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

Stock Code : 3799

2016
ANNUAL REPORT

Contents

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, Ugland 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

Luk & Partners

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

Five-Year Financial Summary

CONSOLIDATED RESULTS

	FY2016 RMB'000	FY2015 RMB'000	FY2014 RMB'000	FY2013 RMB'000	FY2012 RMB'000
Revenue	**17,841,887**	16,864,840	14,894,003	12,827,020	10,812,041
Cost of sales	**(11,001,487)**	(11,048,584)	(10,895,178)	(10,239,151)	(9,028,671)
Gross profit	**6,840,400**	5,816,256	3,998,825	2,587,869	1,783,370
Other income and gains	**360,210**	276,762	114,093	67,189	51,580
Selling, distribution and administrative expenses	**(3,218,966)**	(2,384,851)	(1,351,390)	(1,069,353)	(912,336)
Finance costs	**(4,705)**	(26,736)	—	—	—
Profit before tax	**3,976,939**	3,681,431	2,761,528	1,585,705	922,614
Income tax expenses	**(840,146)**	(769,106)	(684,812)	(394,928)	(230,026)
Profit for the year	**3,136,793**	2,912,325	2,076,716	1,190,777	692,588
Attributable to:					
Owners of the parent	**3,136,793**	2,912,325	2,076,716	1,190,777	692,588

CONSOLIDATED ASSETS AND LIABILITIES

			As at December 31,		
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	**16,480,385**	15,797,287	6,945,699	7,450,522	6,591,728
Total liabilities	**2,614,508**	3,895,166	6,395,498	3,417,920	2,761,274
Total equity	**13,865,877**	11,902,121	550,201	4,032,602	3,830,454

Chairman's Statement

Dear respectful shareholders,

2016 was a year filled with both opportunities and challenges for Dali and the snack food and beverage industry. Facing the slowdown of macroeconomic growth and challenges brought by other external factors, we have insisted on implementing the strategy of "multi-brands and multi-products" (多品牌,多品類) to maintain steady growth in the competitive landscape of increasing diversification of products in the industry. Our products are mostly in a healthy growth stage achieving relatively faster growth in the product segments of the food and beverage industry. The market share of Dali's bread, cakes and pastries was in top leading position, ranking No. 1 in the market. The market share of energy drinks, represented by "Hi-Tiger" (樂虎), increased rapidly. Meanwhile, we continued to optimize and upgrade existing products and enhanced the leading market shares of key products. We actively launched new products and created new brands according to the preference of consumers and the development trends of the industry, so as to optimize product portfolios and enrich product categories continuously for further consolidating and strengthening the market leading position of Dali.

On internal management, our sales and management teams were supplemented and enhanced by attracting some external talents to join us. We also implemented refined management and optimized the management structure. On channel management, we reinforced the advantages of traditional channels actively, while promoting modern channels steadily. We also expanded to other non-traditional channels, such as food and beverage, specialty and e-commerce channels. In 2016, revenue contribution from our key accounts (KA) continued to increase and the upgraded and improved sales network laid a solid foundation for our future stable development.

Through concerted efforts of the above various measures, for the year ended December 31, 2016, our annual revenue reached RMB17,842 million, increased by 5.8% year-on-year. With an optimized product mix, gross profit of the Group reached RMB6,840 million, representing an increase of 17.6% year-on-year, and gross profit margin was 38.3%, increased by 3.8 percentage points as compared to the previous year. Net profit was RMB3,137 million, increased by 7.7% year-on-year, and net profit margin remained stable at 17.6%, increased by 0.3 percentage point as compared to the previous year.

Based on the great achievement and rich cash flows of the Company, to increase the return for shareholders, the Board proposed to distribute a final dividend of HK$0.18 per share for 2016. The total distribution of dividends amounted to HK$2,464 million and the dividend payout ratio was increased to 70%.

Looking ahead in 2017, on the basis of consolidating and enhancing our existing product portfolios, after a two-years comprehensive preparation, a new product "Doubendou" (豆 本 豆) pure soy milk was launched strategically, This product will be marketed in the first half of 2017 as scheduled. Soy milk is a traditional Chinese drink with long-standing history and has always been the first choice of beverage for Chinese breakfast. However, restricted by technical process and quality requirements, it is still at a low level of industrialization, and has enormous market potential. We believe the launching of "Doubendou" pure soy milk will create a new development in the traditional soy milk industry in China, and will inject a new and strong dynamic force into our corporate development. Meanwhile, we will continue adhering to the strategy of "multi-brands and multi-products", upgrade the quality of existing products, expand our channels, improve management structure and pay active attention to suitable opportunities of merger and acquisition, integration and strategic cooperation.

During the past year, we have achieved appreciable results in various aspects, thanks to endeavor of our teams. On behalf of the Board, I would like to express our gratitude to the contribution of all parties and the support of all consumers. 2017 is the "Linking year of the 13th Five-year Plan" as well as a critical year of new development for Dali. All staff of Dali will continue insisting to our core value of "Creating Quality with Heart", continue leading the development of the snack food and beverage industry in China, and create considerable returns for all shareholders.

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 RMB (million)	2015 RMB (million)	2016 vs. 2015 % 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 RMB (million)	2015 RMB (million)	2016 vs. 2015 % 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 500ml 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 optimise our management after the listing on the Main Board of The Stock Exchange of the Hong Kong Limited (the "Stock Exchange") (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 and an increase in stocks of finished goods 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 statble, 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 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 utilised as at December 31, 2016 was as follows:

	Net Proceeds (HKD million)			
Items	**Percentage**	**Available**	**Utilised**	**Unutilised**
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 standardised 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 standardised 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 peforming more efficient work in order to drive the enterprise towards a higher level.

Report of the Directors

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is a leading branded food and beverage company in China with a diversified multi-brand product portfolio focusing on high-growth product categories. The Group is principally engaged in the manufacture and sale of food and beverage in China. The Shares were listed on the Main Board of the Stock Exchange on November 20, 2015.

Segment analysis of the Group for the year ended December 31, 2016 is set out in Note 4 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places and dates of incorporation, types of legal entity, principal activities and particulars of their issued shares/registered share capital, is set out in Note 1 to the consolidated financial statements.

A review of the business of the Group during the year and its future development, and an analysis of the Group's performance during the year using financial key performance indicators as required under Schedule 5 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) are set out in the "Chairman's Statement" on page 5 and the "Management Discussion and Analysis" on pages 6 to 16 of this annual report which constitute part of this report of the Directors.

There is no significant subsequent event undertaken by the Company or by the Group after December 31, 2016.

PRINCIPAL RISK AND UNCERTAINTIES

The Group is exposed to the operational risk in relation to each business division of the Group. With the growth and expansion of our operations, the potential risks to our business increase as well. In order to identify, assess and control the risks that may create impediments to our success, we have implemented a risk management system that covers each material aspect of our operations, including financial security, production, logistics, technology and compliance. As our risk management is a systematic project, each of our departments is responsible for identifying and evaluating the risks relating to its area of operations. Our audit committee is responsible for overseeing and assessing our risk management policy and they supervise the performance of our risk management system.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 87 and 88.

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 forthcoming annual general meeting (the "**AGM**") to be held on May 26, 2017.

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years, as set out on page 4 of this annual report, is extracted from the audited consolidated financial statements and the Prospectus.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to Shareholders by reason of their holding of the Company's securities.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended December 31, 2016 are set out in Note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's distributable reserves comprise the share premium and other reserves. As at December 31, 2016, the Company's reserves available for distribution amounted to RMB6,768 million (2015: RMB8,175 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of the Group's property, plant and equipment during the year ended December 31, 2016 are set out in Note 13 to the consolidated financial statements.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on November 20, 2015. The net proceeds from the Listing were 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).

For details, please refer to the section headed "Management Discussion and Analysis – Use of Proceeds from the Listing" on page 14 of this annual report.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Xu Shihui *(Chairman and Chief Executive Officer)*
Mr. Zhuang Weiqiang
Ms. Xu Yangyang

Non-executive Directors:

Ms. Xu Biying
Ms. Hu Xiaoling

Independent non-executive Directors:

Mr. Cheng Hanchuan
Mr. Liu Xiaobin
Dr. Lin Zhijun

Each of Mr. Zhuang Weiqiang, Ms. Xu Biying, Ms. Hu Xiaoling, Mr. Cheng Hanchuan, Mr. Liu Xiaobin and Dr. Lin Zhijun should retire from the Board by rotation at the forthcoming AGM pursuant to article 16.18 of the Aricles of Association or the Listing Rules and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering for re-election at the AGM has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE AND COMPETING BUSINESS

Save as disclosed under the section headed "Continuing Connected Transactions" below and Note 31 "Related Party Transactions" to the consolidated financial statements, no transaction, arrangement or contract of significance (as defined in Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") in relation to the Group's business to which the Company, its holding company or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of 2016 or at any time during 2016.

None of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete with the Group's business, either directly or indirectly or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

RELATED PARTY TRANSACTIONS

The related party transactions for the year as disclosed in Notes 31(a)(i) and 31(a)(viii) to the consolidated financial statements constitute continuing connected transactions as defined under the Listing Rules but are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements pursuant to Rule 14A.76(1)(a). Details of such continuing connected transactions are set out in the section headed "Connected Transactions – Continuing Connected Transactions – Exempt Continuing Connected Transactions – Products and Services Mutual Provision Framework Agreement" in the Prospectus.

The related party transaction for the year as disclosed in Note 31(a)(iv) to the consolidated financial statements constitutes a continuing connected transaction as defined under the Listing Rules which is subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The Company has complied with Chapter 14A of the Listing Rules in respect of this related party transaction.

CONTINUING CONNECTED TRANSACTIONS

Property and Land Leasing Agreement

Except for the continuing connected transactions of the Group which are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements pursuant to Rule 14A.76(1) (a), the Company and Fujian Dali Foods Group Co., Ltd. (福建達利食品集團有限公司) ("**Fujian Dali**") entered into a property and land leasing agreement (the "**Property and Land Leasing Agreement**") on August 25, 2015, which became effective upon Listing and will expire on December 31, 2017. The transaction under the Property and Land Leasing Agreement is made in the ordinary and usual course of business and on normal commercial terms, the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules were more than 0.1% but less than 5% on an annual basis. Fujian Dali is owned as to 100% by Mr. Xu Shihui, Ms. Chen Liling and Ms. Xu Yangyang, who are the controlling shareholders of the Company and, in the case of Mr. Xu Shihui and Ms. Xu Yangyang, executive directors of the Company. The Group had been using certain properties and land owned by Fujian Dali for general business and ancillary purposes. The Property and Land Leasing Agreement was entered into in order to avoid unnecessary disruptions to our business caused by the relocation and enable us to ensure continuity of the operation of the Group.

Pursuant to the Property and Land Leasing Agreement, the Company agreed to lease the relevant properties and land in the PRC from Fujian Dali on the following principal terms:

(a) the properties and land that were leased to us consist of (i) an office building located at Zishan, Linkou, Hui'an, Fujian province and occupying a total gross floor area of approximately 27,578.25 sq.m., and (ii) buildings used for manufacturing workshop, warehouse and workers' dormitory as well as for other ancillary purposes located at Zishan, Linkou, Hui'an, Fujian province and occupying a total gross floor area of approximately 240,824.35 sq.m.;

(b) the monthly rental prices in respect of the office building and other properties for the year ended December 31, 2016 are RMB10 per sq.m. and RMB5 per sq.m., respectively;

(c) the rental price shall be reviewed and adjusted from the second year of the duration of the Property and Land Leasing Agreement by reference to the GDP growth for the previous year published by the National Bureau of Statistics of the PRC but in any event such increase in the rental price shall not exceed the relevant GDP growth rate. The monthly rental price in respect of the office building and other properties for the year ended December 31, 2016 remained the same as that for the year ended December 31, 2015;

(d) the Company shall pay the rental to Fujian Dali on a quarterly basis on or before the 25th day of the last month of the relevant quarter of the year; and

(e) the Company shall be responsible for all utility charges and other miscellaneous expenses incurred in using the relevant properties and land during the term of the lease, except for national administration fee and property tax that shall be borne by each party in accordance with relevant laws and regulations.

The Company paid Fujian Dali rental expenses in an aggregate amount of RMB17,039,000 pursuant to the terms of the Property and Land Leasing Agreement for the year ended December 31, 2016. We have set annual caps for the aggregate rental expenses payable under the Property and Land Leasing Agreement of RMB18,743,000 and RMB20,617,000 for year ended December 31, 2016 and the year ending 2017, respectively.

Opinion from the Independent Non-executive Directors and Auditors on the Continuing Connected Transaction

The Company's auditors were engaged to report on the Group's non-exempt continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above and confirmed that nothing has come to their attention that causes them to believe the continuing connected transactions abovementioned:

(a) have not been approved by the Board;

(b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(c) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(d) have exceeded the annual cap.

The independent non-executive Directors of the Company have reviewed these transactions and confirmed that the non-exempt continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors confirm that the Company has complied with the requirements of Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE

As at December 31, 2016, the interests 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) (the "**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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, were as follows:

I. Interest in shares or underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares	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 Director	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 December 31, 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 December 31, 2016, the interests or short positions of the following persons (other than the Directors and chief executive of the Company) 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 Shareholder	Capacity/Nature of interest	Number of Shares (long positions)	Approximate percentage of shareholding interest
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.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme as set out below, the Company has not entered into any equity-linked agreement during the year of 2016.

SHARE OPTION SCHEME

Purpose of the 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 defined below) 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.

Qualified Participant

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to:

(a) any executive Director, or employee (whether full time or part time) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest;

(b) any non-executive Directors (including independent non-executive Directors) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest;

(c) any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent or service provider of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest who is an individual; or

(d) any full-time employee of any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent, customer or service provider of the Company or any subsidiary or an entity in which the Company or any subsidiary holds any equity interest, who the Board considers, in its sole discretion, has contributed or will contribute to the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (collectively, the "**Qualified Participant**").

Maximum number of Shares in respect of which options may be granted

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number of Shares in issue as at the Listing Date and the date of this annual report (such total number of Shares being 13,694,117,500 Shares) (the "**Scheme Mandate**", being 1,369,411,750 Shares), excluding for this purpose options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company.

Maximum entitlement of each Qualified Participant

Unless approved by Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that grantee on exercise of his options (including both exercised and outstanding options) during any 12 month period exceeding 1% of the total Shares then in issue.

Grant of options to connected persons

Any grant of options to a Director, chief executive or substantial Shareholder (as defined in the Listing Rules) of the Company or any of their respective associates under the Share Option Scheme must be approved by all the independent non-executive Directors (excluding any independent non-executive Director who is also a grantee of the options).

Any grant of options to a substantial Shareholder or an independent non-executive Director or any of their respective associates (as defined in the Listing Rules) must be approved by the Shareholders in general meeting if the Shares issued and to be issued upon exercise of all options already granted and proposed to be granted to him (whether exercised, cancelled or outstanding) in the 12 month period up to and including the proposed date of grant:

(i) would represent in aggregate more than 0.1% of the Shares then in issue; and

(ii) would have an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000 (or such other amount as shall be permissible under the Listing Rules from time to time).

Acceptance of an offer of options

An offer of the grant of an option shall be made to a Qualified Participant by written offer letter in such form as the Board may from time to time determine, requiring the Qualified Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The offer shall remain open for such period (not exceeding 30 days, inclusive of, and from, the date of offer) as the Board may determine and notify to the Qualified Participant. There is no minimum period for which any option must be held before it can exercised unless the Board otherwise determined and stated in the offer letter of the grant of options.

An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favour of the Company of HK$1 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is considered to be granted as from the date on which it was offered to the relevant Qualified Participant. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years from the offer date.

Subscription Price

The subscription price shall be a price determined by the Board but in any event shall be at least the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of offer;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer; and

(iii) the nominal value of the Shares.

Duration of the Share Option Scheme

Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption.

Since the listing of the Company, no share option had been granted under the Share Option Scheme.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Xu Shihui, Ms. Chen Liling, Ms. Xu Yangyang, Divine Foods, Divine Foods-1, Divine Foods-2 and Divine Foods-3 (collectively, the "Controlling Shareholders") entered into a deed of non-competition in favor of the Company dated August 25, 2015 (the "Deed of Non-Competition") as set out in section headed "Relationship with Our Controlling Shareholders – Non-Competition Undertaking" under the Prospectus. The independent non-executive Directors had reviewed and the Controlling Shareholders had confirmed their compliance with all the undertakings provided under the Deed of Non-Competition during the year ended December 31, 2016. The independent non-executive Directors had reviewed the compliance of the controlling shareholders with the Deed of Non-Competition and there are no matters required to be deliberated by them in relation to the compliance with and enforcement of the Deed of Non-Competition and considered that the terms of the Deed of Non-Competition have been complied with by the Controlling Shareholders.

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

During the year ended December 31, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MINIMUM PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the prescribed public float as approved by the Stock Exchange during the year ended December 31, 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands (place of incorporation of the Company) or under the articles of association of the Company (the "**Articles**") which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

CORPORATE GOVERNANCE

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 during the year ended December 31, 2016, the Company has complied with the code provisions set out in the CG Code, save and except for code provision A.2.1, details of which are set out in the "Corporate Governance Report".

SENIOR MANAGEMENT'S EMOLUMENTS

The annual remuneration of the members of the senior management (other than the Directors) by bands for the year ended December 31, 2016 is set out below:

Remuneration bands	**Number of Individuals**
HK$500,001 to HK$1,000,000	2
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	1

Details of the remuneration of each of the Directors for the year ended December 31, 2016 are set out in Note 8 to the consolidated financial statements.

EMOLUMENT POLICY

The emoluments of the Directors are reviewed and recommended to the Board by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market trends.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in the paragraph headed "Share Option Scheme" in this report.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or substantial part of the business of the Company were entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's five largest customers was 2.4% by value of the Group's total goods sales during the year ended December 31, 2016, with the largest customer accounting for 0.6%. The five largest suppliers of the Group comprised 11.6% by value of the Group's total purchases during the year, with the largest supplier accounting for 3.5%.

None of the Directors, their close associates or a Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has an interest in any of the Group's five largest customers and suppliers.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the Share Option Scheme, at no time during the year ended December 31, 2016 was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmental friendly environment, we strive to minimise our environmental impact by saving electricity and to build our corporation in a sustainable way.

Fujian Dali has undergone a series of effective energy-saving and pollutant-reducing measures such as conserving water and electricity, reducing the creation and emission of pollutants during the production process and optimizing production lines. Fujian Dali is accredited as an Enterprise of Clean Production (清潔生產企業) by the Quanzhou Environmental Protection Bureau in October 2015.

Additionally, we have adopted a set of emergency planning, response and control procedures as countermeasures for unexpected environmental pollution accidents to minimise our impact on the environment and the adverse effect on our business. We incurred RMB9.0 million (2015: RMB7.2 million) in environmental compliance costs for the year ended December 31, 2016.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in China while the Company itself is listed on the Stock Exchange. Our operations shall comply with relevant laws and regulations in China and Hong Kong. During the year ended December 31, 2016 and up to the date of this report, we have complied with all the relevant laws and regulations in China and Hong Kong in all material respects.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Relationship with our distributors

Consistent with market practice in our industry, the customers of the Group are primarily distributors. This network penetrates a wide range of points-of-sale, enabling us to sell products at all levels of the market, from provinces to counties, villages and towns throughout China. As at December 31, 2016, we had more than 4,225 distributors covering all provinces, cities and most of the county-level divisions in China, and had over 12,000 dedicated sales personnel to maintain and support approximately 2 million points-of-sale.

1. *Standard for selecting distributors*

   We select our distributors in each region based on factors including their business qualifications, marketing capabilities, reputation, breadth and quality of sales network, number of personnel, and logistics and transport capabilities.

2. *Comprehensive support*

In order to enhance our relationship with distributors and to provide adequate support to the distributors in meeting sales targets, the Group provides comprehensive support to its distributors. The Group develops and executes strategic and tactical sales plans with the distributors, provides support and implements incentive measures to promote sales.

