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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016

The board (the "**Board**") of directors (the "**Directors**") of Dali Foods Group Company Limited (the "**Company**" or "**Dali**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the year ended December 31, 2016, together with the comparative figures for the year 2015.

FINANCIAL HIGHLIGHTS

	For the year ended December 31,		
	2016	**2015**	
	RMB'000	*RMB'000*	*% change*
Revenue	17,841,887	16,864,840	5.8%
Gross profit	6,840,400	5,816,256	17.6%
Gross profit margin	38.3%	34.5%	3.8 percentage points
EBITDA	4,526,934	4,233,179	6.9%
Net profit	3,136,793	2,912,325	7.7%
Net profit margin	17.6%	17.3%	0.3 percentage points
Earnings per share	RMB 0.23	RMB 0.24	-4.2%
Dividend	2,192,228	1,459,573	50.2%

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended December 31,	
		2016	**2015**
	Notes	*RMB'000*	*RMB'000*
REVENUE	4(a)	17,841,887	16,864,840
Cost of sales	5(a)	(11,001,487)	(11,048,584)
Gross profit		6,840,400	5,816,256
Other income and gains	4(b)	360,210	276,762
Selling and distribution expenses		(2,787,563)	(2,046,043)
Administrative expenses		(431,403)	(338,808)
Finance costs	6	(4,705)	(26,736)
PROFIT BEFORE TAX	5	3,976,939	3,681,431
Income tax expense	7	(840,146)	(769,106)
PROFIT FOR THE YEAR		3,136,793	2,912,325
Attributable to:			
Owners of the parent		3,136,793	2,912,325
PROFIT FOR THE YEAR		3,136,793	2,912,325

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

	Note	For the year ended December 31, 2016	2015
		RMB'000	*RMB'000*
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		59,940	9,460
Reclassification adjustment for gains included in profit or loss		(59,672)	(44)
Income tax effect		(67)	(2,354)
		201	7,062
Exchange differences: Exchange differences on translation of foreign operations		293,397	144,883
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		293,598	151,945
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		293,598	151,945
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,430,391	3,064,270
Profit attributable to:			
Owners of the parent		3,136,793	2,912,325
Total comprehensive income attributable to:			
Owners of the parent		3,430,391	3,064,270
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted			
- For profit for the year		RMB0.23	RMB0.24

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at December 31, 2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,896,296	4,134,010
Prepaid land lease payments		591,059	592,742
Intangible assets		2,854	1,591
Prepayments		218,405	72,971
Deferred tax assets		26,265	25,711
Total non-current assets		4,734,879	4,827,025
CURRENT ASSETS			
Inventories		1,109,276	929,523
Trade receivables	10	284,067	144,953
Prepayments, deposits and other receivables		176,340	94,772
Available-for-sale investments		250,268	844,113
Pledged deposits		64,924	21,481
Cash and bank balances		9,860,631	8,935,420
Total current assets		11,745,506	10,970,262
CURRENT LIABILITIES			
Trade and bills payables	11	1,027,032	964,170
Other payables and accruals		1,091,776	984,524
Other borrowings		—	1,500,000
Tax payable		177,129	149,497
Total current liabilities		2,295,937	3,598,191
NET CURRENT ASSETS		9,449,569	7,372,071
TOTAL ASSETS LESS CURRENT LIABILITIES		14,184,448	12,199,096

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at December 31,	
	2016	**2015**
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Deferred revenue	318,571	296,975
Total non-current liabilities	318,571	296,975
NET ASSETS	13,865,877	11,902,121
EQUITY		
Equity attributable to owners of the parent		
Share capital	112,712	112,712
Reserves	13,753,165	11,789,409
TOTAL EQUITY	13,865,877	11,902,121

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION OF THE GROUP

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 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 "Directors"), the holding company of the Company is Divine Foods Limited (the "Parent"), a company established in the British Virgin Islands ("BVI"). The ultimate controlling shareholders of the Company are Mr. Xu Shihui, Ms. Chen Liling and Ms. Xu Yangyang (together known as the "Controlling Shareholders").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a) the contractual arrangement with the other vote holders of the investee;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) rights arising from other contractual arrangements; and

c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date of such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10 HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs*

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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 HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

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

4 No mandatory effective date yet determined but available for adoption

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from January 1, 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from January 1, 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on January 1, 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on January 1, 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from January 1, 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from January 1, 2017.

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) Manufacture and sale of food;

b) Manufacture and sale of beverage; and

c) Others.

The "Others" segment comprises sale of packing materials in relation to the production of food and beverage.

