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

Stock Code : 3799

Interim Report
2017

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
in Association with
Morgan, Lewis & Bockius

HONG KONG BRANCH SHARE REGISTRAR

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

Financial Highlights

	For the six months ended June 30,		
	2017	2016	
	RMB'000	RMB'000	% Change
Revenue	**9,888,914**	9,020,555	9.6%
Gross profit	**3,815,622**	3,532,988	8.0%
Gross profit margin	**38.6%**	39.2%	-0.6 percentage point
EBITDA	**2,520,522**	2,371,245	6.3%
Net profit	**1,754,799**	1,641,564	6.9%
Net profit margin	**17.7%**	18.2%	-0.5 percentage point
Earnings per share	**RMB0.13**	RMB0.12	6.9%

Management Discussion and Analysis

INDUSTRY ENVIRONMENT

In the first half of 2017, China's economy maintained its growth momentum. According to the National Bureau of Statistics of China, the gross domestic product (GDP) grew by 6.9% as compared with the same period last year and the total retail sales of consumer goods increased by 10.4% as compared with the same period last year. Retail sales of grain, oil, food, beverage and tobacco and alcohol grew steadily by 11.3%. For other aspects, there are not much substantive changes in the industrial trends, such as the consumption needs and habits, diversification of product structure, intensification of competition and boosting sales by price reduction. In addition, prices of raw materials including sugar and packaging materials had been going up from the second half of 2016 onwards. Though the trend began to reverse at the beginning of this year, the price levels were still significantly higher than the same period last year.

Snack food and beverage market in China is the biggest and most attractive one in the world which still has significant market potentials in terms of per capita consumption. For enterprises which are innovative and possess strong marketing capability, there is enormous room to explore in the market. Nevertheless, they must keep abreast of market trends, take an innovative approach, enhance product quality, and launch products in line with consumer demand on a timely manner so as to capture new opportunities arisen and retain their leading positions in the market.

BUSINESS OVERVIEW FOR THE FIRST HALF OF 2017

Despite facing a slowdown in the overall consumer market, the Group continued to adhere to the development strategy of "multi-brands and multi-products" and the market demand for our major categories remained in a steady growth. With emphasis on optimizing of product structure, innovation and research and development, several new products were launched by us in the market. Moreover, upgrade of certain existing products was also accomplished. With the enhancement of product quality, we continued to secure and strengthen our market leading position and provided products of premium quality to consumers. Coupled with efforts of our sales team, the penetration rates of our new categories and products increased further.

For the first half of 2017, the Group's revenue increased by 9.6% as compared with the same period last year to RMB9,889 million, of which revenue from the food and beverage segments increased by 1.3% and 9.6% as compared with the same period last year, respectively. Our gross profit reached RMB3,816 million, increased by 8.0% as compared with the same period last year. Gross profits from the food and beverage segments were RMB1,718 million and RMB2,080 million respectively, representing increases of 4.1% and 10.8% as compared with the same period last year, respectively. For the six months ended June 30, 2017, our gross profit margin was 38.6%, 0.6 percentage point lower than the same period last year. The slight decrease was mainly due to the expansion of some trading business with lower margin. Gross profit margins of the food and beverage segments were 35.6% and 46.5%, respectively, representing increases of 1.0 percentage point and 0.5 percentage point as compared with the same period last year. Selling expenses as a percentage of the revenue were 16.4% for the six months ended June 30, 2017, representing an increase of 0.7 percentage point as compared with the same period last year. The increase was primarily due to advertising cost resulted from promotion of soy milk products launched in the first half of the year. Operating margin dropped by 1.5 percentage point to 19.8%, which was mainly due to the lower gross profit margins and the higher selling expenses mentioned above. Net profit increased by 6.9% as compared with the same period last year to RMB1,755 million and net profit margin was 17.7% for the six months ended June 30, 2017, representing a decrease of 0.5 percentage point as compared with the same period last year.

Food Business

	Revenue for the six months ended June 30,				
	2017		2016		
	RMB (thousand)	**As a percentage of revenue**	RMB (thousand)	As a percentage of revenue	2017 vs. 2016 % Change
Food					
Bread, Cakes and Pastries	**2,850,263**	**28.8**	3,027,706	33.6	(5.9)
Chips, Fries and Others	**1,187,540**	**12.0**	981,096	10.9	21.0
Biscuits	**794,406**	**8.0**	762,465	8.4	4.2
Food Segment Total	**4,832,209**	**48.8**	4,771,267	52.9	1.3

Sales of our food segment increased by 1.3% from RMB4,771 million for the first half of 2016 to RMB4,832 million for the first half of 2017, of which sales of bread, cakes and pastries, chips, fries and others and biscuits amounted to RMB2,850 million, RMB1,188 million and RMB794 million, respectively. The sales of bread, cakes and pastries recorded a decrease of 5.9% as compared with the same period last year, while the sales of chips, fries and others and biscuits increased by 21.0% and 4.2% as compared with the same period last year, respectively.