Further, our sales team provides comprehensive support coverage in various counties and cities. They contact and cooperate with local distributors closely to enhance and maintain the relationship with the distributors. A sustainable relationship with our distributors also helped to expand the network of points-of-sales in China and the number of products being sold in different outlets.

3. *Inventory management*

We closely monitor the distributors' inventory policies and movement and ensure their policies and practices are in compliance with the agreed requirements. The requirements include (a) the maintenance of an adequate inventory level that equals to the estimated monthly sales volume; (b) first-in-first-out policy; (c) evaluation of inventory based on its aging and expiration; (d) age of inventory shall be kept within one third of the shelf life; (e) if the age of inventory exceeds one third of the shelf life, sales personnel shall cooperate with the distributors to carry out sales plan to promote the sales of the specific products; and (f) if age of inventory exceeds half of the shelf life, it must be reported to the headquarters and the sales personnel shall cooperate with distributors to undergo promotions in specialty channels to promote sales of the specific products. We also conduct periodic stock taking and our sales representative, sales manager and region manager undertake specific responsibilities in respect of stock taking with the distributors.

Maintaining effective management of the sales team and distribution network is crucial to sustainable development of the Company. We established systems to enhance the management of personnel on the basis of relationship development, and placed the development of effective management as the core policy of the Company. With the combined effect of systematic management and personalized management, we have improved the cohesion and the capability of the Company through systematic division of labor and effective cooperation.

Relationship with our suppliers

We generally centralise the procurement of packaging materials and the raw materials used in the production of our food and beverage products to take advantage of economies of scale and to increase our bargaining power with suppliers. We believe that our centralized procurement system enables us to obtain more competitive prices and avoid regional or other price variation. Our raw materials are generally available from a number of domestic suppliers, and we normally have various source of supply for each type of raw materials to reduce our dependency on a single supplier. Our suppliers grant us payment terms that vary depending on a number of factors including our relationship with the suppliers and the size of the transactions.

We uphold the principle of equality and cooperation for mutual benefit and maintain a sustainable and long-term relationship with various suppliers. To ensure the quality of the procurement, we typically work with large reputable domestic suppliers to secure the key raw materials used in our production process, based on criteria like product quality, reputation, scale of production, price and ability to meet our delivery schedule. Further, we established and maintained a mechanism and database of suppliers to perform a detailed evaluation and audit on the suppliers, which takes into account of comprehensive indicators like food safety, quality control, financial strength, technology research and development ability, environmental protection and reputation in the industry. These indicators reflect the criteria we look for in our suppliers under the long term development goal of the Company. We also require the suppliers to comply with the commercial code of conduct of the Group.

Relationship with our employees

We embrace our employees as the most valuable assets of the Group, the objective of the Group's human resources management is to reward and recognise outstanding employees by providing competitive remuneration packages and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group by providing adequate training and opportunities.

AUDITORS

The consolidated financial statements for the year ended December 31, 2016 have been audited by Ernst & Young, who will retire at the conclusion of the AGM and offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as the auditors of the Company will be proposed at the AGM.

On behalf of the Board

Xu Shihui
Chairman

Hong Kong
March 23, 2017

Biographies of Directors and Senior Management

DIRECTORS

Xu Shihui (許世輝)

Chairman, executive Director and chief executive officer

Mr. Xu Shihui (許世輝), aged 59, is the founder of the Group, Chairman, executive Director and chief executive officer of the Company and was appointed as a Director on November 4, 2014. He is also the chairman of the nomination committee of the Company. Mr. Xu has been the chairman and the president of Fujian Dali since the establishment of Fujian Dali in 1992 and has served as the chairman of all subsidiaries of the Group since their establishment. Under Mr. Xu's leadership, the Group's business has grown from a local food manufacturing company in Fujian province to a nationwide food and non-alcoholic beverage company in China with a diversified multi-brand product portfolio focusing on high-growth product categories. Mr. Xu has accumulated 29 years of experience in food manufacturing industry. Mr. Xu has been a representative of the eleventh and twelfth National People's Congress of the People's Republic of China (中華人民共和國全國人民代表大會) in 2008 and 2013. Mr. Xu was also the News Figure of China Food Industry Elite Forum of the 30th Anniversary of the Reform and Opening Up (改革開放30週年中國食品行業精英論壇新聞人物) in September 2009. Mr. Xu was appointed as a senior consultant of the third session of the board of Quanzhou Food Industry Association (泉州市食品行業協會) by the association in January 2016. During 2017, Mr. Hui was also recognized as a Hui'an Philanthropist for the year 2015-2016 (二零一五年至二零一六年度惠安慈善家) and awarded a Special Outstanding Contribution Charity Award for the year 2015 - 2016 (二零一五年至二零一六年度慈善事業特別突出貢獻獎). Mr. Xu is the father of Ms. Xu Yangyang, the brother of Ms. Xu Biying and the brother-in-law of Mr. Chen Baoguo. Mr. Xu is a director of Dali Foods and Divine Foods-1, the controlling shareholders of the Company.

Zhuang Weiqiang (莊偉強)

Executive vice president and executive Director

Mr. Zhuang Weiqiang (莊偉強), aged 39, was appointed as an executive Director on June 14, 2015. Mr. Zhuang joined the Group in 1998 and has more than 18 years of experience in management with the Group. Mr. Zhuang has been the executive vice president of the Group in charge of overall marketing and distribution of products of the Group since 2006. Prior to this, Mr. Zhuang had been the general manager of Jinan Dali Foods Co., Ltd. (濟南達利食品有限公司) from 2004 to 2006 and the general manager of Chengdu Dali Foods Co., Ltd. (成都達利食品有限公司) ("**Chengdu Dali**") from 2000 to 2004. He had been a financial specialist of Chengdu Dali from 1998 to 2000. Mr. Zhuang graduated from the continuing education course of Sichuan Agricultural Management Cadre Institute (四川農業管理幹部學院) with a certificate in business administration in January 2007. Mr. Zhuang obtained a professional title as senior economist in Jilin province in January 2010.

Xu Yang Yang (許陽陽)

Vice president and executive Director

Ms. Xu Yangyang (許陽陽), aged 33, is the vice president and executive Director of the Company in charge of making corporate and operational decisions and managing the day-to-day operation of the Group. Ms. Xu was appointed as a Director on November 4, 2014. She is also a member of the remuneration committee of the Company. She joined the Group in 2008 and has worked as a director and the vice president of Fujian Dali from 2009 to date and is also the supervisor of various subsidiaries of the Group. With more than 8 years of experience in the Group, Ms. Xu has held various positions in Fujian Dali from July 2008 to date, including the chairman of the labour union, workshop director and deputy factory manager. Outside the Group, Ms. Xu also has various important appointments, including the vice president of Fujian Association of Health Care Products and Cosmetics (福建省保化協會) since September 2012 and the vice president of the fifth session of the Standing Committee of Youth Chamber of Commerce of the Youth Entrepreneurs Association of Quanzhou (泉州市青年企業家協會青年商會) in July 2010. Ms. Xu graduated from Xiamen University (廈門大學) with a bachelor's degree in international economy and trade in 2005. Ms. Xu was the Quanzhou Economic Figure of 2015 (2015年度泉州經濟人物) and the third session honorary president of Quanzhou Food Industry Association (泉州市食品行業協會) in January 2016. Ms. Xu was also awarded the honorary title of the 16th Fujian Provincial Excellent Entrepreneur (第十六屆福建省優秀企業家榮譽稱號) and recognized as an Outstanding Contributor for Non-public Economy in Fujian Province (福建省非公有制經濟優秀建設者) in June 2016. At the same time, Ms. Xu is a representative of the twelfth People's Congress of Fujian Province (福建省第十二屆人大代表) and vice president of the 14th Quanzhou Federation of Industry and Commerce (第十四屆泉州市工商業聯合會副主席). Ms. Xu is the daughter of Mr. Xu Shihui, the niece of Ms. Xu Biying and the nephew of Mr. Chen Baoguo. Ms. Xu is a director of Dali Foods and Divine Foods-3, the controlling shareholders of the Company.

Xu Biying (許碧英)

Non-executive Director

Ms. Xu Biying (許碧英), aged 61, was appointed as a non-executive Director on June 14, 2015. With 29 years of experience in the food manufacturing industry, Ms. Xu has been the vice president of the Group, participating in the formulation of the corporate and business plans of the Group, since the establishment of the Group in 1992 until 2010, and has rich experience in the food industry and corporate management. She has over 18 years of experience in financial management. Ms. Xu received the Certificate for Qualified Accountant (會計師任職資格證書) from Department of Human Resources and Social Security of Fujian Province (福建省人力資源和社會保障廳) (previously known as the Personnel Department of Fujian Province (福建省人事廳)) in December 1998. Ms. Xu Biying is the sister of Mr. Xu Shihui, the aunt of Ms. Xu Yangyang and the cousin-in-law of Mr. Chen Baoguo.

Hu Xiaoling (胡曉玲)

Non-executive Director

Ms. Hu Xiaoling (胡曉玲), aged 46, is a non-executive Director. She was appointed as a Director on May 4, 2015. She is also a member of the audit committee of the Company. Ms. Hu is responsible for providing advice on investment activities of the Group. Ms. Hu joined CDH Investments in 2002 and is currently a managing director of CDH Investments Management (Hong Kong) Limited, which is a Hong Kong company incorporated under the Hong Kong Companies Ordinance on April 22, 2003. Ms. Hu is currently a non-executive director of Belle International Holdings Limited (a company listed on the Stock Exchange, stock code: 1880) and Baroque Japan Limited (a company listed on the Tokyo Stock Exchange, stock code: 35480). Ms. Hu had been a non-executive director of SUNAC China Holdings Limited (a company listed on the Stock Exchange, stock code: 1918) from November 2007 to August 2014. Ms. Hu had also been a director of Anhui Yingliu Electronmechanical Co., Limited (a company listed on the Shanghai Stock Exchange, stock code: 603308) from April 2006 to March 2017. Ms. Hu is also currently a director of Midea Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000333). Ms. Hu has also been a director of Beijing Motie Book Corporation Company since July 2010. Prior to joining CDH Investments Management (Hong Kong) Limited, Ms. Hu had worked at the direct investment department of China International Capital Corporation Limited and Arthur Andersen. Ms. Hu graduated from Beijing Jiaotong University (北京交通大學), previously known as Northen Jiaotong University (北方交通大學), with a master's degree in Economics and Accounting and a bachelor's degree in Economics. Ms. Hu has also been a fellow member of the Association of Chartered Certified Accountants.

Cheng Hanchuan (程漢川)

Independent non-executive Director

Mr. Cheng Hanchuan (程漢川), aged 63, was appointed as an independent non-executive Director on August 25, 2015. He is also a member of the audit committee and the nomination committee of the Company. Mr. Cheng had been the head of factory of the Hui'an Huiquan Beer Brewery (惠安縣惠泉啤酒廠) from August 1991 to February 1997 and the chairman, vice chairman, director and general manager of Huiquan Brewage Group Inc. Fujian China (福建省惠泉啤酒集團股份有限公司) (now known as FuJian YanJing HuiQuan Brewery Co., Ltd (福建省燕京惠泉啤酒股份有限公司), a company listed on the Shanghai Stock Exchange, stock code: 600573) from January 1997 to August 2013. Mr. Cheng had been the vice chairman of the specialised committee of beer of China Food Industry Association (中國食品工業協會啤酒專業委員會) from March 2008 to May 2013. Mr. Cheng had also been the vice chairman of the seventh session committee of Fujian Federation of Enterprises and Entrepreneurs (福建省企業與企業家聯合會) and Fujian Federation of Industrial Economic (福建省工業經濟聯合會) from April 2012 to May 2013.

Mr. Cheng graduated from Fujian Normal University (福建師範大學) with a diploma in Business Administration in July 2010 and was awarded the professional qualification as a senior economist by the Personnel Department of Fujian Province (福建省人事廳) (now known as "Department of Human Resource and Social Security of Fujian Province" (福建省人力資源及社會保障廳)) in August 1997. Mr. Cheng has been an expert who enjoys the special allowance of the State Council since June 2000.

Liu Xiaobin (劉小斌)

Independent non-executive Director

Mr. Liu Xiaobin (劉小斌), aged 51, was appointed as an independent non-executive Director on August 25, 2015. He is also a member of the remuneration committee and the nomination committee of the Company. Mr. Liu has been engaged in teaching Chinese in Xiamen University (廈門大學) since September 1989. He was an assistant professor of Chinese language and literature from August 2007 to July 2010, and currently holds the position of a lecturer at the Overseas Education College of Xiamen University. Mr. Liu graduated from Xiamen University in July 1986 with a bachelor's degree in Arts (Chinese Literature) and Northwest University in China in June 1989 with a master's degree in Arts (Classic Chinese Literature).

Lin Zhijun (林志軍)

Independent non-executive Director

Dr. Lin Zhijun (林志軍), aged 62, was appointed as an independent non-executive Director on August 25, 2015. He is also the chairman of the audit committee and the remuneration committee of the Company. Dr. Lin is currently an independent non-executive director of Springland International Holdings Limited (a company listed on the Stock Exchange, stock code: 1700), Sinotruk (Hong Kong) Limited (a company listed on the Stock Exchange, stock code: 3808), China Everbright Limited (a company listed on the Stock Exchange, stock code: 0165). He has been appointed as an independent non-executive director of CITIC Dameng Holdings Limited (a company listed on the Stock Exchange, stock code: 1091) on October 25, 2016. Dr. Lin was an independent non-executive director of Zhengzhou Coal Mining Machinery Group Company Limited (a company listed on the Stock Exchange, stock code: 0564) from February 2012 to April 2014. Dr. Lin is the Dean of the School of Business in Macau University of Science and Technology. From August 1998 to January 2015, he was a Professor and Head of the Department of Accountancy and Law in Hong Kong Baptist University. Prior to these positions, Dr. Lin also worked for The University of Hong Kong as a visiting professor, the Faculty of Management of Lethbridge University in Canada as a tenured professor and Xiamen University (廈門大學). Dr. Lin worked at the Toronto office of an international accounting firm from December 1982 to November 1983.

Dr. Lin holds a master's degree in Science in Accounting from University of Saskatchewan in Canada in October 1991 and a Doctorate's degree in Economics (Accounting) from Xiamen University in December 1985. Dr. Lin is also a member of the American Institute of Certified Public Accountants since August 1995, the Chinese Institute of Certified Public Accountants since June 1995 and the Washington Institute of Certified Management Accountants since May 1995. He is a member of various educational accounting associations including the American Accounting Association.

SENIOR MANAGEMENT

Chen Baoguo (陳寶國)

Vice president in charge of production

Mr. Chen Baoguo (陳寶國), aged 47 is the vice president of the Group. Mr. Chen is responsible for overseeing and managing overall production activities and quality control of the Group. With over 24 years of experience in the Group, Mr. Chen has served in Fujian Dali as the head of production technology development department from 1992 to 2010. He is the brother-in- law of Mr. Xu Shihui, uncle of Ms. Xu Yangyang and the brother of the sister-in-law of Ms. Xu Biying.

Mr. Chen graduated from the Professional Online Education Program in Food Science and Engineering (Bakery) of Jiangnan University (江南大學) in 2011 and further obtained a bachelor's degree in Engineering with a major in Food Science and Engineering (Bakery) from Jiangnan University (江南大學) in January 2017. Mr. Chen was awarded the professional qualification of Grade 1 Senior Technician by the Ministry of Labour and Social Security of the PRC (中華人民共和國勞動和社會保障部) in December 2008. Mr. Chen was awarded the Certificate of Professional Technology Training by the Technology Training Center of the China Food Industry Association (中國食品工業協會技術培訓中心) in December 2007, and was appointed as a member of the Expert Committee of the China National Food Industry Association (中國食品工業協會專家委員會委員) during the same period. He was awarded the certified qualification of senior baker by the Bakery Food and Confectionary Expert Committee of the Society of Food Science of Shanghai (上海市食品學會) in April 2004.

Wu Xinchuan (吳欣川)

Chief financial officer

Mr. Wu Xinchuan (吳欣川), aged 36, is the chief financial officer of the Group and has held the current post since 2008. Mr. Wu is responsible for overseeing and managing overall finance of the Group. With over 16 years of experience within the Group, Mr. Wu had held various positions at the Group from 1999 to 2008, including head of the finance department of the Group, financial director of Jinan Dali Foods Co., Ltd., accountant of Quanzhou Dali Foods Co., Ltd., and financial specialist of Hubei Dali Foods Co., Ltd.. Mr. Wu graduated from the Accounting Department of the School of Modern Distance Education (現代遠程教育學院) of Beijing University of Aeronautics and Astronautics (北京航空航天大學) with a diploma in Accounting in 2015.

Huang Zhiqing (黃志清)

Chief procurement officer

Mr. Huang Zhiqing (黃志清), aged 50, is the chief procurement officer of the Group and has held the current post since 2008. Mr. Huang is responsible for supervising and managing the overall purchasing and supply of the Group. With over 23 years of experience within the Group, Mr. Huang had served as the head of the procurement department in the Group from 2006 to 2008, as a purchasing manager in Fujian Dali from 1998 to 2006 and as a purchasing specialist in Fujian Dali from 1993 to 1998. Mr. Huang was awarded the professional title of senior economist by the Human Resources and Social Security Department of Jilin province in 2012. Mr. Huang was elected as a representative of the sixteenth People's Congress of Quanzhou Muncipality (第十六屆泉州市人大代表) and recognized as one of the Top 10 Professional Managers in 2016 for Food Industry in Quanzhou (泉州市食品行業二零一六年度十佳職業經理人) in 2017.

Le Zhenqiao (樂振竅)

Head of product research and development department

Mr. Le Zhenqiao (樂振竅), aged 38, is the head of product research and development department of the Group and has held the current post since 2007. Mr. Le is responsible for research and development of new products and supervising the quality control of the products of the Group. With over 13 years of experience within the Group, Mr. Le served as a researcher of technology development and quality control in the Group from 2003 to 2007.

Mr. Le graduated in 2001 from Shaanxi University of Science and Technology (陝西科技大學), previously known as Northwest Institute of Light Industry (西北輕工業學院), with a bachelor's degree in Biochemical Engineering, with a minor in Computer Application and Maintenance. Mr. Le completed the food safety capacity building program organized by the Department of Human Resources and Social Security (人力資源和社會保障部) and China Food Industry Association in 2014. Mr. Le was awarded the professional qualification of Engineer of Biochemistry by the Human Resources and Social Security Department of Fujian Province in 2009. Mr. Le was awarded the Certificate of Professional Qualification in Quality Specialization (質量專業技術人員職業資格證書) by the Ministry of Personnel of the PRC (中華人民共和國人事部) and the AQSIQ in 2005. Mr. Le was engaged by the Committee of Standardization Administration of the PRC (中國國家標準化管理委員會) as a member for the National Committee of Snack Food Technology Standardization (SAC/TC490) (全國休閒食品標準化技術委員會) in 2009 and as a member for the National Committee of Baked Product Technology Standardization (SAC/TC488) (全國焙烤製品標準化技術委員會) in 2004. Mr. Le was awarded the honorary title of National Advanced Worker for Quality Works (全國質量工作先進工作者) by the China Quality Inspection Association (中國質量檢驗協會) in 2014.

Tu Zhiqian (涂志潛)

General counsel, deputy director of the administration, human resources and general management department and joint company secretary

Mr. Tu Zhiqian (涂志潛), aged 49, has served as a joint company secretary of the Group since June 3, 2015. Mr. Tu joined the Group in 2007 as the general counsel of the Group and the head of human resources department and has held the position as the deputy director of the department of administration, human resources and general management since 2008. Mr. Tu graduated from Fuzhou University (福州大學) in 2009 with a master's degree in Law, from a distance education program in Tsinghua University (清華大學) in 2005 with a bachelor's degree in Laws and from Dalian Polytechnic University (大連工業大學), previously known as Dalian Institute of Light Industry (大連輕工業學院), in 1989 with a diploma in Industrial Management Engineering. Mr. Tu obtained a practicing certificate in Law in the PRC issued by the Department of Justice of Fujian Province (福建省司法廳) in 2007. Mr. Tu was awarded the Registered Qualification Certificate of Enterprise Legal Advisor (專業法律顧問執業資格證書) jointly issued by the Ministry of Personnel of the PRC, the Commission of State-owned Assets Supervision and Administration of the State Council (國務院國有資產監督管理委員會) and the Ministry of Justice of the PRC in 2005.