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

Year ended December 31, 2016	**Food**	**Beverage**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue				
Sales to external customers	9,764,592	7,645,745	431,550	17,841,887
Segment gross profit	3,340,098	3,486,537	13,765	6,840,400
Reconciliation:				
Other income and gains				360,210
Selling and distribution expenses				(2,787,563)
Administrative expenses				(431,403)
Finance costs				(4,705)
Profit before tax				3,976,939
Other segment information:				
Depreciation and amortization	122,773	351,998	—	474,771
Capital expenditure				
Allocated	129,256	280,062	—	409,318
Unallocated				54,793
				464,111

3. **OPERATING SEGMENT INFORMATION (continued)**

Year ended December 31, 2015	Food	Beverage	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue			
Sales to external customers	9,519,375	7,345,465	16,864,840
Segment gross profit	2,888,172	2,928,084	5,816,256
Reconciliation:			
Other income and gains			276,762
Selling and distribution expenses			(2,046,043)
Administrative expenses			(338,808)
Finance costs			(26,736)
Profit before tax			3,681,431
Other segment information:			
Depreciation and amortization	126,735	346,710	473,445
Capital expenditure			
Allocated	121,207	253,323	374,530
Unallocated			103,646
			478,176

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 no revenue from sale to a single customer of the Group amounted to 10% or more of the Group's total revenue, 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:

	2016	2015
	RMB'000	*RMB'000*
Sale of goods	17,841,887	16,864,840

(b) Other income and gains:

	2016	2015
	RMB'000	*RMB'000*
Interest income	104,989	35,613
Fair value gains, net: available-for-sale investments (transfer from equity)	59,672	44
Government grants*	150,634	197,262
Income from sales of scrap, net	43,329	40,166
Gain on disposal of items of property, plant and equipment	8	94
Others	1,578	3,583
	360,210	276,762

* *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.*

5. PROFIT BEFORE TAX

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

	2016 *RMB'000*	2015 *RMB'000*
(a) Cost of sales:		
Cost of inventories sold	9,592,780	9,721,182
(b) Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	1,670,975	1,358,160
Pension scheme contributions, social welfare and other welfare	164,954	127,818
	1,835,929	1,485,978
(c) Other items:		
Depreciation	531,485	512,027
Amortization of land lease payments	13,191	11,930
Amortization of intangible assets	614	1,055
Promotion and advertising expenses	1,563,134	1,085,689
Logistics expense	511,881	468,227
Auditor's remuneration	4,500	3,000
Research and development costs	48,467	47,510
Minimum lease payments under operating leases	17,629	17,039
Foreign exchange differences, net	7,189	6,867
Fair value gains, net: available-for-sale investments (transfer from equity)	(59,672)	(44)
Bank interest income	(104,989)	(35,613)
Net loss on disposal of items of property, plant and equipment	15	1,787
Government grants	(150,634)	(197,262)
Impairment of items of property, plant and equipment	657	—
Impairment of trade receivables	2,184	—
Impairment of inventories	438	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 consolidated statement of profit or loss.

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Interest on other borrowings	4,705	26,736

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

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% (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 year.

Under the Income Tax Law of the PRC, the Company's subsidiaries that are established in the PRC were subject to income tax at a base rate of 25%, except for some subsidiaries which are subject to a preferential income tax rate of 15%, as 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:

	2016	**2015**
	RMB'000	*RMB'000*
Current tax:		
Income tax in Mainland China for the year	838,413	749,567
Deferred tax	1,733	19,539
Total tax charge for the year	840,146	769,106

7. **INCOME TAX (continued)**

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Profit before tax	3,976,939	3,681,431
Tax at the statutory tax rate (25%)	994,235	920,358
Effect of tax relief enjoyed by certain subsidiaries	(123,736)	(101,027)
Effect of tax relief approved in the current period enjoyed by certain subsidiaries for previous periods	(15,043)	(52,786)
Income not subject to tax*	(18,088)	(12,450)
Expenses not deductible for tax	1,573	1,219
Unrecognized tax losses	1,205	9,427
Effect on opening deferred tax of change in rates	—	4,365
Tax charge at the Group's effective rate	840,146	769,106

* *Income not subject to tax mainly includes the profit from the primary agricultural product processing, which is exempted from income tax in accordance with the PRC tax law.*

8. **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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 13,694,117,500 (2015: 12,077,279,596) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended December 31, 2016 and 2015.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculation of basic and diluted earnings per share is based on:

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	3,136,793	2,912,325

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year	13,694,117,500	12,077,279,596
Earnings per share		
Basic and diluted (RMB)	0.23	0.24

9. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Proposed final dividend — HK$0.180 (equivalent to approximately RMB0.160) (2015: HK$0.126 (equivalent to approximately RMB0.106)) per ordinary share	2,192,228	1,459,573

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. TRADE RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	286,966	145,668
Impairment	(2,899)	(715)
	284,067	144,953

10. TRADE RECEIVABLES (continued)

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

	2016	2015
	RMB'000	*RMB'000*
Within 90 days	264,942	136,510
91 to 180 days	8,612	8,155
181 to 365 days	10,513	288
	284,067	144,953

The movements in provision for impairment of trade receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
At beginning of year	715	715
Impairment losses recognized	2,184	—
At end of year	2,899	715

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

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	224,183	119,175
Past due but not impaired:		
Less than 90 days past due	49,371	25,490
90 to 180 days past due	10,362	288
Over 180 days past due	151	—
	284,067	144,953

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that are past due but not impaired relate to a number of independent customers that have a good relationship with the Group. The Group has not impaired these debtors as there has not been a significant change in credit quality and the directors believe that the amounts are recoverable. The Group does not hold any collateral over these balances.

11. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	1,011,502	936,050
Bills payable	15,530	28,120
	1,027,032	964,170

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

	2016	2015
	RMB'000	*RMB'000*
Within 90 days	1,004,144	933,052
91 to 365 days	9,781	21,078
1 to 2 years	8,621	4,909
Over 2 years	4,486	5,131
	1,027,032	964,170

The bills payable were secured by the pledge of the Group's short-term deposits of RMB13,280,000 at 31 December 2016 (2015: RMB21,481,000).

