. PREPAID LAND LEASE PAYMENTS

Acquisitions and disposals

During the six months ended June 30, 2016, additions of prepaid land lease payments of the Group amounted to RMB11,386,000 (the six months ended June 30, 2015: RMB65,142,000).

No prepaid land lease payments were disposed of during the six months ended June 30, 2016 (the six months ended June 30, 2015: Nil).

12. INVENTORIES

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Raw materials and packaging materials	487,878	593,553
Finished goods	211,263	335,970
	699,141	929,523

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

13. TRADE AND BILLS RECEIVABLES

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Trade receivables	323,480	145,668
Bills receivable	1,307	—
Impairment	(715)	(715)
	<u>324,072</u>	<u>144,953</u>

The credit period ranges from 30 to 90 days. The aging analysis of trade and bills receivables (net of impairment losses for bad and doubtful debts) at the end of reporting period, based on invoice date, is as follows:

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Within 90 days	311,652	136,510
91 to 180 days	12,063	8,155
181 to 365 days	357	288
	<u>324,072</u>	<u>144,953</u>

The movements in provision for impairment of trade and bills receivables are as below:

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
At beginning/end of period	<u>715</u>	<u>715</u>

13. TRADE AND BILLS RECEIVABLES (continued)

The aging analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Neither past due nor impaired	292,024	119,175
Past due but not impaired:		
Less than 90 days past due	31,691	25,490
90 to 180 days past due	357	288
	324,072	144,953

14. AVAILABLE-FOR-SALE INVESTMENTS

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Available-for-sale investments	1,718,504	844,113

The available-for-sale investments were wealth management products issued by banks in the PRC with expected interest rates ranging from 4.5% to 4.9% per annum and maturity periods from 8 to 12 months. The fair value of the wealth management products approximates to their cost plus expected interest.

During the six months ended June 30, 2016, the gross gain in respect of the Group's available-for-sale investments recognized in other comprehensive income amounted to RMB29,078,000 (the six months end June 30, 2015: Nil), of which RMB17,989,000 (the six months end June 30, 2015: Nil) was reclassified from other comprehensive income to profit or loss.

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

15. TRADE AND BILLS PAYABLES

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Trade payables	793,494	936,050
Bills payable	11,910	28,120
	805,404	964,170

An aging analysis of the trade and bills payables at the end of the reporting period, based on the transaction date, is as follows:

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Within 90 days	768,995	933,052
91 to 365 days	24,922	21,078
1 to 2 years	5,928	4,909
Over 2 years	5,559	5,131
	805,404	964,170

The trade payables are non-interest-bearing and normally settled within 30 days. The bills payable are non-interest-bearing and normally settled within 90 days.

16. SHARE CAPITAL

Shares

	As at June 30, 2016 RMB (Unaudited)	As at December 31, 2015 RMB (Audited)
Authorized:		
50,000,000,000 ordinary shares of HKD0.01 each (December 31, 2015: 50,000,000,000 ordinary shares of HKD0.01 each)	409,085	409,085
Issued and fully paid:		
13,694,117,500 ordinary shares of HKD0.01 each (December 31, 2015: 13,694,117,500 ordinary shares of HKD0.01 each)	112,712	112,712

17. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Contracted, but not provided for: Property, plant and equipment	227,381	179,739

(b) Operating lease commitments

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating lease payables as follows:

	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Within one year	17,039	17,039
In the second to fifth years, inclusive	68,155	68,155
After five years	59,636	68,155
	144,830	153,349

The Group leases certain of its properties and prepaid land lease payments under operating lease arrangements. Leases for properties are negotiated for a term of 10 years.

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

18. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

Dali Century Hotel Co., Ltd., Hubei Dali Estate Co., Ltd. and Fujian Dali Foods Group Co., Ltd. are companies controlled by the Controlling Shareholders.

Sales of products:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Dali Century Hotel Co., Ltd.	44	83

The sales to Dali Century Hotel Co., Ltd. were made according to the published prices and conditions offered to the major customers of the Group.

Advance to:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Hubei Dali Estate Co., Ltd.	—	13,000

The advance was repaid by Hubei Dali Estate Co., Ltd. in July 2015.