JOINT COMPANY SECRETARIES

Tu Zhiqian (涂志潛), is the general counsel and was appointed as one of the joint company secretaries on June 3, 2015. Please refer to "Biographies of Directors and Senior Management – Senior Management" for details of his biography.

Cheng Pik Yuk (鄭碧玉), alias Patsy Cheng has served as a joint company secretary of the Company since June 3, 2015. Ms. Cheng is a director of corporate services of Tricor Services Limited ("**Tricor**"). Ms. Cheng has over 30 years of experience in the corporate secretarial field, providing professional corporate secretarial services to listed companies as well as multi-national, private and offshore companies. She is currently the company secretary/joint company secretary/assistant company secretary of some listed companies on the Stock Exchange.

Ms. Cheng graduated from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in 1980 with a higher diploma in Company Secretaryship and Administration. Ms. Cheng is a chartered secretary and a fellow of both of the Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS. Prior to joining Tricor, Ms. Cheng was a senior manager as well as the departmental manager of company secretarial services at Deloitte Touche Tohmatsu in Hong Kong, provided corporate secretarial and share registration services to companies.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is committed to achieving good corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and 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 "Stock Exchange") (the "Listing Rules") and the Company has adopted the CG code as its own code of corporate governance.

The Board is of the view that throughout the year ended December 31, 2016, the Company has complied with the code provisions as set out in the CG Code, save for code provision A.2.1 of the CG Code, detail of which is explained in the relevant paragraph in this report.

The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the directors and the relevant employees who, because of their office or employment in the Group, are likely to possess inside information of the Company, (the "Securities Dealing Code") on terms no less exacting than 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 of all the Directors and all of them have confirmed that they have complied with the Model Code and the Securities Dealing Code throughout the year ended December 31, 2016.

No incident of non-compliance of the Securities Dealing Code by the employees was noted by the Company.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time in performing them.

The Board of the Company comprises the following directors:

Executive Directors:
Mr. Xu Shihui *(Chairman and Chief Executive Officer)*
Mr. Zhuang Weiqiang
Ms. Xu Yangyang

Non-executive Directors:
Ms. Xu Biying
Ms. Hu Xiaoling

Independent non-executive Directors:
Mr. Cheng Hanchuan
Mr. Liu Xiaobin
Dr. Lin Zhijun

The biographical information of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 33 to 36 of this annual report.

The relationships between the members of the Board are disclosed under "Biographies of Directors and Senior Management" on pages 33 to 36 of this annual report.

Insurance for Directors

The Company has arranged appropriate insurance cover in respect of any legal action against its directors.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Chairman and Chief Executive Officer of the Company are held by Mr. Xu Shihui who is the founder of the Company and has extensive experience in the industry. 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.

Independent Non-executive Directors

During the year ended December 31, 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors (representing more than one-third of the Board) with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent non-executive Directors are independent.

Appointment and re-election of non-executive Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of one year, and the term is renewable for one year automatically upon approval by the Shareholders in general meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Group and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate.

During the year ended December 31, 2016, the following Directors participated in the following trainings:

Directors	Type of Training *Note*
Executive Directors	
Mr. Xu Shihui	***B***
Mr. Zhuang Weiqiang	***B***
Ms. Xu Yangyang	***B***
Non-Executive Directors	
Ms. Xu Biying	***B***
Ms. Hu Xiaoling	***B***
Independent Non-Executive Directors	
Mr. Cheng Hanchuan	***A,B***
Mr. Liu Xiaobin	***B***
Dr. Lin Zhijun	***A,B***

Note:
Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the website of the Company and of Hong Kong Exchanges and Clearing Limited ("HKEX") and are available to Shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting system, internal control and risk management systems, effectiveness of the internal audit function, relationship with external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings during the year to review, among other things, (i) the annual financial results for the year ended December 31, 2015 and the interim results for the six months ended June 30, 2016 and the relevant reports prepared by the external auditors relating to 2016 annual audit and interim review plans and major findings in the course of audit/review, (ii) significant issues on the financial reporting, operational and compliance controls, (iii) the effectiveness of the risk management and internal control systems and internal audit function, (iv) appointment of external auditors and their relevant scope of work, as well as (v) continuing connected transactions.

The Audit Committee also met the external auditors twice during the year to discuss the audit process and accounting issues.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and senior management and other related matters.

Details of the remuneration of the senior management by band are set out under "Report of the Directors – Senior Management's Emoluments" on page 28 of this annual report.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning for directors, and assessing the independence of independent non-executive Directors.

The Board has adopted a "Board Diversity Policy" to achieve and maintain diversity on the Board in order to strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The Company considered that diversity of board members can be achieved through consideration of a number of aspects, including but not limited to skills, experience and cultural and educational background, geographical, industry and professional experience, ethnicity, gender, age, knowledge and length of service.

Based on the business needs of the Group, the Nomination Committee has recommended and the Board has adopted the following measurable objectives:

(a) at least one-third of the Board members shall be independent non-executive Directors; and

(b) at least one of the independent non-executive Directors shall have obtained accounting or appropriate professional qualifications.

The Nomination Committee shall monitor the implementation of the Board Diversity Policy and review the progress of its measurable objectives from time to time.

During the year, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring directors standing for election at the 2016 annual general meeting. The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS

The attendance records of each Director at the Board and Board Committees meetings and the general meeting of the Company held during the year ended December 31, 2016 is set out in the table below:

	Attendance/Number of Meetings				
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**2016 Annual General Meeting**
Executive Directors					
Mr. Xu Shihui	4/4	N/A	N/A	1/1	1/1
Mr. Zhuang Weiqiang	4/4	N/A	N/A	N/A	1/1
Ms. Xu Yangyang	4/4	N/A	1/1	N/A	1/1
Non-Executive Directors					
Ms. Xu Biying	4/4	N/A	N/A	N/A	1/1
Ms. Hu Xiaoling	4/4	2/2	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Cheng Hanchuan	4/4	2/2	N/A	1/1	1/1
Mr. Liu Xiaobin	4/4	N/A	1/1	1/1	1/1
Dr. Lin Zhijun	4/4	2/2	1/1	N/A	1/1

The Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year.

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2016.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 83 to 86 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company, Messrs. Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2016 is set out below:

Service Category	Fees Paid/Payable *RMB*
Audit services	4,500,000
Non-audit services (including Tax advisory, ESG reporting advisory and Risk management reporting advisory)	640,000
Total	5,140,000

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. Cheng Pik Yuk has been appointed as the Company's joint company secretary. Its primary contact person at the Company is Mr. Tu Zhiqian, joint company secretary of the Company.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of HKEX after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 12.3 of the Articles, any two or more shareholders or any one shareholder which is a recognised clearing house (or its nominee(s)) (the "Requisitionist(s)") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company" which is posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Room 2702, 27th Floor, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong
(For the attention of the Joint Company Secretaries)

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at www.dali-group.com as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

Constitutional Documents

During the year under review, the Company has not made any changes to its Articles. An up to date version of the Articles is also available on the Company's website and HKEX's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Company reinforces the environmental protection, food safety and social responsibility integrated into the corporate development strategy by establishing the Environmental, Social and Governance Working Committee in compliance with its business development, whilst maintaining its leading business and capital operation capacities in the industry. The Company, with the commitment made to the sustainable growth and by adhering to the concept of sustainable development, pays close attention with positive attitude to the environmental, social and governance risks in operations. The consumer, the shareholders and the potential investor as well as the government body, media, employee and supplier are regarded by us as important stakeholders. For meeting the expectations of those mentioned above and building a valid sustainable development framework strategy against environmental and social law and regulation and risk control, Dali has carried out multi-dimensional risk evaluation and analysis, including media research, benchmarking and supervision requirement analysis to evaluate significant environmental, social and governance issues in regard to self-development and concerned by the stakeholders and to scrutinise and sort the sustainable development management policy out for compilation and independent release of the environmental, social and governance report.

In accordance with the business philosophy of "high-quality life with safe food", Dali always lays emphasis on the food safety as one of the most important works. By strengthening control and management on the raw material suppliers, Dali has established a comprehensively efficient food safety management system with well-developed product testing capability to constantly enhance and ensure the food safety and promote consumer faithfulness. In terms of fulfilling the social responsibility, the impact produced in the course of food processing on social environment is minimised by means of equipment upgrading and renovation for energy conservation and emission reduction, and those in need are supported and aided by taking advantage of introducing educational fund and carrying out social benefit activities. For more information about the environmental, social and governance performances of the Company in this fiscal year, please refer to the "Environmental, Social and Governance Report" on page 59 to 82 of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

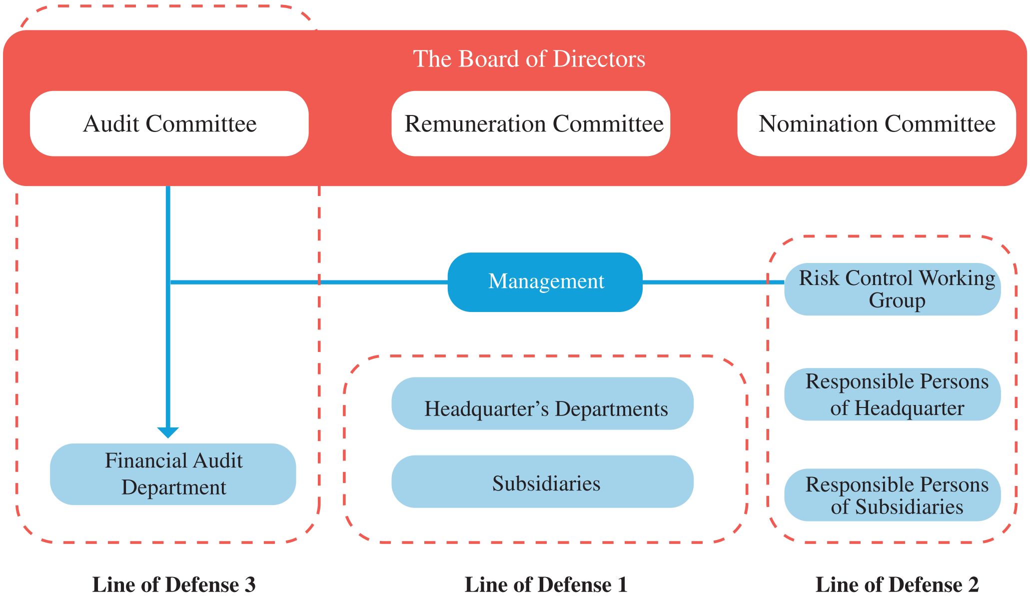
I. Integrated Framework of Risk Management

The Board of Directors is responsible for establishing and maintaining the solid and effective risk management and internal control systems, which are built by the Company with the commitment to safeguarding and protecting the Company and the shareholders' rights and interests and ensuring the legal compliance, aiming at identifying and managing potential risks within the risk appetite, so as to offer reasonable assurance for implementation of corporate objective and secure measurable and appropriate accounting records and financial reports.

The Board of Directors is responsible for evaluating the risk tolerance of the Company in reaching strategic goals so as to ensure that adequate and effective risk management and internal control systems are availably established. In addition, the maintenance and implementation of and supervision on the risk management and internal control systems by the management are also overseen by the Board of Directors.

In the light of the latest amendment of the Code of Corporate Governance and the Corporate Governance Report by the Stock Exchange, the Company strengthened its risk management functions, including the completion of the risk management organisational and procedural designs with relevant policies revised in 2016.

II. Risk Management Organizational System



The Board of Directors, as the risk management supreme leading organ of the Company, undertakes ultimate responsibility for design, construction and effective operation of the overall risk management system, takes charge of the building, improvement and efficient operation of the overall risk management system and has the discretion to delegate senior management and operational division of each department in the risk management system.

The Company, the Board of Directors and the Audit Committee, have set up three lines of defense regarding the risk management and internal control works:

Line of defense 1: Headquarter's Departments and Subsidiaries. Line of defense 1 is the risk responsibility unit, undertaking the primary and direct management responsibility for the risks in business activity management and control. It takes charge of identifying, quantifying and overseeing the risks within each business scope, fulfilling the Company's risk countermeasures and executing the internal control provisions.

Line of defense 2: Risk Control Working Group, Responsible Persons of Headquarter and Responsible Persons of Subsidiaries. Line of defense 2, on the whole, is responsible for planning and preparing the risk and internal control policies and systems and implementation of the major risk solutions and key internal control measures. The Risk Control Working Group is staffed by members from the legal, HR and financial operation center, taking charge of coordination, summarizing and supervising risk exposures and management status in each business sector and facilitating the improvement and execution of risk management and control measures.

Line of defense 3: Audit Committee and Financial Audit Department. Line of defense 3 is responsible for carrying out independent test, verification and evaluation on the integrity and effectiveness of the risk management framework and internal control system to conclude independent and objective appraisal.

III. Risk Management and Internal Control and Management Procedures

The Company has set up a risk management and internal control cycle applicable to the corporate management characteristics, running continuously throughout the year. The cycle contains:

1) Risk Information Collection. The functional departments and subsidiaries, according to their assignment of responsibilities, have the risk map categorized by strategy, operation, finance and compliance and collect internal and external risk management related initial information, including macro-economy and industrial data, corporate operation and financial data to identify and analyze the risk points and update the Overall Risk Database.

2) Risk Evaluation. The Company will go through the current risk management status at regular intervals and evaluate the level of risk that prevent the Company from achieving its goals and the value of opportunity risk by means of questionnaire survey, high-profile interview and statistical analysis in order to qualitatively or quantitatively analyze the possibility of occurrence and influence level of risk and have the shortlisted major risks elected with the Major Risk List developed.

3) Risk Management Strategy. The management of the Company is to evaluate the major risks solutions to have such solutions finalized with the Major Risk Management Card formulated. The management of the Company also evaluates the rationality of relevant risk management and internal control measure designs to have any deficiencies identified improved with the measures like system and policy revision and internal control measure remediation.

4) Internal Audit Operation. Based on the risk evaluation, the Audit Committee is to execute the internal audit plan, including designs and implementations of internal control measures against major risks, food safety, financial report and information disclosure so as to have the internal audit conclusion made and reported to the management layer.

5) Internal Control System. Based on the risks evaluation and internal audit results, the Company's management layer has had the internal control system upgraded and the Risk and Control Matrix updated.

6) Management Annual Review. The Board of Directors, under the directives of the Audit Committee, reviews the effectiveness of the risk management and the internal control systems and puts the adequacy of resources, the employee qualification and experience as well as the training program and budgetary issue into consideration.

IV. Major Risks and Management Measure in 2016

1. *Major risk management achievements of the year*

- To update the risk management system. The Stock Exchange of Hong Kong Ltd. has amended the *Code of Corporate Governance* which has entered into force since 2016. The Company has also enhanced the risk management system, ensuring its consistency with the CG Code.

- To set up risks database. the Company analyzed the external environment holistically from six dimensions (the policy, economy, society, technology, market and client), set up the risk database upon the risk point system classified in reference to corporate internal operation and financial data within the spectrums of "strategy", "operation", "compliance" and "finance" and sorted out all potential risk points with responsible department designated. The risks database contains the risk name, risk type and risk responsible person, serving as a foundation of the risk evaluation and internal control.

- To develop risk evaluation standard. As per the types of risk, the Company clarified the risk evaluation standard from two perspectives of the possibility of risk occurrence and risk influence level. The level of the standard is split into "extremely minor", "minor", "moderate", "major" and "catastrophic".

- To optimize the internal control system. The Company's internal control system, set up in accordance with the internal control pattern of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), includes the control environment, risk evaluation, supervision, information & communication and internal audit. In the key risk area, the Company designed the risk and control matrix which would be the basis of internal control self-evaluation and internal audit, including:

  - Key risk points in procedures
  - Corresponding key control activity
  - Nature of control activity
  - Control activity responsible department/personnel
  - Key control point auditing method

- To improve inside information management procedure. In 2016, the Company further enhanced the inside information management procedure, including inside information identification, approval and disclosure procedures updating, improvement of Group business inquiry by outsiders and implementation and response procedure and appointing the Group senior administrative staff to be the spokesperson of the Company to respond to the inquiries within designated scope. In addition, the Company also explicated the prohibition of unauthorized use of confidential and insider data in the Code of Conduct for Employees.

2. Major risk evaluation and countermeasures in 2016

The Company identified 5 risk points through risk evaluation, developed the major risk countermeasures and initiated the evaluation:

No.	Risk	Description	Countermeasures
1	Market competition	In view of the fierce competitions existed in the leisure food and non-alcoholic beverage industries in China, the Company encounters ever-changing industrial trends and variable market demands. Some competitors are likely to produce products similar to ours to affect our market share.	1. To improve the market analysis mechanism Market survey is to be conducted before new product R&D to design the new product's orientation, pricing, marketing channel and promotion program. 2. To improve multi-brand strategy Multi-brand strategy is to be improved persistently to allocate brands to different markets, keeping each brand characterized by distinctiveness with market occupancy, such that the risk of competition from fast moving consumer products can be lowered by multi-brands..

No.	Risk	Description	Countermeasures
2	Food safety	Risks in food safety probably exist throughout the industrial chain. Given that no effective control is in place, the food safety risk is likely to cause severe consequence with potential liability for damage. Changes to food safety related laws and regulations implemented by the Chinese government may incur extra compliance cost and lead to the uncertainty of risk control.	1. To proactively participate in food safety standard establishment Representatives of the Company are appointed to be the members of the National Technical Committee 490 on Leisure of Standardization Administration of China (SAC/TC490) and the National Pastries Standardization Technical Committee (SAC/TC488) to participate in establishment of national food safety standards and join discussions in the course of standard establishment to ensure the safety compliance of all its products. The Company participated in the establishment of the national food safety standards - GB 8957-2016 *Hygienic Standard for Pastry and Bread and GB 17404-2016 Hygienic Standard for Puffed Food* in 2016. 2. To set up strict raw material inspection procedure The quality of raw materials is under the Company's control in line with the food safety inspection and acceptance standard, which includes strict raw material supplier admittance system to keep each batch of raw and auxiliary materials under close inspection. In 2016, Dali food won multiple food safety-related honors and awards. 3. To establish high-standard lab The Company has established 17 testing and inspection centers as per national food safety standard to test all leisure food and non-alcoholic beverages of the Company. The Company will do spot check on each batch of products of the Company and products sourced from market channels in line with national product safety standard in strict manners to ensure that the products are in compliance with the national food safety abidingly. 4. To conduct ISO22000 food safety system audit at regular intervals The system operation department of the production and operation center carries out ISO22000 food safety management system audit on the subsidiaries at regular intervals in the light of the annual quality audit plan to assist the subsidiaries in completing their quality management systems.

No.	Risk	Description	Countermeasures
3	Raw material price fluctuation	The price of raw material fluctuates due to external factors such as the international or domestic macro-economic environment change, exchange rate movement, climatic change or natural disaster. Given that the management layer fails to foresee the unfavorable changes of raw material prices and prices of other commodities for production and service and make appropriate response, adverse impact would be caused on the corporate operation.	1. To set up price forecasting mechanism The procurement and supply department of the Company collects the raw materials purchase orders every month and forecasts the price of ensuing month based on the fluctuations in prices of order history and data sourced from third party websites. The Company, based on the forecasting results, the quantity in stock and lead time, formulates the raw materials purchasing plan for the subsidiaries to have the inventory under control rationally. 2. To sign fixed-price purchase contract For part of raw materials easy to store, contracts are signed between the Company and suppliers yearly or quarterly to have the prices fixed in advance to minimize the possibility of price fluctuation. 3. To build and improve price quotation and comparison system Suppliers in the qualified supplier directory are selected by the Company for enquiry and multiple suppliers will be asked for quotation during material purchasing. Under the quality and business conditions on an equal basis, the Company will make adequate comparison on suppliers' cost analysis and pinpoint discrepancies through the cost analysis for making price negotiation breakthrough and price risk control.