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.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY ENVIRONMENT

In 2016, the economic growth in China continued at a slow but steady pace. According to the Statistical Bulletin released by the National Bureau of Statistics of the PRC in February 2017, China's gross domestic product (GDP) increased beyond RMB74 trillion in 2016, which represented a growth rate of 6.7% as compared with 2015. Structural reform and industrial upgrade are normal phenomena for many industries. The annual growth rate of the total retail sales of consumer goods for 2016 was 10.4%, among which, the retail sales of grain, oil, food, beverage and tobacco and alcohol increased by 10.5%, representing a decline of 0.3 percentage points and 4.1 percentage points, respectively, in their annual growth rates as compared to the previous year. Meanwhile, the consumption preferences of consumers were changing rapidly. The products in our industry became increasingly diversified. We saw more intense competition and increased sales promotions and discounts. In addition, floods occurring in various regions in China in the first half of the year and the increase in market prices of some of the raw materials in the second half of the year have also brought substantial challenges for the development of the industry. Despite a slowdown in macroeconomic growth and the various challenges brought by other external factors, the snack food and beverage market in China continued to be the biggest and most attractive one which still has significant market potentials.

At present, per capita snack food consumption in China remains to have relatively large room to increase. We believe that with the steady growth of personal income, the continued rise of the spending power of residents and the gradual narrowing of the gap of spending power of residents between cities and rural areas, the consumption demand for snack food and beverages will grow steadily in the future.

BUSINESS OVERVIEW FOR 2016

In 2016, the Group continued to adhere to the development strategy of "multi-brand and multi-products". Despite being affected by a general slowdown in consumer market, the market demand for the Group's main product categories still maintained stable growth. We further consolidated and strengthened our market leading position through the balanced development of the existing product categories and the improvement of product quality.

The Group adopted a variety of means to tap the potential of existing products and achieved steady growth. Through the efforts of the sales team, the distribution rate of new varieties and new products was further increased. Through a rich product portfolio, the product mix was optimized. With a focus on innovation and research and development, a variety of new products have been or will soon be launched in the market. Product quality has also been improved. Through expanding and strengthening sales channels, the Group continued to reinforce its advantages in traditional channels. The number of distributors increased to 4,225 and sales staff increased to more than 12,000. At the same time, the Group actively developed channels such as modern channels, e-commerce, specialty and catering channels. Income contribution from key accounts (KA) continued to increase. The comprehensive electronic commerce platforms are not only bright spots for our brand images but also contributed about 2% of our revenue. Through continued brand investment, the Group established a "three-dimensional" brand promotion model combined with televisions, internet, print media, outdoor advertisement and promotional events. Specific events include sponsoring "Where are we going, Dad (爸爸去哪兒)", a popular parent-child outdoor reality show, to promote our Daliyuan and Copico brands, promotion campaigns in campuses carried out by Dali, continuous delivering mass advertisements to the Top 20 satellite TV stations in the country and major online video platforms, publicity and promotional events conducted in over 200 cinemas and others. Meanwhile, the Group improved production efficiency by refining production plan, improving production technology as well as reasonably using production capacity. The overall profit margin was increased through active cost control measures. Through establishment of a marketing department for the Group and enhancement of the control and coordination of frontline teams by the headquarters, meticulous management was implemented and high caliber professionals were introduced to improve the management standard.

In 2016, through the comprehensive implementation of the above various measures, the Group continuously provided the consumers with more products that were high-quality, safe, healthy and delicious and also created substantial returns for shareholders.

In 2016, the Group's revenue increased by 5.8% to RMB17,842 million. Gross profit reached RMB6,840 million while gross profit margin increased by 3.8 percentage points to 38.3%. Selling expenses as a percentage of revenue increased by 3.5 percentage points to 15.6%. Net profit increased by 7.7% to RMB3,137 million. Net profit margin increased by 0.3 percentage points to 17.6%.

Food Business

	For the year ended December 31,		
	2016	**2015**	**2016 vs. 2015**
	RMB (million)	*RMB (million)*	*% Change*
Food			
Bread, Cakes and Pastries	6,336	6,325	0.2
Chips, Fries and Others	1,878	1,782	5.4
Biscuits	1,551	1,412	9.8
Food Segment Total	9,765	9,519	2.6

The sales of our food business increased by 2.6% from RMB9,519 million for 2015 to RMB9,765 million for 2016. The sales of all three kinds of products still achieved growth against the challenging market conditions. Sales income from bread, cakes and pastries, chips, fries and others and biscuits increased by 0.2%, 5.4% and 9.8% respectively as compared to 2015.

Bread, Cakes and Pastries

Bread, cake and pastry products, which are the product categories of Dali with the best competitive advantages, continued to maintain a leading market share. Our traditional products such as egg yolk pie, chocolate pie, soft bread, small bread, Swiss rolls and cake had solid presence in the market and firmly occupied the leading position of their respective sub-categories.