Rental expenses

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Fujian Dali Foods Group Co., Ltd.	8,520	8,520

Rental expenses represent expenses for rental of properties and the prepaid land lease payments, which are charged in accordance with the terms of agreements made between the parties.

18. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties: (continued)

Advances from the Controlling Shareholders:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Ms. Chen Liling	—	1,100
Mr. Xu Shihui	—	1,500
Ms. Xu Yangyang	—	78,131
	—	80,731

Repayment of advances from the Controlling Shareholders:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Ms. Chen Liling	—	46,778
Mr. Xu Shihui	—	159,317
Ms. Xu Yangyang	—	79,047
	—	285,142

Repayment of amounts due to a related party:

	Six months ended June 30,	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Fujian Dali Foods Group Co., Ltd.	—	649,021

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

18. RELATED PARTY TRANSACTIONS (continued)

- (a) Transactions with related parties: (continued)

Services purchased:

	Six months ended June 30,	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
Dali Century Hotel Co., Ltd.	226	212

The service incurred for the purchase of accommodation and catering services from Dali Century Hotel Co., Ltd. were made according to the published prices.

- (b) Compensation of key management personnel of the Group:

	Six months ended June 30,	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
Salaries	4,471	4,467
Pension scheme contribution	105	89
	4,576	4,556

19. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at June 30, 2016

Financial assets

	Loans and receivables RMB' 000 (Unaudited)	Available- for-sale financial assets RMB' 000 (Unaudited)	Total RMB' 000 (Unaudited)
Available-for-sale investments	—	1,718,504	1,718,504
Trade and bills receivables	324,072	—	324,072
Financial assets included in prepayments, deposits and other receivables	31,806	—	31,806
Pledged deposits	9,435	—	9,435
Cash and cash equivalents	6,972,240	—	6,972,240
	7,337,553	1,718,504	9,056,057

Financial liabilities

	Financial liabilities at amortized cost RMB' 000 (Unaudited)
Trade and bills payables	805,404
Financial liabilities included in other payables and accruals	322,605
	1,128,009

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

19. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at December 31, 2015

Financial assets

	Loans and receivables RMB' 000 (Audited)	Available- for-sale financial assets RMB' 000 (Audited)	Total RMB' 000 (Audited)
Available-for-sale investments	—	844,113	844,113
Trade receivables	144,953	—	144,953
Financial assets included in prepayments, deposits and other receivables	36,095	—	36,095
Pledged deposits	21,481	—	21,481
Cash and cash equivalents	8,935,420	—	8,935,420
	<u>9,137,949</u>	<u>844,113</u>	<u>9,982,062</u>

Financial liabilities

	Financial liabilities at amortized cost RMB' 000 (Audited)
Trade and bills payables	964,170
Financial liabilities included in other payables and accruals	326,450
Other borrowings	1,500,000
	<u>2,790,620</u>

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)	As at June 30, 2016 RMB' 000 (Unaudited)	As at December 31, 2015 RMB' 000 (Audited)
Financial assets				
Available-for-sale investments	1,718,504	844,113	1,718,504	844,113

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals and other borrowing approximate to their carrying amounts largely due to the short term maturities of these instruments.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at June 30, 2016 (Unaudited)

	Fair value measurement using			Total RMB' 000
	Quoted prices in active inputs (Level 1) RMB' 000	Significant observable inputs (Level 2) RMB' 000	Significant unobservable inputs (Level 3) RMB' 000	
Available-for-sale investments	—	1,718,504	—	1,718,504

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2016

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

As at December 31, 2015 (Audited)

	Quoted prices in active inputs (Level 1) RMB' 000	Fair value measurement using Significant observable inputs (Level 2) RMB' 000	Significant unobservable inputs (Level 3) RMB' 000	Total RMB' 000
Available-for-sale investments	—	844,113	—	844,113

The Group did not have any financial liabilities measured at fair value as at June 30, 2016 and December 31, 2015.

There were no transfers between Level 1 and Level 2 fair value measurements during the period and no transfers into or out of Level 3 fair value measurements for both financial assets and financial liabilities during the six months period ended June 30, 2016.

21. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Group after June 30, 2016.



達利食品集團有限公司
DALI FOODS GROUP COMPANY LIMITED