No.	Risk	Description	Countermeasures
4	Brand reputation	1. When corporate brand is involved in negative event or bad publicity, whether favorable service is offered will affect the customer loyalty. 2. The corporate reputation will be negatively impacted given that the corporate brand, trademark, business secret or intellectual property rights, without being timely perceived by the Company, are being used by unauthorized third party. 3. Given that the Company's product is contaminated by third party or in other way or affected by foreign pollutants, chemicals or impurities in transporting or marketing process, such product will possibly be harmful to consumer's health.	1. To promote service and improve customer satisfaction The Company has dedicated customer service department, email, microblog and WeChat to collect consumer's feedbacks continuously to answer and explain consumer's questions and misunderstandings in the first place. 2. Brand infringement prevention and investigation The Company has established the brand infringement prevention and investigation mechanism to oversee and prevent any unauthorized commercial activity by third party from happening; meanwhile, the Company's legal service department also has the specialized team assembled to perform market survey to investigate any illegal use of brand in the market. Close communications between the Company and local law enforcement agencies are maintained to ensure that any legal rights safeguarding activity can be dealt with in the first place. 3. Public opinion crisis prevention and coping mechanism The Company has convened a management team to oversee daily and brand related public opinions to prevent or minimize negative public opinion' impact on the brand reputation. The Company has well-improved crisis coping mechanism. Thus, in case of any crisis event taken place, the Company will make clarification to the general public in the first place, collect information from supervision department and carry out event investigation, product screening, product recall, problematic product disposal and rectification activities subsequently.

No.	Risk	Description	Countermeasures
5	Consumer's behavior change	1. In the event of consumer preference change which the Company fails to foresee or identify it and make response to it, the product demand is likely to decline in this regard, resulting in sales volume and business earnings under average and failure of introduction of fast-growing and highly-lucrative new products or destocking the products less in demand. 2. Given that the Company fails to carry through the policy of continuously improving the product portfolio and meeting the ever-changing consumer preference, the Company's sales volume, earnings and business income may therefore be unable to meet the corporate financial objective, generating adverse impacts on the Company's financial position and business performance.	1. To set up consumer information collection mechanism The Company carries out internal and external combined market survey to gather internal information based on financial data and production data and external information from industrial survey data and market research data sourced from third party consulting firms, all which are instrumental in renovation of existing product and new product development, making the Company's products more responsive to the variation of consumer demand. 2. To develop multi-product R&D strategy The Company has built a specialized R&D innovation-oriented team who is committed to recipe renovation, flavor innovation, packaging innovation and brand concept innovation on the premise of guaranteed product quality. Through sustainable innovation, the product conversion capability of the Company is created and developed, through which the product series is expanded to respond to the change of consumer behavior, generating sustainable impetus for growth of the Company. 3. Marketing strategy made based on market segmentation The food product and beverage product marketing planning departments of the Company conduct market analysis on regular basis to segment the market as a whole based on the discrepancies in the consumer purchasing behavior and buying habit and the product category so as to develop corresponding marketing strategies catering to the consumer behavior change.

3. *Risk management and internal control systems review of 2016*

The Financial Audit Department, in accordance with the annual audit plan approved by the Audit Committee in 2016, carried out independent review on the effectiveness of the Company's internal control, covering the financial control, operation control and compliance control as well as major risks related management procedures. The Financial Audit Department, with regard to the audit results and recommend rectification measures, communicated with the management and followed up to confirm that the management has indeed put such measures into practice.

The Audit Committee scrutinizes and approves the review results and comments from the Financial Audit Department regarding to the effectiveness of such internal control system and the risk management system semiannually and reports major event if there is any to the Board of Directors.

As of December 31st 2016, the Board of Directors and the Audit Committee have reviewed the effectiveness of the risk management and internal control systems, including the review on the resources adequacy for accounting and financial reporting functions, employee's qualification and experience, training program and budget. It is concluded by the Board of Directors that the Company's risk management and internal control systems are effective and adequate which are impeccably built in terms of the integrity, rationality and validity.

The risk management and internal control systems are designed to manage instead of eliminate the risks hindering the Company from achieving the business goals with reasonable rather than absolute assurance made for no major misrepresentations or losses.

Environmental, Social and Governance Report

1. About the report

Overview

The report is the first environmental, social and governance (hereinafter referred to as "ESG") report issued by Dali Foods Group Company Limited which mainly discloses relevant information of the Company's performance on economic, social and environmental aspects with time duration of January 1st, 2016 to December 31st, 2016.

Preparation basis

The report is mainly prepared with reference to the revised Environmental, Social and Governance Reporting Guide published in December 2015 by the Stock Exchange.

The report contents are determined according to a set of systematic programs and relevant procedures include: identification and prioritization of important stakeholders, identification and prioritization of ESG related important topic, determination of boundary of ESG report, collection of relevant materials and data, preparation of report according to the data, verification of data in report, etc.

Scope and extent of report

The policies, statements and data in the report basically cover the Company headquarters and subsidiaries under our actual control. Taking into account of the importance, section 6 contains information on "Dehui Educational Foundation by Xu Shihui of Dali"

Appellation description

For the convenience of expression and reading, "Dali", "Group", "Company" and "We" in the report all refer to "Dali Foods Group Company Limited".

Data source and reliability assurance

The data and cases of the report are mainly from the statistics report and related documents of the Company. The Company undertakes that there is no false record or misleading statement in the report and we shall be liable for the authenticity, accuracy and completeness of the report.

Confirmation and approval

Recommended contents: As confirmed by the management, the report was approved by the board of directors on 23 March, 2017.

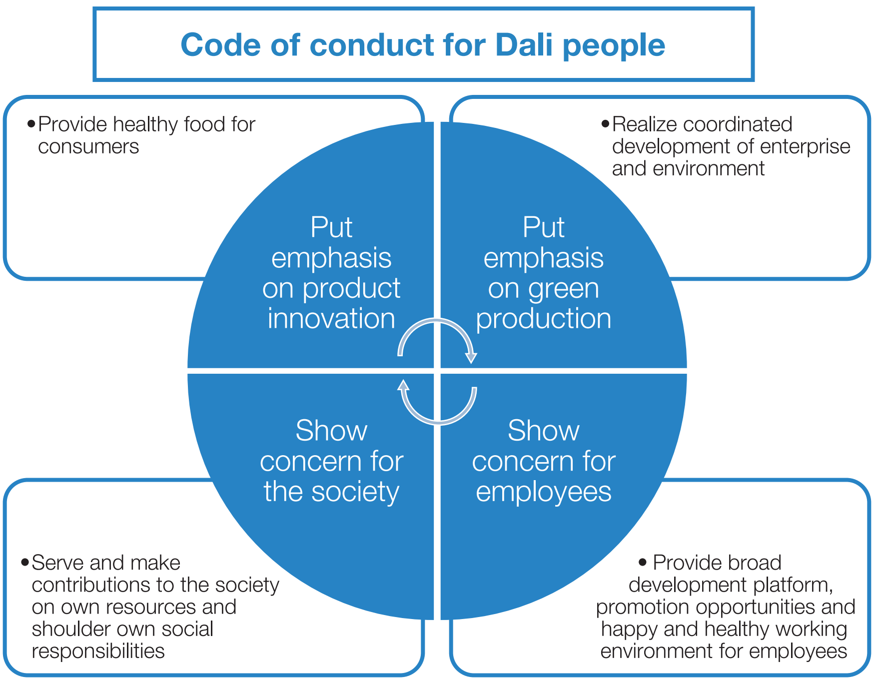
Access to and response to the report

The report shall be provided in traditional Chinese and English for the readers to read and its electronic version shall be available at the Company's official website.

2. Responsible governance and performance of honor

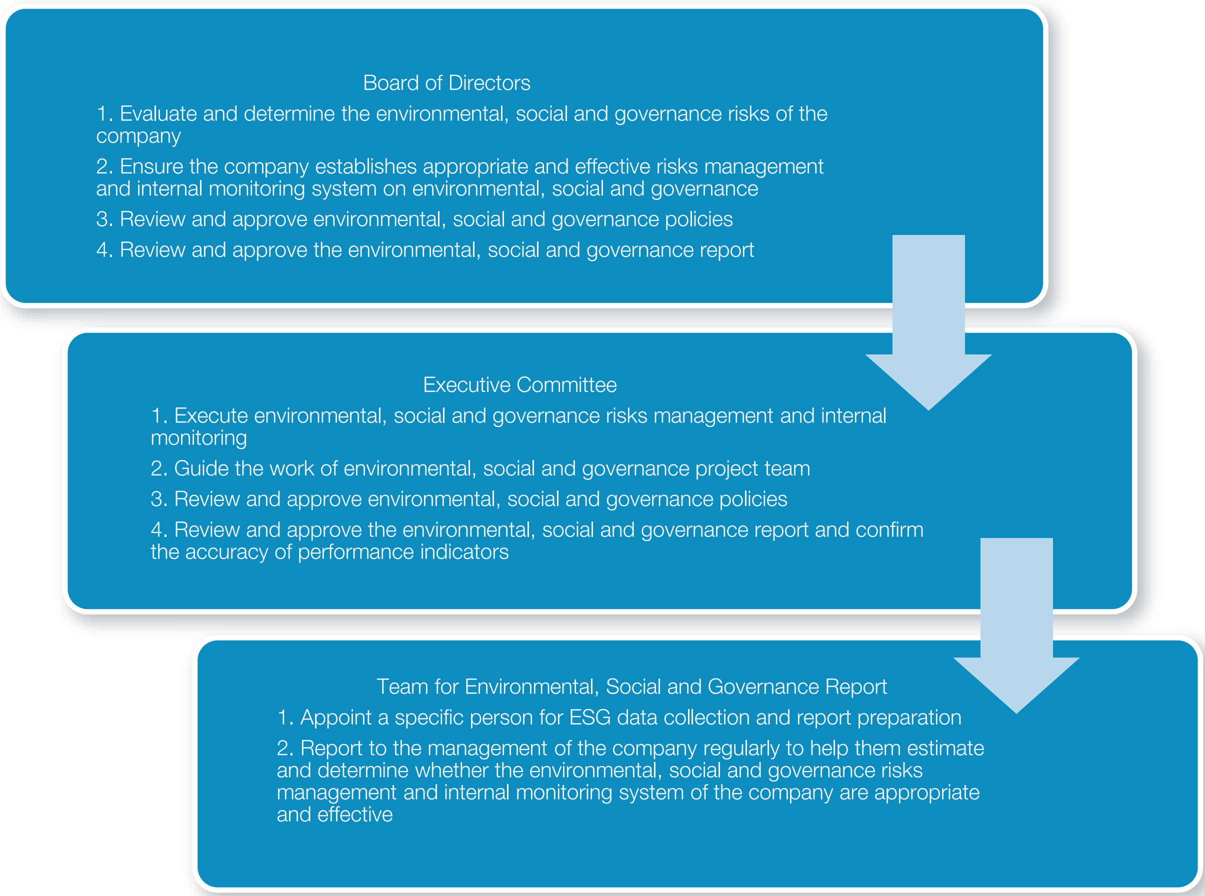
2.1 ESG governance concept

As the largest comprehensive modern food group in China, Dali has always focused on the food industry. Concentrated attention is the code of conduct for Dali people, covering all aspects of the enterprise, employees, environment and society. Dali wholeheartedly creates foods with higher quality to serve the customers; sincerely conducts product innovation to provide more healthy foods to the customers for selection; attentively and constantly provide employees with broad development platform, promotion opportunities and happy and healthy working environment; concentrates on green production to realize coordinated development of enterprise and environment; devotes it to serving for and making contribution to the society and positively undertakes its own due social responsibilities.



2.2 ESG governance framework

To effectively implement the measures of ESG, Dali has specially set up ESG working group, comprising personnel from the Legal Department, Production Department, Administrative and Human Resources Department and other departments and arranged special personnel to take charge of ESG related data collection and report preparation, etc. ESG working group reports to the board of directors regularly to help them estimate and determine whether risks management and internal monitoring system on the environmental, social and governance of the Company are appropriate and effective. The distribution range of roles and responsibilities is as follows:



2.3 Stakeholder communication

We have always been committed to establishing multi-communication channels with stakeholders. We believe that two-way, transparent and regular communication helps to keep a harmonious relationship with all parties, have strengthened mutual trust and respect, and laid a stable basis for the sustainable development of Dali. We have identified several main stakeholders in close relationship with the Company which have decision-making power or impact on Dali and include following groups:

- Shareholder/investor
- Government agency
- Supplier
- Employee
- Community people
- Media
- Consumer

We actively communicate with stakeholders, understand the topics they care about, and regularly review the effectiveness of relevant actions to improve the communication channels and more fully reflect the opinions of the stakeholders. The topics concerned by different stakeholder groups in the report period are listed in the table below.

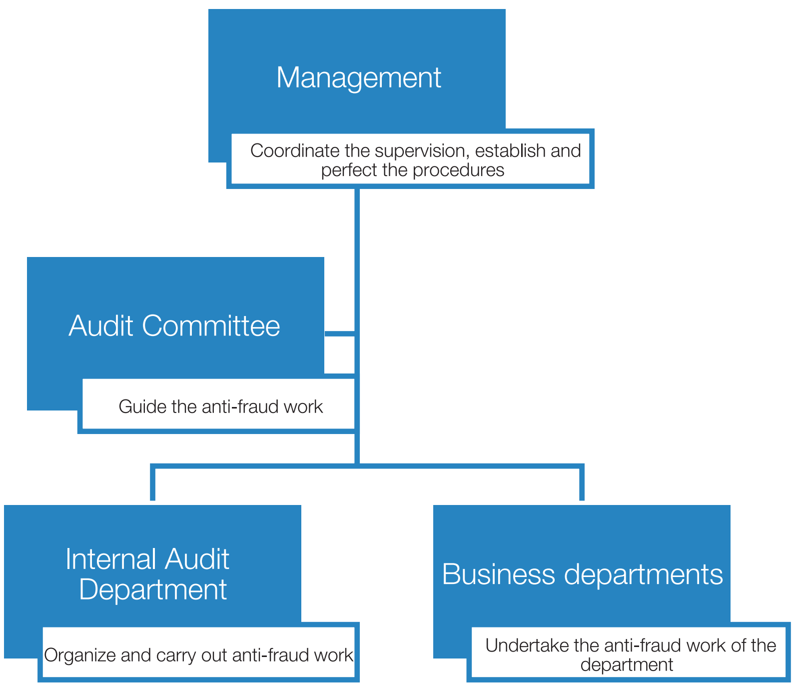
Group of stakeholders	Main subjects concerned by stakeholders	Communication channel/ feedback mode	Frequency/number of times
Shareholder/investor	Operation performance ESG governance concept	– Annual general meeting – Investor presentation – Result press conference – Press release/announcement – Field research	Annual general meeting is usually held once a year. The investor presentation and field research are conducted on an irregular basis.
Government agency	Green production Food safety	– Field research – Talks	Irregular
Supplier	Supply chain management Food safety	– Field research – Supplier assessment	Irregular Regular
Employee	Employment and labor Salary and welfare	– Employee interview – Company internal email – Company internal WeChat Official Account	Irregular
Community people/ organization/ non-governmental organization	Green production Food safety	– Field research – Talks	Irregular
Media	Community investment Food safety	– Press release/announcement – Interview– Meeting	Irregular
Consumer	Food safety Green production	– Online promotion release – Offline trade fair and promotion activities – Tel./fax– WeChat/Microblog – Questionnaires – Forum	Irregular

2.4 Establishment of credit system

To regulate the professional conduct of the Company's directors, supervisors, senior and middle management employees and ordinary employees, Dali has strictly followed relevant laws, industrial norms and standards, professional ethics and corporate rules and regulations and established a good honest and diligent atmosphere to prevent behaviors damaging the interests of the Company and shareholders. It specially established the corporate internal "Anti-fraud Management System" which includes:

- Promote a corporate culture of honesty and integrity and build a corporate cultural environment against fraud
- Evaluate anti-fraud risks and establish specific control procedures and mechanism to reduce frauds
- Establish an anti-fraud standing body, accept and investigate in fraud reporting and propose handling suggestions

Dali management (board of directors, board of supervisors) shall be responsible for the establishment, perfection and effective implementation of anti-fraud and control procedures including fraud risk assessment and prevention of fraud and it shall conduct self-assessment. The audit committee shall be responsible for the guidance for the Company's anti-fraud behaviors. The anti-fraud standing body (Internal Audit Department) shall be specifically responsible for the organization and implementation of anti-fraud work of the inter-department within the scope of the Company. It shall accept, investigate in, report and propose handling suggestions for fraud reporting and be subject to the supervision of the board of directors, the board of supervisors and the audit committee. All business departments shall undertake the anti-fraud work of own department.



Dali's top management shall take the lead with practical actions to ensure various systems and specifications are followed. By issuing employee handbook, the Company has enhanced the propaganda and training for anti-fraud via rules and regulations; provided anti-fraud training and education of laws and regulations, and integrity and morality for new employees; set up reporting channels, implemented corresponding education and punishment policies and taken other means to comprehensively deepen the corporate culture of honesty and integrity.

2.5 Qualification & honor

Dali is the member of China National Food Industry Association, China Association of Bakery & Confectionery Industry, China Beverage Industry Association, China Nutrition and Health Food Association and Quanzhou Food Industry Association. With outstanding performance, Dali Foods Group received many honors in 2016:

- 2015-2016 Annual Economic Figures in Quanzhou (Xu Yangyang, vice president)
- Honor of the 16th Excellent Entrepreneur in Fujian (Xu Yangyang, vice president)
- 2015-2016 Annual Charity Outstanding Contribution Award (Xu Shihui, chairman)
- Top 100 Enterprises with Special Ability in China Light Industry
- Top 10 Enterprises in China Bakery & Confectionery Industry (Biscuits)
- Senior Adviser of the Third Council of Quanzhou Food Industry
- 2016 Annual Social Responsibility Benchmarking Enterprise
- Forbes Global 2000 in 2016
- Brand Daliyuan of the Group ranked first in pastry and bakery in 2016 Brand Footprint Report
- Dali Food won "Award of Private Enterprise with Maximum Value" in the list of mainland enterprises at Hong Kong Stock Market
- Dali Foods Group was listed in 2016 top 100 enterprises with highest brand value in China
- Forbes 500 in China, food and beverage enterprise with highest ROE

3. Reassured quality and continuous innovation

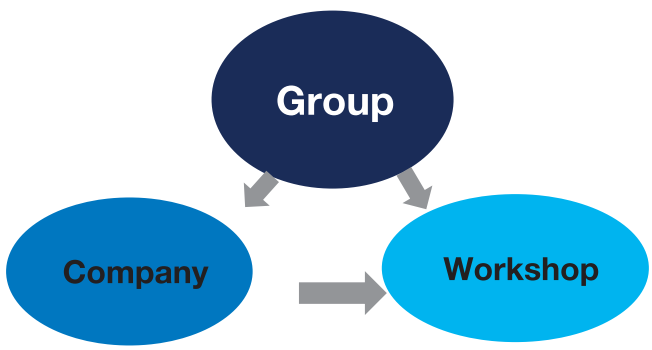
"Food and safety come as the first". The Group has always adhered to "quality first" as the starting point of the idea and the finishing point of actions, regarded food safety as the top priority and strictly implemented it throughout all work process, formulated the quality policy of "quality, honesty, customer service and satisfaction first" and continuously improved product quality and service quality through two-way communication with customers.

3.1 Reassured safe food

The Group adheres to the quality control policy of “leading by awareness, controlling sources, paying attention to details and process and ensuring inspection and safety”: it has established the quality awareness publicity and training system and included the staff quality awareness publicity and training work in the quality control system; evaluated and selected the suppliers, conducted investigation and verification at the place of origin, and inspected from the source; comprehensively introduced the advanced management system, and realized connection with international management; established the monitoring system for all key control points to confirm the key control points are under control; at the same time, all factories have set up testing laboratory according to high standards to provide accurate and powerful support and guarantee for quality management.