Meanwhile, Dali also closely tracked changes in the market and noticed the demand of consumers for premium bread. We introduced advanced production equipments and processes from Europe, and launched the new products of croissants and Guozhen bread in 2014 and 2016, respectively. Once these products were launched, they were continuously well received by most consumers as they were exceptional in the market. Croissant is a popular high-end bread product in Europe and its prominent feature is a rich sense of hierarchy and a rich flavor of butter. Dali is currently the only domestic enterprise introducing a croissant production line from Europe. The product is well-received by white-collar consumers in China. Its growth rate has slowed down this year but still reached annual sales of almost RMB200 million. Guozhen bread captures consumption trends of the bread, cake and pastry industry such as “hand-torn bread” and “pulp”. Both the ingredients chosen and the process belong to high-end products in the market. With its unique taste, the major cranberry flavor was sought after by consumers and achieved sales of close to RMB100 million in the first year following its launching.

In 2016, “Where are we going, Dad? (爸爸去哪兒)”, the popular family outdoor reality show with Daliyuan Brand as the title sponsor, through a strong brand value and product image implantation, strengthened Daliyuan’s warm and delicious image in the eyes of the family crowd. In addition, the Group actively engaged in public welfare activities, carrying out Daliyuan’s public welfare activities in the name of “Where are you, Dad?” in order to help approximately one thousand left behind children to re-unite with their parents in the Spring Festival, which spread Daliyuan’s brand value of “reunion culture” and enhanced Daliyuan’ reputation in the public.

In 2017, we will also further upgrade our products and launch individually-packaged bread, cake and pastry products including 70g croissant to focus on breakfast supplement food consumption and further extend the consumption scenes covered by our products coverage in the consumption market. In addition, the upgrading of the quality, packaging and taste of several existing products is also in progress.

Chips, Fries and Others

Copico potato chips is the leader of domestic potato chip brands and enjoys a good reputation among consumers. Currently, it ranks third in terms of brand market share and ranks first among domestic enterprises. Today, the mainstream consumer group of chips, fries and others gradually shifts to post-95 and post-2000 generations. These generations of consumers have stronger spending power and have a remarkable personalized characteristic of pursuing an independent identity. In 2016, we adjusted the packaging of Copico product, resulting in a more fashionable design, and the colors used are cooler. Cartoon designs in the “Cantoon (萌系)” style which suit young consumers’ visual preferences are adopted for the packaging of Kaqu potato chips. To satisfy the demand in terms of taste of young consumers for potato chips with a light taste, we launched potato chips with a refreshing cucumber flavor. We also launched the 26g packaged potato chip and french fries products for traditional channels and 135g packaged “best value” potato chips products for modern key account channels, which adapt to consumers’ more spending power as well as increased the per gram price and profit. Dali also conducted centralized Copico promotional activities, which were organized uniformly by the Group, at more than 3,800 modern key account outlets nationwide, including unified displays for different types of supermarkets, outlet decoration, purchasing guide promotion, etc.

In addition to improving product quality and image through the above measures, the Group is also actively seeking to expand the range of products: we plan to launch fresh-cut potato chip products at the end of 2017 to seize the fast-growing fresh-cut potato chip market. For warm up publicity of the new products, the Group will continue to reinforce the brand promotion of Copico and on-site store marketing to appeal consumers in the first half of the year.

Biscuit

Haochidian Biscuit is one of our segments with solid growth for the year. Dali's Crispy Series of biscuits has remained the leading product in the respective market segment and has a large number of consumer bases across the country. Landy Castle, a premium cookies product line introduced from Europe in 2014, is a kind of high-end biscuit product rarely seen in the domestic market. Upon its launching, many families in China regarded it as their first choice for consumption and gift for relatives and friends during festivals. In 2016, led by the good momentum of public praise for the Landy Castle's high quality, we successfully launched Zhenhao cookie and caramel cookies, which satisfied consumer demand in the middle end cookie market through accurate market targeting and pricing strategies. In particular, Zhenhao Cookie is not inferior to premium products in terms of its quality and taste. With fashionable and novel designs and packaging as well as moderate pricing and product specifications, it has successfully attracted many young consumers and became their favorite and recorded sales of almost RMB200 million in the year of its launching.

In 2017, the Group will continue to promote the sales of cookie products, especially there will be a faster growth in the sales of Zhenhao cookie. Meanwhile, focusing on the upgrading of package and taste of Cripsy Series of biscuits will also be implemented.

Beverage Business

	For the year ended December 31,		
	2016	**2015**	**2016 vs. 2015**
	RMB (million)	**RMB (million)**	**% Change**
Beverage			
Energy Drinks	2,036	1,419	43.5
Herbal Tea	2,711	2,551	6.3
Plant-based and Milk Beverage	1,649	1,965	(16.1)
Other Beverages	1,249	1,411	(11.5)
Beverage Segment Total	7,645	7,346	4.1

Sales of beverage products increased by 4.1% from RMB7,346 million in 2015 to RMB7,645 million in 2016. Among them, sales of energy drinks and herbal tea increased by 43.5% and 6.3%, respectively while sales of plant-based and milk beverage fell 16.1%.

Energy Drinks

Since Hi-Tiger was launched in 2013, through accurate product positioning and multilevel marketing efforts, the promotion slogan "Drink Hi-Tiger, refreshing and invigorating" went deep into people's mind, and the sales of energy drink kept a rapid growth. The high convenience of our PET-bottled energy drink satisfied the consuming demand of particular people and formed differentiation with other similar products. In 2016, the Group also upgraded the 250ml product of Hi-Tiger from iron cans to aluminum cans, enhancing the packaging image by deformation-proof packaging. The Group strived to build specialty channels, specifically schools, internet cafes and bars, for sale, while the coverage in tradition channels grew steadily. Currently, Hi-Tiger products are on sale on around 50% of Dali's outlets, which means there is more room for the increase. In the future, we will continue to enhance the sale and promotion in some regions and further improve distribution level. Hi-Tiger also achieved good sale performance in the first and second tier cities, such as Shanghai.

In 2016, the Group launched a series of campus publicity and sports sponsorships for Hi-Tiger Brand, including the 3-on-3 basketball match of world university students, the Ring Quanzhou Bay International Road Bike Race, the China Formula Grand Prix China Championship Shanghai Station, Folk Football League, marathon, etc., with the help of the challenge, momentum and other characteristics of the events, to convey the energy value of Hi-Tiger; by focusing on the moment of college entrance examinations, which was most concerned among students and families, creating the slogan of "Hi-Tiger cheering, go for the college entrance examinations", spreading the brand value of Hi-Tiger's supplement energy; through Hi-Tiger's sponsoring the National College Students Advertising Art Competition, in which students participated in the advertising creative performance of Hi-Tiger's brand value, Hi-Tiger's brand value was subtly spread to the student groups; through the development of heterogeneous alliance, for example, with the aid of the "DiDi" platform, Hi-Tiger strengthened the conveyance of brand energy value with drivers and passengers in order to enhance brand loyalty.

Herbal Tea

Heqizheng herbal tea is the key product of Dali's beverage segment and has been launched for nearly ten years, ranking third in the herbal tea market. The PET-bottled (1.5L and 600ml) Heqizheng herbal tea products are especially suitable for household consumption and ready-to-drink situation and have higher price-performance ratio than similar products. The advanced herbal plants connection extraction technology of Heqizheng is imbued with the brand image of Chinese cultural spirit of homology of medicine and food. Through the difference in package specification and process, full differentiation with rivals is achieved and its targeting consumer base becomes more stable, and Heqizheng is favored by consumers and its position in segment market is steady. Thus the sale amount keeps a steady increase. In 2016, the Group focused on the investment on the canned herbal tea products in order to achieve the expansion of food and beverage channels; increasing in deployment of tier 2 distributor, enhancing the efficiency of the product provision to outlet, increasing in shopping guides and effort in promotion as well as unifying the display of outlets. In some areas, such as the southwestern provinces, the channel permeability increased significantly; and the sales of box-shaped product and the festive gift box of herbal tea was also welcomed in some low-line cities.

Plant-based and Milk Beverage

Affected by overall market decline and intensive competition, the sales of plant-based and milk beverages decreased as compared with the same period of previous year, because this product category is relatively aging with market saturation and are faced competition from similar products. The Group has improved sales of its products through a positive sales measures, including strengthening the sales of box-shaped product, strictly controlling the wholesale and retail price system, unifying the display of outlets and strengthening sales of festival gift boxes, and the decline of revenue in the second half of 2016 has narrowed to 3.1% compared to the first half of 2016. As the people's living standard is improving and consumers' health awareness is growing, we are still optimistic about the market prospect of plant-based and milk beverages that accord with healthy diet concept, and we will place more efforts on innovative research and development of new product taste in the future.

In 2017, the Group will continue to adopt the above-mentioned measures to further reverse the sales of this product. Meanwhile, the upgrading plan of the package of 500 ml PET-bottled peanut milk will also be launched.

Besides, the Group is planning to implement a series of plans to strengthen the sales of products of beverage segment in 2017, including organizing annual order fair, increase the display of products in the outlet's refrigerator and effective promotion combining with element of festivals.

The Group also strengthened the sale of Spring Festival gift packs in the year end of 2016 and sold various popular products in the forms of gift boxes and gift packs, including all major categories in both food and beverage segments. The general price range was RMB30-80/box, which fitted in with the festival and holiday customs of major consumption provinces such as Jiangsu, Shandong and Henan. Sales of gift packs during the entire Spring Festival period exceeded RMB500 million.

Cost of Sales and Gross Profit Margins

The primary cost of sales of Dali include raw material costs (such as sugar, palm oil and flour), packaging materials costs (such as chips, corrugated paper, etc.), manufacturing costs (such as depreciation, amortization and utilities), wages and salaries, and surcharges. Among them, the raw material costs represented 53.3% of total cost of sales and the packaging materials costs represented 27.0% of total cost of sales. In 2016, the trends of changes in market prices of raw materials varied. Among the primary items, the costs of sugar and palm oil increased, while the costs of mesona, chips, powdered milk and eggs decreased. The overall costs of raw materials recorded a decrease.