Leading by awareness

Dali has constructed a powerful quality control team integrating three levels, i.e. Group Quality Management Department, Company Quality Management Testing Center and Workshop Quality Control Specialists, and all companies of the Group have passed the ISO2200 and Hazard Analysis and Critical Control Point (“HACCP”) certification. Currently, there are more than 1200 professional quality management personnel and technical experts with relevant professional qualifications and technical skills and the professional quality management personnel accounts for 11.5% of the production personnel, including sensory testing personnel, physical and chemical testing personnel, microbiological testing personnel, chromatographic detection personnel, senior assay engineer and online quality management personnel, etc. There are 96 HACCP internal auditor in the group and Company system and the Group continuously enhances the food safety awareness of the staff by assigning professionals to regularly provide staff with quality assurance training and education.



Three-level integrative quality control team

Source control

To select high-quality suppliers more effectively, most of our raw materials such as flour, soybean, peanut are purchased in a collectivized manner, and local suppliers are preferred for the selection of other auxiliary materials as there are requirements on freshness.

To improve the supply chain management and ensure food safety, Dali has established a strict supplier selection procedure based on requirements which must be met according to supplier evaluation criteria and evaluation methods. It has also divided the raw materials into categories A (high risk), B (general risk) and C (low risk) according to risk level based on types of raw materials provided by the suppliers to realize better management control. In addition,while we enter into purchase contracts with the suppliers, we incorporate relevant contents on environmental protection and labor interest, so as to strictly adhere to protecting the environment and safeguarding labor interests on our own, and to jointly enhance the focus and performance on environmental protection and human rights with the suppliers.

Dali actively implements order-based agriculture mode. For example, in the purchase of potatoes and eggs, it uses order-based agriculture to ensure better source control and provide local farmers with the guarantee for targeted sales.

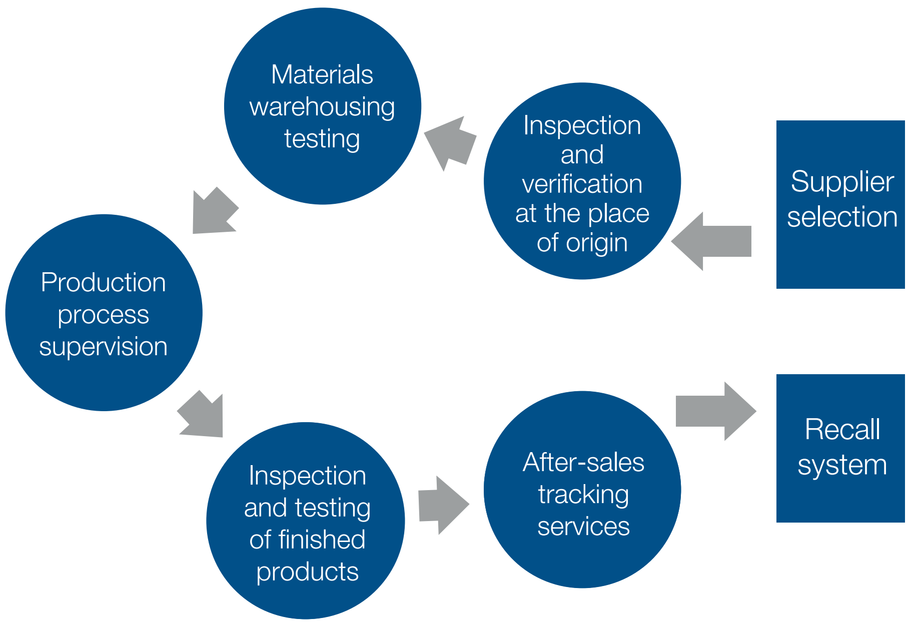
Focus on details

Dali has always paid attention to details and established four principles for the group quality management.

One principle followed	• From raw materials and auxiliary materials, to semi-finished products and finished products, strictly follow product standards, control quality and never lower the requirements;
Two-level quality guarantee	• In addition to routine quality supervision by companies, the group conducts patrol inspection and monitoring every month to ensure quality
Three factors not allowed	• Nonconforming raw and auxiliary materials shall not be warehoused; nonconforming semi-finished products shall not be passed to next procedure; and nonconforming finished products shall not be delivered out of the factory
Four factors not ignored	• The causes of problems shall not be ignored; formulation of corrective measures shall not be ignored; awareness of the person in charge shall not be ignored; and the effectiveness of corrective measures shall not be ignored

Process traceability

"Quality is the life of the enterprise". We have configured international advanced high-precision testing equipment, set up a quality control system for level-by-level inspection for raw materials, semi-finished products and finished products, taken a number of measures to regulate the whole supply chain to ensure the product quality. We carried out strict testing and reserved samples after production, ensuring the traceability of products. Each production link for Dali products bought by customers is able to be traced. The Company conducted product tracing drills twice every year, including forward tracing (from raw materials to finished products) and backward tracing (from finished products to raw materials). The tracing drills are launched for the purpose of finding out existing problems of monitoring mechanism, further perfect the monitoring system and improve product tracing efficiency and effect.



On November 2016, it was found that the bacterial count of soft French bread produced by Yunnan Dali Foods Co., Ltd. exceeded the national standard. We immediately started the emergency recall system of the relevant batches, and carried out harmless destroy of all products on sale. After that, the Company seriously analyzed the reason of exceeding the national standard, having realized that there were some management deficiencies during transportation, storage and sales process which led to the pollution. The Company has taken some management and control measures against those management deficiencies.

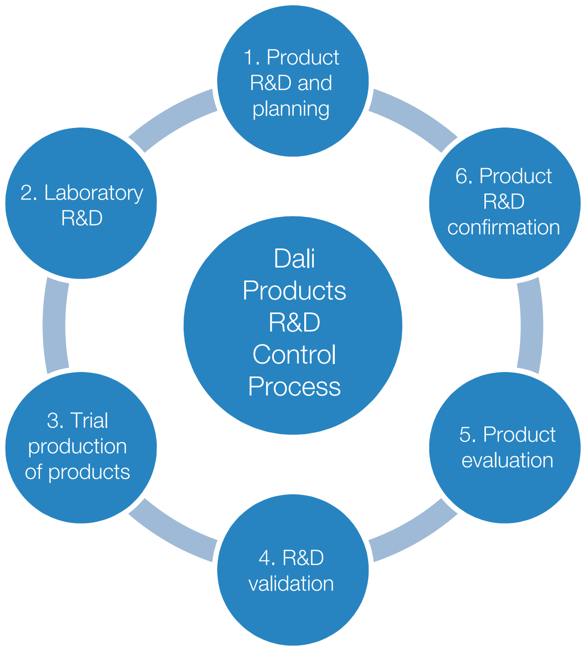
Testing guarantee

The factories of the Group are provided with testing centers which are equipped with global leading testing equipment used to carry out all testing items for all raw materials and auxiliary materials and products of foods and beverage. The plasticizing agent, heavy metal, pesticide residue, melamine and other indexes concerned by the public are able to be detected by the high-technical equipment, which provides accurate and strong support and guarantee for quality management.

In 2016, Fujian Dali Headquarter R&D and Testing Center established a national foods detection and testing laboratory, which is now positively preparing for passing the certification of China National Accreditation Service for Conformity Assessment (CNAS). The detection and testing laboratory not only can satisfy the detection and testing of common foods, but also can reach the world leading standard with respect to detection of some indexes, so it has become an important guarantee for Dali Foods.

3.2 Continuous product innovation

Adhering to establish a scientific production R&D system and sticking to production research and development, the Group established an industrial leading "product R&D center" with much investment, introduced the global leading R&D equipment and a creative R&D team, constantly launched new products as per different demands of customers in different times to lead the developing direction of the industry, successively formed the four series products, including pastries baked foods, chips puffed foods, biscuits baked foods and beverage, so that its R&D ability ranked to No. 1 in this field. The Company interpreted the success path from "made in China" to "created in China" by its behaviors.



Healthy life with low sugar and sodium

According to Big Data Report on Chinese Family Health and Medical Care Conducts in 2016, diabetes and hypertension are the common chronic diseases which attacked much attention from Chinese people. Dali has always cared about the public food heath, insisting on innovation and adjustment of product formula, and also the decrease of fat, sodium and other additives, having successfully created the low-sugar food like low-sugar seaweed cake and low-sugar sesame crisp cake. In recent years, Dali has been focused on launching new low-sugar and low-sodium products to meet the more demand of customers for health. After preparations for two years, the difficulties (low protein content and difficulty for storage) of traditional soymilk products was overcome, and we will formally launch low-sugar and low-sodium organic puree soymilk and organic blend soymilk in 2017. In total 6 subsidiaries of Dali Group have obtained the organic product certificate.

Our herbal tea, Heqizheng is provided with traditional formula, raw materials of plants, and extracted herbs without any additives, which not only reserves the original taste of conventional herbal tea, but also being judged as the real healthy beverage.

3.3 Industrial leading technology

At the leading position of the industry, we actively participated in the drafting and approval of national standards. We participated in the preparation of Hygienic Standard for Pastry and Bread (GB8957-2016), Hygienic Standard for Puffed Food (GB17404-2016) and other national food safety standards. Our members are also the committee members of China Technical Committee of National Causal Food Standardization (SAC/TC490), and China Technical Committee of National Baked Food Standardization (SAC/TC488) of Standardization Administration of the People's Republic of China who have profound insight on the industrial trends and dynamic conditions.

In addition, the Company attached much attention on technical innovation of production technology with the guiding idea of "improve production, perfect quality, ensure quality, saving energy and reduce consumption", continuously increased the investment on production technology year by year and successfully launched new technologies year on year. Currently, the Group owns many world leading foods and beverage production lies in virtue of self-innovation, technology introduction and cooperative development, successfully maintained its leading position of the industry with respect to the production technologies.

Introducing Danish HAAS-MEINCKE Auto Butter Cookies Production Line

The Company introduced advanced cookies production line-Danish Auto Butter Cookies Production Line where all production procedures of the line are controlled through the operation panel. The successful production of this production line broke the monopoly of foreign brands in top-end cookies market, which leads the development direction of Chinese food industry.

Introducing Netherlands Rademarker High-speed Croissant Production Line, and product French croissant with original taste and flavor

The Company introduced the high-speed croissant production line through launching technical cooperation with Netherlands Company in which the whole production line is accurately controlled by computer programs, successfully reserved the original taste and flavor of French croissant.

Auto cold-aseptic filling beverage production line integrated advanced technology of the European and American developed countries

The Company made self-designed production process, integrated GEA cold-aseptic filling production line. The cold-aseptic filling area of this production line reaches to 100-class purification standard for production of medicines during which the instantaneous high-temperature sterilization and aseptic cold-aseptic filling technologies are brought to fully reserve the nutrition, and original taste and flavors of the products.

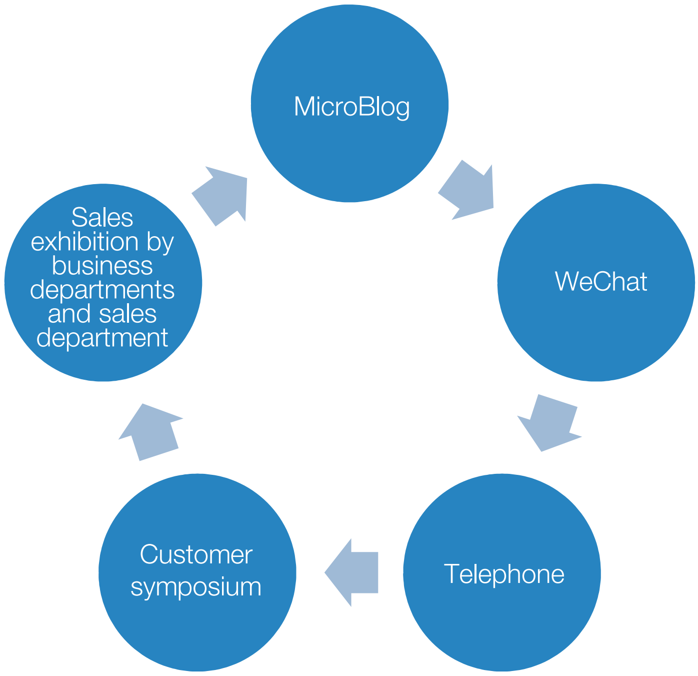
Perfect combination of herbaceous plant on-line extraction process and world leading two-piece can beverage filling production line

The Company and Taiwan HORYANG Company reached the cooperation in advantages of HORYANG two-piece can beverage filling production line and Dali herbaceous plant on-line extraction process, having established the global leading fully-automatic herb tea two-piece can production line. The production line is under whole-line engineering control for accurately monitoring the real-time status of key equipment, besides, some advanced technologies are applied during the production process to ensure the product quality.

3.4 Listening to customer's opinions

Dali persists in the concept of customer-oriented from the beginning to end, believing that there will be no Dali without customers. Apart from the unremitting efforts, Deli is not able to achieve its present success without the supports and admiration from masses of customers. In order to obtain a great brand image, provide high-quality products, more convenient consumer experiences and support the customers to create high-quality life, Dali insists to truly listen to the customer's ideas. We specially prepared Measurement Procedure for Customer's Sanctification in order to obtain enough information with respect to the foods security as well as the customer's evaluation on the work of the Company. We distribute the Customer's Sanctification Questionnaire to our main customers and make collection every year, and also make statistical analysis on the investigation condition and fill in Statistics Analysis From on Customer's Sanctification. We will carry out internal discussion and analysis regularly, and take relevant measures. Besides the business departments, we also communicate with our customers regularly through using Weibo, WeChat and trade fairs.

Communication channels with customers:



Dali holds the idea that only through transparent and deep communication with customers can perfect the brand establishment constantly. We opened the factory in Hui'an to be public for visit, hoping that more customers can understand the production process of Dali thorough constant communications and discussions in virtue of this chance.

4. Healthy employees with happy career life

The Company believes in the ability and values the labor of each employee, willing to cultivate the sense of belonging and sense of achievement for the staff to let them engage in their work in voluntary, self-initiated and conscious attitudes, so as to form a staff crew with advanced sill, high efficiency and high qualification.

The Company tended to cultivate and select talents from staff crew and formed an experienced and reliable management group where the members are familiar with the industry and love the enterprise, having become the mainstays of Dali relying on their strong executive ability, management ability, creativity, cohesiveness and loyalty and supported the rapid development of the enterprise.

4.1 Create happy career life

We specially formulated Human Resources Management System in order to standardize and perfect the recruitment procedure under the open, fair and just principle, select able talents without overstressing qualifications, and meet the requirement of the Group with respect to human resources. The details regulations are made regarding to recruitment, probation, attendance, training, transfer, promotion, rewards & punishments, performance, salary, welfare and dispute complaint and other aspects. We strictly obey Labor Law and other laws and regulations as well as the relevant rules, and treatment all interviewees with fairness regardless of their gender, age, race, religion and sexual orientation.

Recruitment management

Human Resources Management System presents all details concerning to each process of recruitment, including purpose and scope, principle and standard, application procedure, organization procedure as well as recruitment steps. Wherein, Dali requires new employees to fill in the background survey record form, and the Company will refuse those employees who have criminal record, false identity data or unfavorable moral behaviors.

"Advantage" strategy of human assets

Dali takes its staff as the important strategic resources for enterprise development and tends to establish perfect talent cultivation and selection mechanism to help every employee get their own position under the open, fair and just rules.

Advantages

Pay high value on management system

- Establish a complete staff training system, improve the working quality of staff, tap the potential of staff and enhance the spirit of teamwork
- Establish a meticulous staff appraisal system and have a scientific quantitative management of staff's contributions to the enterprise

Respect development trends of talent

- Stimulate the initiative of staff and let the talents show themselves through a talents selection mechanism
- Formulate a development plan for excellent staff and stimulate them to realize self development and personal value with the enterprise's development

Talent cultivation and selection

In order to improve professional knowledge & skills and overall qualification, increase work quality and performance, and promote the qualification of all staff to meet the demand of continuous forward development, we launched the training based on the employee career development plan to realization the combination between Company development and personal growth. Dali has carried out a series of training activities for different levels and departments and actively established and perfected the training system in compliance with the Company strategies and development direction so as to improve the overall performance and competitiveness of the Company. Main training contents are: new staff training, department internal training, departments' crossing-training, external training and temporary training. For example, for new staff training, we established trainer training system, encouraging employees to accept re-educated study to execute the on-duty training system targeted to improve the working and practicing skills; besides, we also established long-term cooperation system with external famous training institute and visit some domestic and foreign benchmark enterprise of this industry; and for department crossing-training, we made the plan for work-shift system to cultivate talents for key posts of the Group and provide guarantee for the business development. In 2016, the total count of staffs received training were 36,882, and the total training hours they received were 80,682 hours.

Dali also formulated promotion management procedure in order to attract talents, motivate the employees and increase the business capability and qualification of employees. The procedure regulates the conditions for promotion, division of management responsibilities, as well as longitudinal (in-department) and horizontal (between-department) promotion channels. Staff promotion had two forms - regular and irregular, and the main procedure of promotion includes:

1. Determination of a promotion position
2. Recommendation of suitable candidates (internal recommendation and self-recommendation)
3. Promotion assessment
4. Determination of candidates
5. Appointment and publicity
6. Handover and assumption.

Employee benefits & activities

Having cooperated with the Group in the "advantage" strategy of human resources, Dali abode by the laws and norms to protect the basic rights and interests of employees, tried to create an equal work environment without discrimination, eliminated child labor recruitment and forced labor activities and settled all of the salary immediately and took remedial measures once a child labor was found being misused.

In addition, through a fair, reasonable and competitive salary system, perfect software and hardware welfare and the two-way communication mechanism, Dali attached importance to every employee's needs to create a healthy and happy workplace. We set up an internal communication email, having encouraged the employees to carry out active and meaningful two-way communication with the Company and earnestly listened to and understood every employee's voice.

On the aspect of welfare, the Group provided all the staff with five social insurance and one housing fund and welfare funds. Allowances given by Dali included assignment allowances, transportation allowances, meal allowances, night shift allowances, overtime allowances, etc., and the annual bonuses of employees account for about 35% of their total wages, which could have no ceiling limit. Dali complied with the requirements of the national legal holiday, provided the employees with a flexible holiday system and ensured the employees' paid annual leave, home leave, marriage leave, maternity leave and other vacations. In addition, we provided free physical examination for every employee every year and sent gifts to the employees in major holidays. Employee dormitories were provided with a gym, theater, KTV and other entertainment facilities, providing employees with high quality facilities for entertainment.

The headquarters and branches of Dali also organized employee activities regularly. In the Company level, during the festivals every year such as May Day, National Day, Mid-Autumn Festival, the labor union of the Company organized employee entertainment and sports activities and other group activities and carried out employee communication activities on New Year's Day; in the level of each department, workshop and team or group, every month, there were parties and other entertainment activities for employees, thus to strengthen the cohesion of the Group's employees, enhance communication and enrich the life of employees through multi-level and all-round collective activities.

Dali tried to make every employee feel the warmth of home, shared the joy of every employee and cared for the difficulty of each employee. Whenever it was an employee's birthday, a celebration would be held in the department or team; after having known the difficult situation of an employee, the Group and the labor union of each Company would organize regularly or irregularly to support the employee with family difficulties, and also organize donation activities and hold allowance activities.

Through our continuous efforts, in 2016, Dali's employee turnover ratio was only 3.85%, in which the female turnover ratio was 2.05% and male Females ratio was 1.80%.

Note: employee turnover ratio (employees lost in the current year/(employees at the beginning of the year+ employees recruited in the current year)

4.2 Health and safety work

Dali has established a complete set of emergency preparedness and response control procedures to identify potential safety accidents and emergencies, ensure to respond quickly and deal with emergencies effectively, thus to prevent and solve possible production safety accidents and harm to employee safety and health and control the situation. In 2016, there was no death incident occurred due to work injuries.