At the same time, we had taken proactive responsive measures, such as purchasing in advance, in response to the change in the prices of raw materials and packaging materials. In future, we will further strengthen on cost control, reasonably adjust prices according to the market condition, optimize the product structure, and continue to launch more high-margin products. Furthermore, Dali has been able to maintain the stability of profit margin relatively well, which was benefited from the following three aspects: firstly, the existing competition pattern of the food industry has been relatively healthy with rare incidents of price wars; secondly, the unique sales model of Dali has enabled relatively lower factory prices of Dali's products under the circumstances of close retail prices in the market, as a result the Group has achieved a higher net profit margin; thirdly, Dali's direct production of packaging materials and potato granules has enabled it to control the relevant production costs effectively. We believe that even if the market price of raw materials will rise in future, Dali will still be able to maintain stable profit margin for the Group by capitalizing on its excellent cost control capability, and through measures such as optimized management of sales channels, adjusting product mix and launching products with high gross profit.

In 2016, thanks to the increase in sales of products with higher gross profit margins (including Hi-Tiger energy drinks, Zhenhao cookie and Copico potato chips), the increase of the selling prices of certain products and the decrease of the average purchase prices of some major raw materials and packaging materials (including eggs, mesona, herbal medicine, polyester chips and food packaging bags), the Group's gross profit margin further increased by 3.8 percentage points to 38.3%, in which the gross profit margins of food and beverage segments are 34.2% and 45.6%, respectively.

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

	Year ended December 31,					
	2016			**2015**		
	Gross profit (RMB in millions)	*% of total gross profit*	*Gross profit margin %*	*Gross profit (RMB in millions)*	*% of total gross profit*	*Gross profit margin %*
Food products	3,340	48.8	34.2	2,888	49.7	30.3
Beverage products	3,486	51.0	45.6	2,928	50.3	39.9
Others	14	0.2	3.2	—	—	—
Total	6,840	100.0	38.3	5,816	100.0	34.5

Other Financial Information

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 36.3% from RMB2,046 million for 2015 to RMB2,788 million for 2016. These expenses as a percentage of revenue increased from 12.1% for 2015 to 15.6% for 2016. The increase was primarily due to the promotion expenses brought by products with high gross margins, an adjustment to the sales strategy and an increase in promotion expenses brought by an increase in the proportion of modern channels and an increase in sales staff.

Besides, logistics fees in selling and distribution expenses represented 2.9% of the Group's revenue. Since September 2016, expressway restrictions on the load of vehicles had led to an increase in transportation costs of the Group. However, the increase was comparatively limited, as the impact of such adjustments was mainly on beverage transportation costs and the Company also reduced these impacts by means of re-bargaining and adjusting the vehicle models.

Administrative Expenses

The Group's administrative expenses increased by 27.1% from RMB339 million for 2015 to RMB431 million for 2016. These expenses as a percentage of revenue increased from 2.0% for 2015 to 2.4% for 2016. The increase was primarily due to an increase in the number of management personnel to optimize our management after the listing on the Main Board of The Stock Exchange of the Hong Kong (the "Listing") of the Company, an increase in the average salary level for these management personnel and an increase in administrative and compliance expenses after the listing.

Cash and Borrowings

The Group financed its liquidity requirements mainly through cash flows generated from its operating activities and the proceeds from the Listing. The aggregate amount of the Group's pledged deposits and cash and bank balances increased from RMB8,956 million as at December 31, 2015 to RMB9,926 million as at December 31, 2016. The increase was primarily due to an increase in cash and bank balances of RMB3,412 million as a result of the Group's operating activities during the year ended December 31, 2016 and an increase in cash and bank balances of RMB644 million as a result of the maturity of available-for-sale investments whilst there was a decrease in the balance of cash and bank balances of RMB1,460 million and RMB1,500 million, respectively, as a result of the payment of dividends for 2015 and the repayment of other borrowings by the Group. And other changes were primarily attributable to capital expenditures for investment activities. As at December 31, 2016, 53.4% and 43.9% of the Group's cash and bank balances were denominated in RMB and HKD, respectively.

As at December 31, 2016, the Group did not have any borrowings. The Group fully repaid of RMB1,500 million of entrusted loans in 2016.

The Group's gearing ratio as at December 31, 2016 was 15.9%, which is total liability divided by the capital plus total liability.

Inventories

The Group's inventories increased by 19.2% from RMB930 million as at December 31, 2015 to RMB1,109 million as at December 31, 2016, primarily due to substantial purchases of raw materials and packaging materials in anticipation of an increase of their future prices by the purchase department to meet the demand from the earlier arrival of Lunar New year in 2017. As a result, there is an overall increase of our inventories at the end of 2016 as compared to 2015. The inventory turnover days remain stable, increasing from 33.4 days for 2015 to 33.8 days for 2016.

Trade Receivables

The Group's trade receivables increased by 95.9% from RMB145 million as at December 31, 2015 to RMB284 million as at December 31, 2016, primarily due to a rapid growth of revenue from key accounts and E-commerce and higher credit facilities offered to a few long-term high-performing distributors which led to an increase of receivables. The trade receivables turnover days increased from 3.6 days in 2015 to 4.4 days in 2016.

Trade and Bills Payables

The Group's trade and bills payables increased by 6.5% from RMB964 million as of December 31, 2015 to RMB1,027 million as at December 31, 2016, which was also due to increased purchase of raw materials and packaging materials and an increase in stocks of finished goods. The trade and bills payables turnover days increased from 28.7 days for 2015 to 33.0 days for 2016.

Foreign Currency Risk

The Group's businesses are located in Mainland China and as such nearly all transactions are conducted in RMB. As nearly all of the assets and liabilities of the subsidiaries of the Company in Mainland China were denominated in RMB, the subsidiaries of the Company in Mainland China were not subject to significant foreign currency risk. As at December 31, 2016, the Group's assets and liabilities denominated in HKD were mainly held by the Company and certain subsidiaries incorporated outside Mainland China and had currencies other than RMB as their functional currencies. The Company and these subsidiaries incorporated outside Mainland China also held bank balances denominated in RMB, from which foreign currency exposures arise. The Group has not undertaken any hedging activities.

Contingent Liabilities

As at December 31, 2016, the Group did not have any significant contingent liabilities.

Asset Pledge

As at December 31, 2016, the Group's bills payable and letter of credit were secured by pledging its short-term deposits in amount of RMB65 million.

Available-for-Sale Investments

As at December 31, 2016, the Group's total available-for-sale investments amounted to RMB250 million, representing a decrease of 70.4% as compared to RMB844 million as at December 31, 2015. This was primarily because the wealth investment products that the Group purchased at the end of 2015 and during 2016 have already been redeemed on their maturities. The Group's available-for-sale investments of RMB250 million as at December 31, 2016 were wealth investment products purchased from financial institutions with maturity periods of 12 months. For the year ended December 31, 2016, the gain in respect of the Group's available-for-sale investments which have been redeemed on their maturities amounted to RMB60 million.

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 in connection with the global offering). According to the intended use as set out in "Future Plans and Use of Proceeds" in the prospectus published on November 10, 2015 (the "Prospectus"), the amount utilized as at December 31, 2016 was as follows:

		Net Proceeds (HKD million)		
Items	**Percentage**	**Available**	**Utilized**	**Unutilized**
Development, introduction and promotion of new products	20%	1,733	45	1,688
Expansion and upgrade of production facility and manufacturing network	20%	1,733	371	1,362
Enhancing presence in sales channels and promoting brands	20%	1,733	520	1,213
Potential acquisitions and business cooperation	30%	2,600	—	2,600
Working capital and other general corporate purposes	10%	866	350	516

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

Capital Expenditures and Capital Commitments

The Group had capital expenditures of RMB464 million in 2016, primarily incurred from (i) the construction of production facilities in Fujian, Jilin and Guongdong provinces; (ii) the construction of soy milk production facilities; and (iii) the construction of office building in Xiamen.

As at December 31, 2016, the Group's capital commitments relating to property, plant and equipment was RMB307 million, which were primarily used for the construction of certain production facilities and purchases of production lines.

Improvement of Product Quality and Operational Efficiency

In 2016, the Group, as always, acted on the principle of "quality first" and on the basis of assuring the original product quality, improved the quality level of raw materials through raw material safety control and raw material suppliers review management. Through the improvement and enhancement of production equipment and facilities, the Group implemented food safety assurance in every work aspect so that the quality of products could be continuously enhanced and improved and the risk of the production aspect was eliminated fundamentally . In addition, the Group strengthened the management and application of quality tools by constantly reinforcing knowledge training relating to quality internally and externally and established criteria for standardized quality management and testing methods to constantly enhance the Group's own quality control capacity. Furthermore, the Group strictly controlled the inspection and acceptance of raw materials to ensure the safe procurement of raw materials. The Group's standardized production process and finished product inspection further guarantee the food safety. The Group passed various quality and food safety system certifications such ISO9001, ISO22000 and BRC. In particular, the soy milk product which will be launched also received the national organic product certification.

Meanwhile, the Group also strengthened quality tracking after products are delivered from the warehouse. Specific measures include establishing an admittance system for distributors and logistics suppliers, strengthening the tracking of distributors and testing of products sold through distributors and so on.

"Food is the paramount necessity of people and food safety is the top priority". Food safety is one of the most concerned aspects of business management. We will continue to adhere to the most stringent food safety management system which covers various aspects from raw materials to finished products production, inventory management as well as transportation and distribution and form a scientific, orderly and complete traceable quality control system to ensure nothing goes wrong.

Human Resources and Staff Remuneration

Dali always believes that talent is the core competitiveness of enterprises and regards employees as important strategic resources for corporate development. It has made active efforts in establishing a sound talent selection and training mechanism to improve the overall competitiveness of employees and their sense of belonging to the Group. In 2016, Dali continued to introduce a large number of professional high-end talents, and actively identified talents from the existing employees and jointly established a training mechanism with key universities and colleges in China on a long-term basis. The Group established a tutor management system and a training management system and a learning and development model such as visiting external model enterprises, formed a talent selection and promotion mechanism for competition for posts and performance appraisal, maintained the core competitiveness of corporate talents, and cultivated an experienced, stable and reliable management team. Meanwhile, the Group continued to optimize and upgrade our management structure, promote fine management, upgrade information management and strengthen the headquarters' control of the market, laying a solid foundation for the Group's sustainable development.

As at December 31, 2016, the Group had a total of 37,073 employees, compared to 35,565 as at December 31, 2015. 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.

For the year ended December 31, 2016, the total employee benefits expenses (including Directors' remuneration) were RMB1,836 million as compared to RMB1,486 million for the year ended December 31, 2015, which was primarily attributable to (i) an increase in the number of sales personnel and administrative staff; (ii) an increase in the average salary level; and (iii) an increase in performance bonus paid to staff.