In addition to the strict safe production regulations and advanced management technologies, Dali also attached great importance to the labor safety and health management. In order to implement the production and improve the production safety consciousness, we especially set up working environment control procedures and made strict requirements and standards for the sanitary management of factories, plant facilities, machinery, equipment and personnel.

At the same time, we continuously strengthened the employees' health management and carried out health examination for processing personnel at least once a year according to the requirements of Food Hygiene Law of the People's Republic of China and temporary examination when necessary. New or temporary employees could work only with health certificates after health certification. In this way, the food hygiene was ensured and the health of employees was monitored.

Fire education and drill in 2016

Dali formulated a series of fire emergency plans and the corresponding procedures. In order to make management personnel familiar with the fire emergency plans and response procedures, improve the fire safety consciousness and emergency response ability of the management personnel and prove the feasibility of the fire emergency plans and response procedures, the Group carried out emergency preparedness and response drills every year. In July 2016, Dali's all management personnel participated in a drill with the content mainly including fire safety knowledge education lectures of instructors from the fire brigade, drills of escape from fire scene under the guidance of instructors from the fire brigade and drills of use of fire extinguishers under the guidance of instructors from the fire brigade.

Fire education and drill scenes in 2016

5. Friendly environment & green future

Dali, as a large enterprise based on sustainable development, fully recognized and understood the importance of sustainable development of enterprise and environmental protection, and we have always considered the environmental protection as a priority of the Group. We strictly abode by the Environmental Protection Law and requirements of other laws and regulations and actively practiced the environmental management system.

5.1 Environmental management

We have passed ISO14001 authentication (please provide the certificate of Dali), formulated the environment policy of "priority to environmental protection, pollution control, energy saving and consumption reducing and sustainable development", strictly implemented the environmental management system and procedure documents and effectively controlled the important environmental factors in the Company's management system to ensure that the requirements of the environmental objectives and indicators could be met and realize the continuous improvement of environmental management.

We carry out environmental management mainly from control of air pollution, water pollution, solid waste pollution and noise pollution, with the concrete measures shown as follows:

Item	Management plan	Prevention and control measures
Air pollution prevention and management	Concentrative emission management of exhaust gas Exhaust gas source management	1. Coal-fired boiler exhaust gas was dedusted with Venturi water film two-step filters and a suitable amount of lye was added in the dedusting water to ensure the coal-fired boiler exhaust gas could reach the emission standard. 2. Cooking oil fumes were purified with lampblack purification facilities to remove oil, all kinds of hydrocarbons and other organic pollutants to ensure meet the emission standard.
Water pollution prevention and management	Waste water sources and treatment	1. Production waste water was treated by internal circulation anaerobic reactors to ensure the waste water could reach the discharging standard. 2. Sewage was led into the production waste water treatment station for treatment or was treated with the method of buried sewage treatment.
Solid waste pollution management	Solid waste classification	1. Special personnel were assigned to manage solid wastes, carry out classified collection, centralized stacking and timely transportation. 2. Coal yards and ash yards were provided with weather enclosure, cement floors and necessary walls to prevent generation of the secondary pollution.
	Solid waste identification and disposal	3. For container waste, biodegradable materials were used if they can be the substitute. 4. Waste oil in kitchen and automobile waste oil were held with special containers and properly handled. 5. Strengthen the training of employees on the environmental protection consciousness, reduce the production of solid waste and recycle as much as possible.
Noise pollution control	Analysis and determination of the noise source	1. Use facilities meeting the national standards and try to reduce noise. 2. Noise should be far away from the living area and measures should be taken to reduce noise 3. Make sure the normal operation of facilities; and equipment maintenance personnel should carry out regular maintenance according to the provisions to prevent the rise of mechanical noise. 4. Goods should be handled gently during loading and unloading. 5. Vehicles in and out of the factory were forbidden to use loudspeakers. 6. Measures were taken to isolate and eliminate the noise of equipment with high noise.

In 2016, in order to fulfill the corporate social responsibility, we reduced the wastewater discharge concentration on the basis of the standard discharge. The Fujian factory installed an IC tower (internal circulation anaerobic reactor) for the waste water generated in the process of potato processing, which effectively reduced the content of COD (chemical oxygen demand) in waste water and relieved the pressure of the downstream wastewater treatment plant.

5.2 Energy management

We have deeply realized the importance of enterprises' energy management to the control of greenhouse gas emissions. To effectively control the energy, the Company made the corresponding management plans respectively from two aspects - administrative management and technology upgrading, with the specific solution measures shown as follows.

Classification	Measures
Administrative management	1. The Company founded a supervision department to carry out irregular patrol inspection for each electric workshop of the factory, prevent machine idling during equipment failure and tighten supervision and management. 2. We carried out assessment on workshops or departments' power use, conducted digital management and analysis and horizontal and vertical comparison among the power consumption situations and adopted control measures. 3. Through various channels such as announcements and power saving marks, we conducted propaganda on the energy-saving idea of our Company. 4. Form a WeChat group for communication between the high pressure machine and bottle blowing machine and start and stop the operation of high pressure machine in a timely manner. 5. Apply for suspension of the variable pressure machine according to the Company's slack season and busy season to reach the energy-saving purpose. 6. Control indoor temperature according to the needs of different seasons to prevent too high or too low temperature.
Technology upgrading	1 Low pressure machines adopted frequency conversion control, of which the frequency can be adjusted according to the actual pressure of air used in each workshop to achieve the energy-saving effect. 2 Water pump rooms adopted variable frequency & constant pressure water supply systems, of which the water pump frequency can be adjusted in a timely manner according to the water pressure. 3 The belt system in each workshop adopted frequency conversion to adjust the speed, which can have different frequencies for different conveying. 4 A pipe were welded between the ice water tank and tower water tank in each workshop, which can lead the tower water to the ice water pipe in winter to save power. 5 The lighting system in each workshop was gradually replaced with LED lights to replace the traditional energy-saving lamps. 6 Electric heating ovens in workshops used analog quantity control modules to control the heating current. 7 Interval lighting was adopted in the factory. 8 The electric rice steaming system in the dining room was replaced with a steam heating system. 9 Dormitory corridors adopted acoustooptic controlled switches to control the corridor lighting to ensure that lights can be out after people leave. 10 Air conditioners in the office building and dormitory building were variable frequency air conditioners.

5.3 Use of resources

In the production of food and drink, the consumption of water resources was also very significant. Therefore, we attached great importance to the utilization of water resources of each branch and made water-saving management schemes from two aspects - administrative management and technology upgrading, with the specific measures shown as follows.

Classification	Measures
Administrative management	1. The Company founded a supervision department to carry out irregular patrol inspection for each water-using workshop of the factory, prevent water leakage and venting and tighten supervision and management. 2. Carry out evaluation for each water point with the single item as the unit, carry out summary and comparison of the water use indicators of each product in ten days, conduct analysis and summary of abnormal products every month and timely take corrective measures. 3. Conduct propaganda on the water-saving idea of the Company through spectaculars and cases. 4. Restrict each water consumption department by formulating relevant water-saving system to achieve the effect of water saving. 5. Recycle treated wastewater reaching the discharging standard into the pool for irrigation of flowers and plants in the factory.
Technology upgrading	1. PET workshop recycled the secondary bottleneck flushing water of filling machine as the supplement of cooling water in the cooling tunnel. 2. Collect the RO concentrated water in the pool, used in the toilets of the dormitory building. 3. In Grade I and Grade II pure water separation cases, standardize the point of use of Grade I or Grade II water to save electric energy and equipment accessories according to different characteristics and processes of products. 4. Bath water supplied in dormitory building is from independent circulating pipe to reduce cold water discharge time for water saving. 5. For heating system of dormitory building and office building in winter, water supplement to water tank is realized by recovery of condensate water after steam heating. 6. In the case of steam condensate recovery in the whole plant, steam condensate from each workshop is collected to hot water tank of boiler to improve boiler feed water temperature and reduce consumption of raw materials and water. 7. Automatic induction taps are installed in sterile washing area in each workshop to reach water saving effect.

There is a great demand for packaging materials in food industry. Under the "3R" principle for resource utilization and principle of safety use of materials, Dali reduces the use of packaging materials to save production costs significantly by means of recovery of packaging materials and substitution of materials, which also reduces food safety hazards caused due to the use of packaging materials.

Package upgrading of Hi-tiger functional beverage

Hi-tiger functional beverage is a tar product of Dali, and aluminum can replaces iron can as its package, which solves the problem that the inner coating is easy to fall off and reduces consumption of packaging materials. Besides, the cost decreases to RMB 0.55 from RMB 0.78, reaching remarkable effect in the aspects of use of resources and cost.

Package upgrading of Heqizheng herbal tea

For package of Heqizheng herbal tea, aluminum can replaces the original iron can, which reduces consumption of packaging materials. Moreover, aluminum can be recycled to reduce the pressure to environment. In addition, aluminum can is lighter than iron can to a certain extent, which reduces the cost of transportation.

6. Gathering strength, contributing to the society

You'll find your way by insisting on the original will. Over 20 years since founded, Dali has developed itself constantly and repaid the society by sticking to the idea of "reaching harmony and benefiting the world". Dali always remembers to perform its social responsibilities and has made its contributions in promoting economic development, promoting employment, supporting charity and donating for social benefits.

6.1 Contribution to the society

The Company includes charitable donations in annual budget, with institutional guarantee. Besides, an independent institution is set up for scientific management of various charitable funds. Little drops gather into the river of love. We have been granted the "China Charity Award" by Ministry of Civil Affairs twice. Great virtue and philanthropic acts reflect the honest and sincere image of Dali.

Huian educational fund

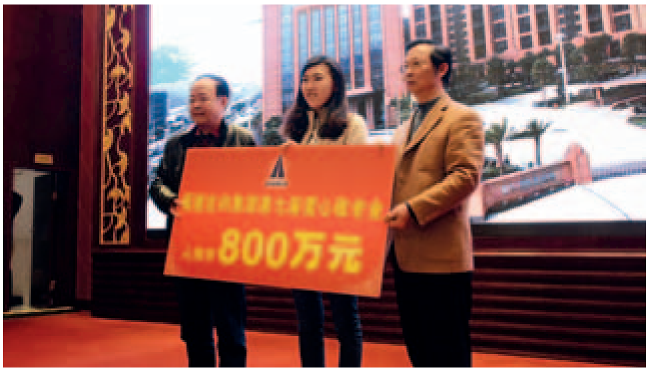
The great project, educates for this. Dali vigorously carries forward the fine tradition of respecting teachers and valuing education of the cultural city, attaches great importance to education, and continuously strengthens the investment in education. Following president Xu Shihui 's public benefit idea of "priority to the development of education and promotion of Chinese traditional virtue", Dali has made investment of RMB 200 million to establish the most remarkable charity foundation, i.e. Huian Educational Foundation by Xu Shihui of Dali, in the history of Huian County. We has promoted the continuous development of education in hometown by taking actions.

In 2016, the 6th "Dehui Educational Foundation by Xu Shihui of Dali" Award Ceremony was held as scheduled. Over 6 years, "Huian Educational Foundation by Xu Shihui of Dali" benefits over 10,000 teachers and students through distributing various grants. Through this act, Dali has set an example in charity culture and education support of Huian County.

Award Ceremony of the 6th "Dehui Educational Foundation by Xu Shihui of Dali" in 2016

Delivering warmth to 70 million old people

"Filial piety is the foundation of all virtues". Respect to the aged and filial piety is a traditional virtue of Chinese nation, so Dali always pays attention to and promotes the development of the undertaking of respecting the aged in hometown. It has donated money to build an entertainment center for the aged with complete facilities in Huian County, which enriches the life of the elderly and make them enjoy their life. Dali has also donated money to old people in its hometown every year. Over the past six years, more than 40,000 old people have received the old-age subsidy.



Distribution of the 7th Old-age Subsidy in 2016

Disaster relief and rescue

In the summer of 2016, due to continually heavy rain and other extreme natural disasters in the middle and lower reaches of the Yangtze River, Ma'anshan, Yancheng and some other places suffered severe damage. local branch of Dali assigned personnel to rush to the disaster scene and send Daliyuan cake breads, purified water and other relief supplies to people in the disaster area in first time. At the same time, due to a lack of blood in blood bank and source of every hospital, local branch of Dali called on all staff to actively donate blood for life saving.

Disaster Relief and Blood Donation in 2016

6.2 Contribution to public benefits

Relying on the constantly improved brand image and brand influence, Dali devotes itself to public benefit activities to give back to society.

"Where is daddy" public community service

At the end of 2016, as the title sponsor of follow-up series activities of the fourth season of "Daddy, where are we going", Dali launched "Where is daddy - Daliyuan Reunion" public community service in Fujian, covering Zhejiang, Guangdong, Sichuan, Jiangxi, Yunnan and other various provinces and regions of the nation, and helped 1,027 left-behind children family to realize their reunion dreams, so as to arouse loving care of rural left-behind children.

Photos of "Where is daddy" Public Benefit Activity in 2016

"Hi-tiger energy for college entrance exam" activity

With its own efforts, Dali cares about the growth of students sincerely. In 2016, Dali launched a series of public community service of "Hi-tiger cheering for students in college entrance exam", including help services to students in the exam such as supply of college entrance exam shuttle bus and Hi-tiger functional beverages, which helps candidates to participate in the exam with more positive emotion and better mental state.

"Hi-tiger energy for college entrance exam" Activity in 2016

7. Appendix ESG content index

7.1 Content index of Guidance for Environment, Social and Governance Report by the Stock Exchange

Major category, level, general disclosure and KPI		Disclosure Requirements	2016 Annual Environmental, Social and Governance Report
A. Environment			
Level A1	**Emissions**		
General disclosure	Related to the emission of exhaust gas and greenhouse gases, sewage discharge to water and land, generation of hazardous and non-hazardous wastes, etc.: (a) Policies; and (b) Compliance with relevant laws, regulations and other data having great impact on the issuer.	comply or explain	5.1 Environmental management
KPI A1.1	Categories of emissions and related emission data	recommended	—
KPI A1.2	Total greenhouse gas emissions (in terms of tons) and (if applicable) density (in terms of unit of production, facility, etc.)	recommended	—
KPI A1.3	Total hazardous wastes generated (in terms of tons) and (if applicable) density (in terms of unit of production, facility, etc.)	recommended	—
KPI A1.4	Total non-hazardous wastes generated (in terms of tons) and (if applicable) density (in terms of unit of production, facility, etc.)	recommended	—
KPI A1.5	Description of the measures to reduce emissions and the results.	recommended	5.1 Environmental management
KPI A1.6	Description of the methods to dispose hazardous and non-hazardous wastes, measures to reduce amount of wastes and the results	recommended	5.1 Environmental management

Major category, level, general disclosure and KPI		Disclosure Requirements	2016 Annual Environmental, Social and Governance Report
Level A2	**Use of resources**		
General disclosure	Policies on effective use of resources (including energy, water and other raw materials) Resources can be used for production, storage, transportation, building, electronic equipment, etc.	comply or explain	5.2 Energy management
KPI A2.1	Total consumption of direct and/or indirect energy (such as electricity, gas or oil) divided by types (in terms of 1000kWh) and density (in terms of unit of production, facility, etc.)	recommended	—
KPI A2.2	Total water consumption and density (in terms of unit of production, facility, etc.)	recommended	—
KPI A2.3	Description of energy use efficiency plan and the results	recommended	5.2 Energy management
KPI A2.4	Description of possible problems in obtaining appropriate water sources, plan of improving water use efficiency and the results	recommended	5.3 Resource management
KPI A2.5	The amount of packaging materials used for the finished goods (in terms of tons) and (if applicable) occupied amount per unit of production.	recommended	5.3 Resource management
Level A3	**Environment and natural resources**		
General disclosure	Policies reducing the significant impacts of issuer on the environment and natural resources	comply or explain	5.1 Environmental management 5.3 Use of resources
KPI A3.1	Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage relevant impacts	recommended	5.1 Environmental management 5.3 Use of resources
B. Society			
Conventions for Employment and Labor			
Level B1	**Recruitment**		
General disclosure	Related to the remuneration & dismissal, recruitment & promotion, working hours, holidays, equal opportunity, diversity, anti-discrimination and other benefits: (a) Policies; and (b) Compliance with relevant laws, regulations and other data having great impact on the issuer.	comply or explain	4.1 Creating happy career life
KPI B1.1	Total number of employees divided by gender, employment type, age group and region	recommended	4.1 Creating happy career life
KPI B1.2	Turnover ratio of employees divided by gender, age group and region	recommended	4.1 Creating happy career life
Level B2	**Health and Safety**		
General disclosure	Related to provision of a safe working environment and assurance of employees from occupational hazard: (a) Policies; and (b) Compliance with relevant laws, regulations and other data having great impact on the issuer.	comply or explain	4.2 Health and safety at work
KPI B2.1	Death toll and death rate due to work-related reasons	recommended	4.2 Health and safety at work
KPI B2.2	Loss of working days due to work-related injury	recommended	—
KPI B2.3	Description of occupational health and safety measures adopted and relevant implementation and supervision methods	recommended	4.2 Health and safety at work
Level B3	**Development and training**		
General disclosure	Related to the policies improving the knowledge and skills of employees in performing the responsibilities; description of training activities Training refers to the vocational training which can include internal and external courses paid by the employer.	comply or explain	4.1 Creating happy career life
KPI B3.1	Percentage of trained employees divided by gender and employee type (such as senior management, middle management, etc.)	recommended	—
KPI B3.2	Average hours for completed training of every employee divided by gender and employee type	recommended	—

Major category, level, general disclosure and KPI		Disclosure Requirements	2016 Annual Environmental, Social and Governance Report
Level B4	**Labor Standards**		
General disclosure	Related to the prevention of use of child labor or forced labor: (a) Policies; and (b) Compliance with relevant laws, regulations and other data having great impact on the issuer.	comply or explain	4.1 Creating happy career life
KPI B4.1	Description of measures to review employment practices to avoid using child labor and forced labor	recommended	4.1 Creating happy career life
KPI B4.2	Description of steps taken to eliminate relevant violations	recommended	4.1 Creating happy career life
Operating practices			
Level B5	**Supply Chain Management**		
General disclosure	Policies on management of supply chain environment and social risks	comply or explain	3.1 Safe food
KPI B5.1	The number of suppliers divided by region	recommended	3.1 Safe food
KPI B5.2	Description of relevant employment practices of suppliers, the number of suppliers with relevant practices performed and execution and supervision methods of relevant practices	recommended	3.1 Safe food
Level B6	**Product Liability**		
General disclosure	Related to the health and safety, advertising, labels, privacy issues and remedy methods of supplied products and services: (a) Policies; and (b) Compliance with relevant laws, regulations and other data having great impact on the issuer.	comply or explain	3.1 Safe food
KPI B6.1	Percentage of recovery of the sold and delivered products due to safety and health reasons	recommended	3.1 Safe food
KPI B6.2	The number of complaints about products and services and solutions	recommended	3.4 Listening to customer's opinions
KPI B6.3	Description of practices related to protection of intellectual property rights	recommended	—
KPI B6.4	Description of quality inspection process and product recovery procedure	recommended	—
KPI B6.5	Description of policies about consumer data security and privacy and relevant implementation and supervision methods	recommended	Not applicable, no relevant issues involved in operating process
Level B7	**Anti-corruption**		
General disclosure	Related to the prevention of bribery, extortion, fraud and money laundering: (a) Policies; and (b) Compliance with relevant laws, regulations and other data having great impact on the issuer.	comply or explain	2.4 Establishment of credit system
KPI B7.1	The number of the concluded corruption lawsuits filed against the issuer or its employees and the results during the reporting period	recommended	—
KPI B3.2	Description of preventive measures and reporting procedures and relevant implementation and supervision methods	recommended	2.4 Establishment of credit system
Community			
Level B8	**Community Investment**		
General disclosure	Policies related to community participation to understand the demand of local community and to ensure that the interests of the community are considered in its business activities	comply or explain	6. Gathering strength, contributing to the society
KPI B8.1	Focus on contribution category (such as education, environmental issues, labor demand, health, culture and sports)	recommended	6. Gathering strength, contributing to the society
KPI B8.2	Use of resources within the category (such as money or time)	recommended	6. Gathering strength, contributing to the society

Independent Auditor's Report

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To the shareholders of Dali Foods Group Company Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

Opinion

We have audited the consolidated financial statements of Dali Foods Group Company Limited and its subsidiaries (the "Group") set out on pages 87 to 95, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
Valuation of inventories was important to our audit as the following situation mentioned requires management to make estimates and exercise judgement, and the balance of inventory was RMB1,109,276,000 as at December 31, 2016, which accounted for approximately 9.4% of the current assets of the Group. Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. When the Group launches new products, key parameters in the valuation of such inventories require the Group's estimation and judgement. Please refer to note 17 to the financial statements for related disclosures.	Our procedures performed include a mix of control testing and substantive testing performed for all the subsidiaries, which are based on the nature and amounts of recorded inventories. The valuation of inventories is tested by performing detailed testing on the accuracy of the cost calculations. We also performed detailed substantive testing on a sample of items to assess the cost of individual inventories and net realizable value of inventory.
Impairment of trade receivables	
The appropriateness of provisions for trade receivables is a key area of judgement for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving significant management judgement including their assessment of the creditworthiness and the past collection history of each customer. As at December 31, 2016, the balance of trade receivables was RMB284,067,000, which accounted for approximately 2.4% of the current assets of the Group. Please refer to note 18 to the financial statements for related disclosures.	We discussed with management on the estimation involved in determining the appropriateness of provisions for bad debts and assessed the management's processes and controls relating to the monitoring of trade receivables and considered aging to identify collection risks. We obtained and re-tested the ageing analysis prepared by the management. In order to evaluate the appropriateness of these judgements we verified whether balances were overdue, the customer's historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures. We also obtained corroborative evidence including correspondence supporting any disputes between the parties involved, attempts by management to recover the amounts outstanding and on the credit status of significant counterparties where available. We tested overdue trade receivable balances where no provision was recognized to check that there were no indicators of impairment. This included verifying if payments had been received since the year-end, reviewing historical payment patterns and any correspondence with customers on expected settlement dates.