PROSPECTS

Looking forward, although the market environment is expected to be complex and volatile and will bring some challenges to the industry development in 2017, we will keep on adhering to product upgrading and multi-brand strategy, endeavor to maintain healthy and stable growth and continue to bring returns to the Shareholders.

In terms of products, we will continue to carry out product upgrading through improvement of production process, so as to improve the quality of existing products, upgrade the product packing specification, enrich the product tastes and optimize the product portfolios for a variety of products such as bread, cakes and pastries and biscuits. Meanwhile, the high-growth categories in existing products, such as functional beverages, herbal tea, potato chips, cookies, will still be the focus of our future sales efforts. Especially for Hi-Tiger energy drink, we will continue to expand channels to improve the sales network coverage of Hi-Tiger products, and strengthen the building of beverage sales team so as to improve the future sales performance of Hi-Tiger products.

After two years of thorough preparation, Dali has finished the product development of preserving pure soymilk at room temperature and, in 2016, a number of production lines of soymilk in ten production bases within the country went into operation. The soymilk products of Dali will be under the brand of "Doubendou" with an emphasis on the concepts of health and nutrition, including three big series, three kinds of packaging and seven kinds of products, and will be formally launched in 2017.

According to market survey, as the national income level and spending power is increasing, consumers pay more and more attention on diet health, and soymilk, which accords with the standard of health, has huge market space. However, the current domestic soymilk market is undeveloped and lacks of national famous brand. Most products in the market are bulk soymilk without a brand, which lack quality assurance and are not easy to preserve. Thus, we believe with their advanced process and product tastes which fit the Chinese preference, our Doubendou products have great potential and will become the leader in soymilk market.

To this end, we will make a variety of attempts in the product brand promotion; at the same time we hope to open the first breakthrough for product sales in developed areas and modern channels, with the aim to lead a nationwide consumption boom of soymilk products and acquire satisfactorily sales in the first year. Besides, we will also make continuous research and development investment in soymilk and its derivatives and build new production capacity, in order to drive the second wave of rapid growth of soymilk sales.

In terms of channels, we will further enhance our distribution advantages in traditional channels in China to improve the comprehensive distributor management level and the direct control of the Group over retail terminals. Meanwhile, we will also launch more competitive products through the building of talents and teams to continue to improve the coverage and penetration in modern retail channels. Additionally, we will make more efforts on e-commerce platforms and endeavor to improve the sales network to lead the market development.

In terms of financial and strategic affairs, we will continue to adhere to prudent financial management policies to maintain a healthy and stable operating cash flow. We will also continue to keep an eye on opportunities of merger and acquisition and business cooperation, and relying on our strong financial strength and management ability, choose a perfect timing to make mergers and acquisitions so as to enhance corporate strength and actively explore overseas markets while consistently consolidating our leadership position in the China market.

Looking forward, we will continue to adhere to our philosophy of "Creating Quality with Heart" and our pragmatic and proactive corporate culture for making every success and further advancement, as well as performing more efficient work in order to drive the enterprise towards a higher level.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Board considered that for the year ended December 31, 2016, the Company has complied with all the code provisions set out in the CG Code, save and except for code provision A.2.1.

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 for Securities Transactions by Directors of Listed Issuers (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 during the year ended December 31, 2016.

No incident of non-compliance of the Securities Dealing Code by the relevant employees was noted by the Company during the year ended December 31, 2016.

AUDIT COMMITTEE

The annual results and the consolidated financial statements of the Group for the year ended December 31, 2016 have been reviewed by the audit committee of the Company (the "**Audit Committee**"). The Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit of loss and other comprehensive income and the related notes thereto for the year ended December 31, 2016 as set out in this preliminary announcement have been agreed by the Company's auditors, Ernst & Young, certified public accountants, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

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 year ended December 31, 2016.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Friday, May 26, 2017 and a notice convening the AGM will be published and despatched to the Shareholders in due course.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK$0.18 (equivalent to approximately RMB0.16) per ordinary share for the year ended December 31, 2016 (the "**2016 Final Dividend**"), representing a total payment of approximately HK$2,464 million (equivalent to approximately RMB2,192 million). The payment of the 2016 Final Dividend is subject to the approval of the Shareholders at the AGM.

Upon Shareholders' approval to be obtained at the AGM, the 2016 Final Dividend is expected to be paid on Friday, June 16, 2017 to the Shareholders whose names appear on the register of members of the Company on Friday, June 2, 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, May 23, 2017 to Friday, May 26, 2017, both dates inclusive, during which period no transfer of shares of the Company will be registered, for the purpose of ascertaining the Shareholders' entitlement to attend and vote at the AGM. In order to qualify as Shareholders to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, May 22, 2017.

In addition, in order to determine the entitlement of the Shareholders to receive the 2016 Final Dividend, the register of members of the Company will be closed from Monday, June 5, 2017 to Wednesday, June 7, 2017, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to receive the 2016 Final Dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, June 2, 2017.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement will be published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.dali-group.com). The annual report of the Company for the year ended December 31, 2016 containing all the information required by the Listing Rules will be dispatched to the Shareholders and made available on the above websites in due course.

On behalf of the Board of
Dali Foods Group Company Limited
Xu Shihui
Chairman

Hong Kong, March 23, 2017

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