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Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEUNG WAI LAP, PHILIP.

Ernst & Young
Certified Public Accountants
Hong Kong
March 23, 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5(a)	**17,841,887**	16,864,840
Cost of sales	6(a)	**(11,001,487)**	(11,048,584)
Gross profit		**6,840,400**	5,816,256
Other income and gains	5(b)	**360,210**	276,762
Selling and distribution expenses		**(2,787,563)**	(2,046,043)
Administrative expenses		**(431,403)**	(338,808)
Finance costs	7	**(4,705)**	(26,736)
PROFIT BEFORE TAX	6	**3,976,939**	3,681,431
Income tax expense	10	**(840,146)**	(769,106)
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

Year ended December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR		**3,136,793**	2,912,325
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	5	**(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	12		
Basic and diluted			
– For profit for the year		**RMB0.23**	RMB0.24

Consolidated Statement of Financial Position

December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,896,296**	4,134,010
Prepaid land lease payments	14	**591,059**	592,742
Intangible assets	15	**2,854**	1,591
Prepayments	16	**218,405**	72,971
Deferred tax assets	24	**26,265**	25,711
Total non-current assets		**4,734,879**	4,827,025
CURRENT ASSETS			
Inventories	17	**1,109,276**	929,523
Trade receivables	18	**284,067**	144,953
Prepayments, deposits and other receivables	19	**176,340**	94,772
Available-for-sale investments	20	**250,268**	844,113
Pledged deposits	21	**64,924**	21,481
Cash and bank balances	21	**9,860,631**	8,935,420
Total current assets		**11,745,506**	10,970,262
CURRENT LIABILITIES			
Trade and bills payables	22	**1,027,032**	964,170
Other payables and accruals	23	**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

Consolidated Statement of Financial Position
December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,184,448**	12,199,096
NON-CURRENT LIABILITIES			
Deferred revenue	25	**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	26	**112,712**	112,712
Reserves	27	**13,753,165**	11,789,409
Total equity		**13,865,877**	11,902,121

Xu Shihui
Director

Zhuang Weiqiang
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2016

	Share capital RMB'000 (note 26)	Share premium RMB'000* (note 27)	Merger reserve RMB'000* (note 27)	Available-for-sale investment revaluation reserve RMB'000*	Statutory reserve RMB'000* (note 27)	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 year	—	—	—	—	—	—	2,912,325	2,912,325
Other comprehensive income for the year:								
Changes in fair value of available-for-sale investments, net of tax	—	—	—	7,062	—	—	—	7,062
Exchange differences related to foreign operations	—	—	—	—	—	144,344	—	144,344
Total comprehensive income for the year	—	—	—	7,062	—	144,344	2,912,325	3,063,731
Issue of shares	60	1,109,921	—	—	—	—	—	1,109,981
Repurchase of shares	(61)	61	—	—	—	—	—	—
Issuance of shares for the initial public offering ("IPO")	112,712	7,207,709	—	—	—	—	—	7,320,421
Share issue expenses	—	(142,213)	—	—	—	—	—	(142,213)
Transfer from retained profits	—	—	—	—	392,689	—	(392,689)	—
At December 31, 2015	112,712	8,175,478	(23,165)	7,062	893,253	144,344	2,592,437	11,902,121

Consolidated Statement of Changes in Equity

Year ended December 31, 2016

	Share capital RMB'000 (note 26)	Share premium RMB'000* (note 27)	Merger reserve RMB'000* (note 27)	Available-for-sale investment revaluation reserve RMB'000*	Statutory reserve RMB'000* (note 27)	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 year	—	—	—	—	—	—	3,136,793	3,136,793
Other comprehensive income for the year:								
Changes in fair value of available-for-sale investments, net of tax	—	—	—	(6,861)	—	—	—	(6,861)
Exchange differences related to foreign operations	—	—	—	—	—	293,397	—	293,397
Total comprehensive income for the year	—	—	—	(6,861)	—	293,397	3,136,793	3,423,329
Final 2015 dividend declared	—	(1,459,573)	—	—	—	—	—	(1,459,573)
Transfer from retained profits	—	—	—	—	434,959	—	(434,959)	—
At December 31, 2016	112,712	6,715,905	(23,165)	201	1,328,212	437,741	5,294,271	13,865,877

* These reserve accounts comprise the consolidated reserves of RMB13,753,165,000 (2015: RMB11,789,409,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,976,939**	3,681,431
Adjustments for:			
Finance costs	7	**4,705**	26,736
Interest income – bank deposits		**(14,312)**	—
Fair value gains, net:			
Available-for-sale investments (transfer from equity)	5(b),6(c)	**(59,672)**	(44)
Loss on disposal of items of property, plant and equipment, net	6(c)	**15**	1,787
Depreciation	6(c)	**531,485**	512,027
Amortization of prepaid land lease payments	6(c)	**13,191**	11,930
Amortization of intangible assets	6(c)	**614**	1,055
Impairment of property, plant and equipment	6(c)	**657**	—
Impairment loss on trade receivables	18	**2,184**	—
Impairment of inventories	6(c)	**438**	292
Government grants recognized in profit or loss	25	**(20,960)**	(21,491)
		4,435,284	4,213,723
Decrease/(Increase) in pledged bank deposits		**8,201**	(15,276)
(Increase)/decrease in trade receivables		**(141,298)**	46,803
Increase in prepayments, deposits and other receivables		**(81,569)**	(12,141)
(Increase)/decrease in inventories		**(180,191)**	160,628
Increase in trade and bills payables		**62,862**	193,555
Increase in other payables and accruals		**119,082**	203,792
Cash generated from operations		**4,222,371**	4,791,084
Tax paid		**(810,781)**	(733,819)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**3,411,590**	4,057,265

Consolidated Statement of Cash Flows
Year ended December 31, 2016

	2016 RMB'000	2015 RMB'000
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(451,636)**	(396,309)
Proceeds from disposal of items of property, plant and equipment	**1,020**	1,257
Additions to prepaid land lease payments	**(10,598)**	(69,880)
Purchases of intangible assets	**(1,877)**	(1,118)
Receipts of asset-related government grants	**42,556**	51,951
Proceeds from available-for-sale investments	**2,703,369**	22,044
Purchases of available-for-sale investments	**(2,059,000)**	(856,697)
Interest received from bank deposits	**14,312**	—
Increase in pledged bank deposits	**(51,644)**	—
Net increase in bank deposits	**(1,874,248)**	—
Repayment of an advance to a related party	**—**	23,000
Advances to a related party	**—**	(23,000)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(1,687,746)**	(1,248,752)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**—**	1,109,981
Proceeds from issue of shares for the IPO	**—**	7,320,421
Payment of listing expenses	**—**	(140,038)
Advances from the Controlling Shareholders	**—**	80,731
Repayment of advances from the Controlling Shareholders	**—**	(285,142)
Repayment of amounts due to a related party in connection with the Reorganization	**—**	(3,081,750)
Dividends paid	**(1,459,573)**	(1,125,756)
Proceeds from other borrowings	**—**	1,505,000
Repayment of other borrowing	**(1,500,000)**	(5,000)
Interest paid	**(6,706)**	(24,735)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES	**(2,966,279)**	5,353,712

	Note	2016 RMB'000	2015 RMB'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,242,435)**	8,162,225
Cash and cash equivalents at beginning of year		**8,935,420**	628,851
Effect of foreign exchange rate changes		**293,398**	144,344
CASH AND CASH EQUIVALENTS AT END OF YEAR		**7,986,383**	8,935,420
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at bank and in hand	21	**7,783,383**	1,514,261
Bank deposits with original maturity of less than three months		**203,000**	7,421,159
Bank deposits with original maturity of over three months		**1,874,248**	—
Cash and bank balances as stated in the statement of financial position		**9,860,631**	8,935,420
Less: Bank deposits with original maturity of over three months		**(1,874,248)**	—
Cash and cash equivalents as stated in the statement of cash flows		**7,986,383**	8,935,420

1. CORPORATE AND GROUP 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 (the "Stock Exchange") 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 "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").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Place of incorporation, type of legal entity, and date of incorporation	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Dali Foods Holdings Limited	BVI Limited liability company 4 November 2014	BVI	USD100	100%	—	Investment holding
Dali Foods Group (Hong Kong) Company Limited	Hong Kong S.A.R. Limited liability company 11 November 2014	Hong Kong	HKD100	—	100%	Investment holding
Dali Foods Group Co., Ltd. (達利食品集團有限公司)	The PRC Wholly-owned foreign enterprise 10 February 1993	Mainland China	RMB950,000,000	—	100%	II
Quanzhou Dali Foods Co., Ltd. (泉州達利食品有限公司)	The PRC Limited liability company 12 January 1993	Mainland China	RMB90,939,305	—	100%	III
Hubei Dali Foods Co., Ltd. (湖北達利食品有限公司)	The PRC Limited liability company 16 June 2005	Mainland China	RMB209,000,000	—	100%	I
Jilin Dali Foods Co., Ltd. (吉林達利食品有限公司)	The PRC Limited liability company 17 June 2005	Mainland China	RMB100,000,000	—	100%	I

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation, type of legal entity, and date of incorporation	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Gansu Dali Foods Co., Ltd. (甘肅達利食品有限公司)	The PRC Limited liability company 31 August 2005	Mainland China	RMB209,000,000	—	100%	I
Jinan Dali Foods Co., Ltd. (濟南達利食品有限公司)	The PRC Limited liability company 18 June 2005	Mainland China	RMB190,000,000	—	100%	I
Chengdu Dali Foods Co., Ltd. (成都達利食品有限公司)	The PRC Limited liability company 28 June 2005	Mainland China	RMB105,000,000	—	100%	I
Ma'anshan Dali Foods Co., Ltd. (馬鞍山達利食品有限公司)	The PRC Limited liability company 9 October 2007	Mainland China	RMB160,000,000	—	100%	I
Shanxi Dali Foods Co., Ltd. (山西達利食品有限公司)	The PRC Limited liability company 15 November 2007	Mainland China	RMB105,000,000	—	100%	I
Yunnan Dali Foods Co., Ltd. (雲南達利食品有限公司)	The PRC Limited liability company 25 March 2008	Mainland China	RMB110,000,000	—	100%	I
Xiamen Dali Trading Co., Ltd. (廈門達利商貿有限公司)	The PRC Limited liability company 2 April 2010	Mainland China	RMB40,000,000	—	100%	Trading
Henan Dali Foods Co., Ltd. (河南達利食品有限公司)	The PRC Limited liability company 21 July 2010	Mainland China	RMB150,000,000	—	100%	I

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation, type of legal entity, and date of incorporation	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangdong Dali Foods Co., Ltd. (廣東達利食品有限公司)	The PRC Limited liability company 5 August 2010	Mainland China	RMB200,000,000	—	100%	I
Nanchang Dali Foods Co., Ltd. (南昌達利食品有限公司)	The PRC Limited liability company 2 August 2010	Mainland China	RMB140,000,000	—	100%	III
Jiangsu Dali Foods Co., Ltd. (江蘇達利食品有限公司)	The PRC Limited liability company 23 August 2010	Mainland China	RMB200,000,000	—	100%	I
Hebei Dali Foods Co., Ltd. (河北達利食品有限公司)	The PRC Limited liability company 22 April 2011	Mainland China	RMB100,000,000	—	100%	I
Shaanxi Dali Foods Co., Ltd. (陝西達利食品有限公司)	The PRC Limited liability company 28 June 2011	Mainland China	RMB80,000,000	—	100%	I
Shenyang Dali Foods Co., Ltd. (瀋陽達利食品有限公司)	The PRC Limited liability company 21 May 2012	Mainland China	RMB10,000,000	—	100%	I
Fujian Dali Development Co., Ltd. (福建達利發展有限公司)	The PRC Limited liability company 26 August 2016	Mainland China	RMB50,000,000	—	100%	Trading

Notes:

I: Manufacture and sale of food and beverage

II: Manufacture and sale of food, beverage and related packaging

III: Manufacture and sale of beverage

* English translations of names for identification purposes only

2.1 BASIS OF PREPARATION

Through a group reorganization (the "Reorganization") as more fully explained in the section headed "History, Development and Reorganization" in the prospectus dated 10 November 2015, upon completion of the Reorganization, the Company became the holding company of the companies now comprising the Group and a subsidiary of the Company undertook the business previously operated under Fujian Dali Foods Group Co., Ltd. (the "Transferred Business"), which held entire equity interests in the operating subsidiaries before the Reorganization.

Fujian Dali Foods Group Co., Ltd., the Transferred Business and companies now comprising the Group were under the common control of the Controlling Shareholders before and after the Reorganization. Accordingly, the financial statements have been prepared on a consolidated basis by applying the principles of merger accounting.

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;

b) rights arising from other contractual arrangements; and

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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*
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 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

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 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 1 January 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 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 1 January 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 1 January 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 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75%
Motor vehicles	19.00%-23.75%
Plant and machinery	9.50%-19.00%
Other equipment	9.50%-31.67%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building or plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and amortized on the straight-line basis over its estimated useful life of five years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Pipeline rights

Purchased pipeline rights represent the payments made for the use right of natural gas and water pipelines, which are stated at cost less any impairment losses and amortized on the straight-line basis over estimated useful lives of five years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in profit or loss. The loss arising from impairment is recognized in profit or loss in finance costs for loans and in administrative expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in profit or loss as other income.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss– is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change at fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of the Company and certain overseas established subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas established subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of trade receivables

The provision policy for impairment of receivables of the Group is based on ongoing assessment of the recoverability and the aged analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realization of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Provision for slow-moving inventories and net realizable value of inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. Write-down of inventories to net realizable value is made based on the estimated net realizable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed.

Deferred tax assets

Deferred tax assets relating to certain temporary differences are recognized as management considers that it is probable that future taxable profit will be available against which the temporary tax differences or tax losses can be utilized. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amount of deferred tax assets carried in the consolidated statement of financial position as at December 31, 2016 was RMB26,265,000 (2015: RMB25,711,000), details of which are set out in note 24 to the financial statements.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

4. 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 RMB'000**	**Beverage RMB'000**	**Others RMB'000**	**Total 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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended December 31, 2015	Food RMB'000	Beverage RMB'000	Total 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*.

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

(b) Other income and gains:

	2016 RMB'000	2015 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.

6. 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 (note 8)):**		
	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 (note 13)	**531,485**	512,027
	Amortization of land lease payments (note 14)	**13,191**	11,930
	Amortization of intangible assets (note 15)	**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 (note 13)	**657**	—
	Impairment of trade receivables (note 18)	**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.

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**552**	55
Other emoluments:		
Salaries, allowances and benefits in kind	**6,545**	5,066
Pension scheme contributions	**78**	78
	6,623	5,144

(a) Independent non-executive directors

The payables of the fees to independent non-executive directors as at the end of the reporting period were as follows:

	2016 RMB'000	2015 RMB'000
Mr. Cheng Hanchuan	**131**	14
Mr. Liu Xiaobin	**131**	14
Dr. Lin Zhijun	**290**	27
	552	55

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions and social welfare RMB'000	Total RMB'000
2016				
Executive directors:				
Mr. Xu Shihui (Chief executive)	**—**	**2,395**	**26**	**2,421**
Ms. Xu Yangyang	**—**	**1,642**	**26**	**1,668**
Mr. Zhuang Weiqiang	**—**	**2,508**	**26**	**2,534**
	—	**6,545**	**78**	**6,623**
Non-executive directors:				
Ms. Xu Biying	**—**	**—**	**—**	**—**
Ms. Hu Xiaoling	**—**	**—**	**—**	**—**
	—	**—**	**—**	**—**
2015				
Executive directors:				
Mr. Xu Shihui (Chief executive)	—	2,322	26	2,348
Ms. Xu Yangyang	—	1,122	26	1,148
Mr. Zhuang Weiqiang	—	1,622	26	1,648
	—	5,066	78	5,144
Non-executive directors:				
Ms. Xu Biying	—	—	—	—
Ms. Hu Xiaoling	—	—	—	—
	—	—	—	—

There was no arrangement under which a director waived or agreed to waive any remuneration during the reporting period.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2015: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2015: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,529**	2,044
Pension scheme contributions	**52**	52
	2,581	2,096

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
HKD1,000,001 to HKD1,500,000	**1**	2
HKD1,500,001 to HKD2,000,000	**1**	—
	2	2

10. 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.

10. INCOME TAX (continued)

The major components of income tax expense are as follows:

	2016 RMB'000	2015 RMB'000
Current tax:		
Income tax in Mainland China for the year	**838,413**	749,567
Deferred tax (note 24)	**1,733**	19,539
Total tax charge for the year	**840,146**	769,106

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 RMB'000	2015 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.

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final – HK$0.180 (2015: HK$0.126) 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.

12. 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.

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

	2016 RMB'000	2015 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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2016						
At January 1, 2016:						
Cost	1,481,266	65,440	4,345,130	373,537	109,801	6,375,174
Accumulated depreciation and impairment	(311,634)	(46,238)	(1,734,463)	(148,829)	—	(2,241,164)
Net carrying amount	1,169,632	19,202	2,610,667	224,708	109,801	4,134,010
At January 1, 2016, net of accumulated depreciation and impairment	1,169,632	19,202	2,610,667	224,708	109,801	4,134,010
Additions	3,616	4,010	141,343	33,748	112,746	295,463
Depreciation provided during the year (note 6)	(69,572)	(7,688)	(407,824)	(46,401)	—	(531,485)
Transfers	11,522	187	46,918	4,614	(63,241)	—
Disposals	(788)	(55)	(192)	—	—	(1,035)
Impairment during the year (note 6)	—	(99)	(529)	(29)	—	(657)
At December 31, 2016, net of accumulated depreciation and impairment	1,114,410	15,557	2,390,383	216,640	159,306	3,896,296
At December 31, 2016:						
Cost	1,495,616	69,582	4,533,199	411,899	159,306	6,669,602
Accumulated depreciation and impairment	(381,206)	(54,025)	(2,142,816)	(195,259)	—	(2,773,306)
Net carrying amount	1,114,410	15,557	2,390,383	216,640	159,306	3,896,296

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2015						
At January 1, 2015:						
Cost	1,363,521	66,717	4,047,530	318,751	220,811	6,017,330
Accumulated depreciation and impairment	(245,646)	(42,629)	(1,361,986)	(106,613)	—	(1,756,874)
Net carrying amount	1,117,875	24,088	2,685,544	212,138	220,811	4,260,456
At January 1, 2015, net of accumulated depreciation and impairment	1,117,875	24,088	2,685,544	212,138	220,811	4,260,456
Additions	9,791	3,835	187,829	45,216	141,954	388,625
Depreciation provided during the year (note 6)	(63,559)	(8,570)	(391,005)	(48,893)	—	(512,027)
Transfers	105,525	—	131,178	16,261	(252,964)	—
Disposals	—	(151)	(2,879)	(14)	—	(3,044)
At December 31, 2015, net of accumulated depreciation and impairment	1,169,632	19,202	2,610,667	224,708	109,801	4,134,010
At December 31, 2015:						
Cost	1,481,266	65,440	4,345,130	373,537	109,801	6,375,174
Accumulated depreciation and impairment	(311,634)	(46,238)	(1,734,463)	(148,829)	—	(2,241,164)
Net carrying amount	1,169,632	19,202	2,610,667	224,708	109,801	4,134,010

As at December 31, 2016, the Group had yet to obtain property ownership certificates for certain buildings with an aggregate net book value of RMB219,289,000 (2015: RMB211,337,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these buildings at the end of the reporting period.

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at January 1	**592,742**	516,239
Additions during the year	**11,508**	88,433
Amortization provided during the year (note 6)	**(13,191)**	(11,930)
Carrying amount at December 31	**591,059**	592,742

The carrying amount of the Group's prepaid lease payments represents the carrying amount of land use rights in Mainland China. The Group was in process of applying for the land certificates with a carrying amount of RMB39,894,000 as at December 31, 2016 (2015: RMB40,764,000).

15. INTANGIBLE ASSETS

	Software RMB'000	Pipeline rights RMB'000	Total RMB'000
December 31, 2016			
Cost at January 1, 2016, net of accumulated amortization	**1,382**	**209**	**1,591**
Additions during the year	**1,736**	**141**	**1,877**
Amortization provided during the year (note 6)	**(394)**	**(220)**	**(614)**
At December 31, 2016	**2,724**	**130**	**2,854**
At December 31, 2016:			
Cost	**5,052**	**3,054**	**8,106**
Accumulated amortization	**(2,328)**	**(2,924)**	**(5,252)**
Net carrying amount	**2,724**	**130**	**2,854**
December 31, 2015			
Cost at January 1, 2015, net of accumulated amortization	922	606	1,528
Additions during the year	1,118	—	1,118
Amortization provided during the year (note 6)	(658)	(397)	(1,055)
At December 31, 2015	1,382	209	1,591
At December 31, 2015:			
Cost	3,316	2,913	6,229
Accumulated amortization	(1,934)	(2,704)	(4,638)
Net carrying amount	1,382	209	1,591

16. PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Prepayments for the purchase of property, plant and equipment	**218,405**	72,971

Prepayments are unsecured and non-interest-bearing. None of the above assets is either past due or impaired.

17. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials and packaging materials	**679,306**	593,553
Finished goods	**429,970**	335,970
	1,109,276	929,523

18. TRADE RECEIVABLES

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

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 RMB'000	2015 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

18. TRADE RECEIVABLES (continued)

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

	2016 RMB'000	2015 RMB'000
At beginning of year	**715**	715
Impairment losses recognized (note 6)	**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 RMB'000	2015 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.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments to suppliers	**116,464**	50,817
Prepayments for advertising services	**3,075**	7,460
Deposits	**13,875**	7,810
VAT recoverable (i)	**1,071**	400
Interest receivables	**31,078**	18,202
Other receivables	**10,777**	10,083
	176,340	94,772

(i) The Group's sales of goods are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output VAT and deductible input VAT. The applicable tax rate for domestic sales of the Group is 17%.

Prepayments, deposits and other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment. None of the above assets is either past due or impaired.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Available-for-sale investments	**250,268**	844,113

The available-for-sale investments were wealth management products issued by banks in the PRC with expected interest rates 4.0% per annum and maturity periods of 12 months.

During the year, the gross gain in respect of the Group's available-for-sale investments recognized in other comprehensive income amounted to RMB75,709,000 (2015: RMB9,460,000), of which RMB59,672,000 (2015: RMB44,000) was reclassified from other comprehensive income to profit or loss.

21. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash at banks and in hand	**7,783,383**	1,514,261
Bank deposits	**2,142,172**	7,442,640
	9,925,555	8,956,901
Less: Pledged short-term deposits	**(64,924)**	(21,481)
Cash and bank balances	**9,860,631**	8,935,420

Pledged short-term deposits were pledged as security for issuance of bills payable and letters of credit of the Group (note 22).

The Group's cash and bank balances at December 31, 2016 were denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	**5,265,040**	3,457,937
HKD	**4,328,062**	5,445,699
USD	**267,311**	29,465
EUR	**218**	2,319
	9,860,631	8,935,420

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Bank deposits are made for varying periods of between one day and twelve months depending on the cash requirements of the Group, and earn interest at the respective bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and bank balances and pledged deposits approximate to their fair values.

22. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 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 RMB'000	2015 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 December 31, 2016 (2015: RMB21,481,000) (note 21).

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.

23. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Advances from customers	**498,495**	434,601
Payables for purchase of property, plant and equipment	**134,408**	145,147
Payables for purchase of prepaid land lease payments	**33,865**	34,775
Payroll and welfare payables	**206,160**	129,906
Other tax payable	**104,872**	93,567
Interest payables	**—**	2,001
Other payables	**72,976**	82,919
Accruals	**41,000**	61,608
	1,091,776	984,524

Other payables are unsecured, non-interest-bearing and repayable on demand.

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	2016 Fair value adjustments arising from available-for-sale investments RMB'000
At January 1, 2016	**(2,354)**
Deferred tax credited directly to equity during the year	**2,287**
Gross deferred tax liabilities at December 31, 2016	**(67)**

Deferred tax liabilities

	2015 Fair value adjustments arising from available-for-sale investments RMB'000
At January 1, 2015	—
Deferred tax credited directly to equity during the year	(2,354)
Gross deferred tax liabilities at December 31, 2015	(2,354)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. Net deferred tax assets recognized in the consolidated statement of financial position as at December 31, 2016 were RMB26,265,000 (2015: RMB25,711,000).

24. DEFERRED TAX (continued)

Deferred tax assets

	2016				
	Unrealized internal sales profit RMB'000	**Losses available for offsetting against future taxable profits RMB'000**	**Accruals RMB'000**	**Others RMB'000**	**Total RMB'000**
At January 1, 2016	**7,038**	**4,045**	**14,749**	**2,233**	**28,065**
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**662**	**1,009**	**(5,074)**	**1,670**	**(1,733)**
Gross deferred tax assets at December 31, 2016	**7,700**	**5,054**	**9,675**	**3,903**	**26,332**

Deferred tax assets

	2015					
	Unrealized internal sales profit RMB'000	Losses available for offsetting against future taxable profits RMB'000	Payroll and welfare payables RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
At January 1, 2015	7,257	6,403	21,272	10,152	2,520	47,604
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(219)	(2,358)	(21,272)	4,597	(287)	(19,539)
Gross deferred tax assets at December 31, 2015	7,038	4,045	—	14,749	2,233	28,065

Deferred tax assets have not been recognized in respect of tax losses of RMB6,674,000 as at December 31, 2016 (2015: RMB5,465,000), as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

24. DEFERRED TAX (continued)

Deferred tax assets (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at December 31, 2016, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute earnings arising from 1 January 2008 to December 31, 2016 in the foreseeable future. The aggregate amount of temporary differences associated with the investments in these subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately RMB5,332,345,000 as at December 31, 2016 (2015: RMB2,732,997,000).

25. DEFERRED REVENUE

	2016 **RMB'000**	2015 RMB'000
At beginning of year	**296,975**	266,515
Additions during the year	**42,556**	51,951
Released to profit or loss	**(20,960)**	(21,491)
At end of year	**318,571**	296,975

Government grants have been awarded for the construction of certain items of property, plant and equipment of the Company's subsidiaries. There are no unfulfilled conditions and contingencies relating to these grants.

26. SHARE CAPITAL

Shares

	2016 **RMB'000**	2015 RMB'000
Authorized:		
50,000,000,000 ordinary shares (notes (b) and (d)) of HKD0.01 each	**409,085**	409,085
Issued and fully paid:		
13,694,117,500 ordinary shares of HKD0.01 each	**112,712**	112,712

26. SHARE CAPITAL (continued)

Shares (continued)

A summary of movements in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At January 1, 2015	100	1	—	1
Issuance of shares on May 5, 2015 (note (a))	9,900	60	1,109,921	1,109,981
Issuance of shares on October 14, 2015 (note (c))	10,000	—	—	—
Repurchase and cancellation of shares (note (d))	(10,000)	(61)	61	—
Subdivision of shares and issuance of shares for the IPO (note (e))	13,694,107,500	112,712	7,207,709	7,320,421
Share issuance expenses	—	—	(142,213)	(142,213)
At December 31, 2015 and January 1, 2016	13,694,117,500	112,712	8,175,478	8,288,190
Final 2015 dividend declared	—	—	(1,459,573)	(1,459,573)
At December 31, 2016	13,694,117,500	112,712	6,715,905	6,828,617

(a) On May 5, 2015, the Company issued 9,600 ordinary shares of USD1 each to the shareholders of the Company as fully paid at par. On May 5, 2015, the Company allotted and issued 300 ordinary shares to CDH Delicacy Holdings Limited for a consideration of RMB1.11 billion. The excess of consideration of RMB1.11 billion over the nominal value of USD300 (equivalent to RMB1,835) of the Company's shares was credited to the share premium.

(b) On August 25, 2015, the Company's authorized share capital increased from USD50,000 divided into 50,000 ordinary shares of a par value of USD1.00 each to the aggregate of USD50,000 and HKD500,000,000 divided into (i) 50,000 ordinary shares of a par value of USD1.00 each and (ii) 50,000,000,000 shares of a par value of HKD0.01 each by the creation of 50,000,000,000 shares of a par value of HKD0.01 each.

(c) On October 14, 2015, 10,000 ordinary shares of a par value of HKD0.01 each of the Company were allotted and issued to the then existing shareholders in proportion to their respective shareholdings in the Company and credited as fully paid.

(d) On October 14, 2015, 10,000 ordinary shares of a par value of USD1.00 each of the Company were repurchased and cancelled and the Company's authorized share capital was reduced by the cancellation of the 50,000 authorized but unissued ordinary shares of a par value of USD1.00 each, following which the authorized share capital of the Company became HKD500,000,000 divided into 50,000,000,000 shares of a par value of HKD0.01 each.

(e) On November 19, 2015, the Company effected a share split, pursuant to which each issued ordinary share was subdivided into 1,200,000 ordinary shares of a par value of HKD0.01 each, with the number of shares in issue changed from 10,000 to 12,000,000,000, among which 11,640,000,000 and 360,000,000 shares were issued to the Parent and CDH Delicacy Holdings Limited, respectively. Immediately after the share split, the Company issued 1,694,117,500 shares in its initial public offering at the price of HKD5.25 per share.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 91 to 92.

Share premium

The share premium of the Group represents the amount paid by shareholders for capital injection in excess of its nominal value. Details of the movements in the share premium are set out in the consolidated statement of changes in equity.

Merger reserve

The merger reserve of the Group represents capital contributions from the equity holders of the Company. The additions in prior years represent the injections of additional paid-in capital by the equity holders of the subsidiaries to the respective companies. The deductions in prior years represent the acquisitions of paid-in capital of the subsidiaries by the Group from the Controlling Shareholders which are accounted for as distributions to the Controlling Shareholders.

Statutory reserve

In accordance with the relevant PRC regulations applicable to wholly-foreign-owned companies, certain entities within the Group are required to allocate a certain portion (not less than 10%), as determined by their boards of directors, of their profit after tax in accordance with the PRC Generally Accepted Accounting Principles to the statutory reserve fund (the "SRF") until such reserve reaches 50% of the registered capital.

The SRF is non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalized as issued capital.

In accordance with relevant regulations and the articles of association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its net profit (after offsetting accumulated losses from prior years) to the SRF. After the balance of such reserve reaches 50% of the entity's capital, any further appropriation is at the discretion of the company. The SRF can be utilized to offset accumulated losses or increase capital. However, the balance of the SRF must be maintained at a minimum of 25% of the capital after such usages.

28. CONTINGENT LIABILITIES

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

29. PLEDGE OF ASSETS

Details of the Group's bills payable, which are secured by the assets of the Group, are included in note 22 to the financial statements.

30. COMMITMENTS

(a) Capital commitments

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

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**307,371**	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:

	2016 RMB'000	2015 RMB'000
Within one year	**17,629**	17,039
In the second to fifth years, inclusive	**68,450**	68,155
After five years	**51,116**	68,155
	137,195	153,349

31. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

(i) Sales of products:

	2016 RMB'000	2015 RMB'000
Hubei Dali Estate Co., Ltd.	**—**	36
Dali Century Hotel Co., Ltd.	**103**	116
	103	152

The sales to Hubei Dali Estate Co., Ltd. and Dali Century Hotel Co., Ltd., which are companies controlled by the Controlling Shareholders, were made according to the published prices and conditions offered to the major customers of the Group.

31. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties: (continued)

(ii) Advance to:

	2016 RMB'000	2015 RMB'000
Hubei Dali Estate Co., Ltd.	—	23,000

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

(iii) Repayment of an advance to:

	2016 RMB'000	2015 RMB'000
Hubei Dali Estate Co., Ltd.	—	23,000

(iv) Rental expenses

	2016 RMB'000	2015 RMB'000
Fujian Dali Foods Group Co., Ltd.	**17,039**	17,039

Rental expenses represent expenses from leases of properties and prepaid land lease payments which are charged in accordance with the terms of agreements made between the Group and Fujian Dali Foods Group Co., Ltd., which is a company controlled by the Controlling Shareholders.

(v) Advances from the Controlling Shareholders:

	2016 RMB'000	2015 RMB'000
Ms. Chen Liling	—	1,100
Mr. Xu Shihui	—	1,500
Ms. Xu Yangyang	—	78,131
	—	80,731

31. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties: (continued)

(vi) *Repayment of advances from the Controlling Shareholders:*

	2016 RMB'000	2015 RMB'000
Ms. Chen Liling	—	46,778
Mr. Xu Shihui	—	159,317
Ms. Xu Yangyang	—	79,047
	—	285,142

(vii) *Repayment of an amount due to a related party in connection with the Reorganization:*

	2016 RMB'000	2015 RMB'000
Fujian Dali Foods Group Co., Ltd.	—	3,081,750

(viii) *Services purchased:*

	2016 RMB'000	2015 RMB'000
Dali Century Hotel Co., Ltd.	**435**	759

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

(ix) *Commitment with related party:*

Pursuant to the operating lease agreement with Fujian Dali Foods Group Co., Ltd., the amount of total rental expense for the year is included in note 31(a) (iv) and the amount of total future minimum payments under the operating lease arrangement is RMB136,312,000.

31. RELATED PARTY TRANSACTIONS (continued)

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

	2016 **RMB'000**	2015 RMB'000
Salaries	**11,157**	8,941
Pension scheme contributions and social welfare	**47**	182
	11,204	9,123

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions in respect of items (a) (i), (a) (iv) and (a) (viii) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

32. 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:

2016

Financial assets

	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	**—**	**250,268**	**250,268**
Trade receivables	**284,067**	**—**	**284,067**
Financial assets included in prepayments, deposits and other receivables	**55,730**	**—**	**55,730**
Pledged deposits	**64,924**	**—**	**64,924**
Cash and bank balances	**9,860,631**	**—**	**9,860,631**
	10,265,352	**250,268**	**10,515,620**

32. FINANCIAL INSTRUMENTS BY CATEGORY

Financial liabilities

	Financial liabilities at amortized cost RMB'000
Trade and bills payables	**1,027,032**
Financial liabilities included in other payables and accruals	**282,249**
	1,309,281

2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
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 bank balances	8,935,420	—	8,935,420
	9,137,949	844,113	9,982,062

Financial liabilities

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

33. 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**	
	December 31, 2016 RMB'000	December 31, 2015 RMB'000	**December 31, 2016 RMB'000**	December 31, 2015 RMB'000
Financial assets				
Available-for-sale investments	**250,268**	844,113	**250,268**	844,113

Management has assessed that the fair values of cash and bank balances, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals and other borrowings, 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 December 31, 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments	**—**	**250,268**	**—**	**250,268**

As at December 31, 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	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

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

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

There were no transfers between Level 1 and Level 2 fair value measurements during the year and no transfers into or out of Level 3 fair value measurements for both financial assets and financial liabilities during the year.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances, pledged deposits and available-for-sale investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

Foreign currency risk

The Group's businesses are 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 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 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 following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in HKD rate %	**Increase/ (decrease) in profit before tax RMB'000**	**Increase/ (decrease) in equity* RMB'000**
2016			
If RMB weakens against HKD	**1**	**(3,865)**	**57,116**
If RMB strengthens against HKD	**(1)**	**3,865**	**(57,116)**

* Excluding retained profits

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in HKD rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2015			
If RMB weakens against HKD	1	(19,803)	74,119
If RMB strengthens against HKD	(1)	19,803	(74,119)

* Excluding retained profits

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and bank balances, pledged deposits and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at the end of the reporting period, all pledged deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Liquidity risk (continued)

2016

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	—	1,027,032	—	—	—	1,027,032
Financial liabilities included in other payables and accruals	113,976	168,273	—	—	—	282,249
	113,976	1,195,305	—	—	—	1,309,281

2015

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	—	964,170	—	—	—	964,170
Financial liabilities included in other payables and accruals	144,527	179,922	—	—	—	324,449
Other borrowings	—	1,008,614	507,594	—	—	1,516,208
	144,527	2,152,706	507,594	—	—	2,804,827

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. The Group monitors capital using a gearing ratio.

The gearing ratio is total liabilities divided by the capital plus total liabilities. Capital represents equity attribute to the owners of the parent. The gearing ratio as at the end of each reporting period was as follows:

	2016 **RMB'000**	2015 RMB'000
Total liabilities	**2,614,508**	3,895,166
Equity attributable to owners of the parent	**13,865,877**	11,902,121
Capital and total liabilities	**16,480,385**	15,797,287
Gearing ratio	**15.9%**	24.7%

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**1**	1
Total non-current assets	**1**	1
CURRENT ASSETS		
Cash and bank balances	**5,974,931**	7,308,225
Due from a subsidiary	**1,483,957**	1,133,621
Other receivables	**25,698**	14,764
Total current assets	**7,484,586**	8,456,610
CURRENT LIABILITIES		
Other payables and accruals	**18,385**	4,096
Total current liabilities	**18,385**	4,096
NET CURRENT ASSETS	**7,466,201**	8,452,514
TOTAL ASSETS LESS CURRENT LIABILITIES	**7,466,202**	8,452,515
Net assets	**7,466,202**	8,452,515
EQUITY		
Share capital	**112,712**	112,712
Reserves (note)	**7,353,490**	8,339,803
Total equity	**7,466,202**	8,452,515

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At January 1, 2015	—	—	—	—
Total comprehensive income for the year	—	196,566	(32,241)	164,325
Issue of shares	1,109,921	—	—	1,109,921
Repurchase of shares	61	—	—	61
Issuance of shares for the IPO	7,207,709	—	—	7,207,709
Share issue expenses	(142,213)	—	—	(142,213)
At December 31, 2015	8,175,478	196,566	(32,241)	8,339,803
Total comprehensive income for the year	—	388,731	84,529	473,260
Final 2015 dividend declared	(1,459,573)	—	—	(1,459,573)
At December 31, 2016	6,715,905	585,297	52,288	7,353,490

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on March 23, 2017.

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