Bread, Cakes and Pastries: For asserting premium market position of our products, hedging the impact of increase in raw material prices and widening profit margins, the Group began to adjust the prices of most of our products within the bread, cakes and pastries category at the end of March. As it was a general practice of distributors to observe the market response and adjust the purchase quantity for a certain period after the price adjustment, hence, our sales declined in the first half of the year. The growth gradually resumed when the market absorbed the new prices. Despite the price increases, market share of our bread, cakes and pastries continued to take the lead. Popular traditional items such as soft bread and small bread maintained their solid presence in the market and were strongly welcomed by consumer as before.

Meanwhile, we moved forward into breakfast sector of bread, cakes and pastries which we seldom tap into. A series of bread, cakes and pastries were launched in July so as to provide the consumers with additional breakfast alternatives which are more nutritious, convenient and diverse with higher quality. In order to cater diverse tastes and preferences of consumers, regarding bread, cakes and pastries for breakfast, we launched 10 products in 2 main categories which belonged to 33 kinds of standardized series. Leveraging on our leading and unique position of Brand "Daliyuan" in bread, cakes and pastries market, we look forward to expecting that the breakfast series of bread, cakes and pastries will make stunning impact and begin to reshape the market in 2017.

Biscuits: Brand "Haochidian" maintained its upward momentum in sales. Our traditional Crispy Biscuit Series, the leading product in the corresponding subdivided market, continued its outstanding sales performance in the first half of the year. Benefited from our effective marketing efforts and its appealing market positioning and pricing strategy which strikes the right tone of medium and high-end biscuit consumers' daily needs, Zhenhao Cookie which was launched last year continued to stay on fast growth track.

Chips, Fries and Others: Copico potato chips is the leading potato chip brand in China and the brand has extensive popularity in the country. We began to roll out a series of improvement measures in 2016, including packaging upgrade by applying more fashionable, cool and eye-catching designs and colours, introducing a refreshing cucumber flavor for our chips to satisfy young customers who prefer light flavours, adjusting the cartoon logo style of Cracking Fun Fries(蚜趣薯條) to complement the packaging, introduction of products in new packaging specifications which suit the consumption habits and affordability of young consumers for better penetration into the first-tier and second-tier cities and modern sales channel, and standardization of layout, product display and salesmanship in some major sales stores over the country. All these measures boosted sales for both of our traditional chip products and Cracking Fun Fries.

In addition to improving product quality and image through the above measures, the Group is also actively seeking to expand the variety of products. We plan to launch a series of sliced potato chip products in the second half of the year. The research and development process has been completed and the production preparation is also in progress. The product is expected to be launched on schedule so as to rapidly occupy the fast-growing sliced potato chip market.

Beverage Business

	Revenue for the six months ended June 30,				
	2017		2016		
	RMB (thousand)	**As a percentage of revenue**	RMB (thousand)	As a percentage of revenue	2017 vs. 2016 % Change
Beverage					
Energy Drinks	**1,566,221**	**15.8**	1,091,920	12.1	43.4
Herbal Tea	**1,533,114**	**15.5**	1,510,666	16.7	1.5
Plant-based and Milk Beverage	**799,778**	**8.1**	837,214	9.3	(4.5)
Including: Soy Milk	**212,997**	**2.2**	—	—	—
Other Beverages	**575,292**	**5.8**	641,566	7.1	(10.3)
Beverage Segment Total	**4,474,405**	**45.2**	4,081,366	45.2	9.6

Sales of beverage products increased by 9.6% from RMB4,081 million for the first half of 2016 to RMB4,474 million for the first half of 2017, which is mainly due to the strong growth of energy drinks and an income of RMB213 million contributed by newly launched soy milk.

Energy Drinks: As the energy drinks market in China is far from saturation, this category continues to be one of the the most rapid growth categories in the subdivided beverage sectors. Benefited from the wide recognition of the brand “Hi-Tiger”, we quickly grasped opportunities arisen from the changing market patterns by aligning its product portfolio and utilization of its product merits, and seized further market share. We exerted greater effort in marketing of 250ml aluminum canned Hi-Tiger products and they were warmly welcomed in sales stores and special channels (including schools and bars, etc.) and the eastern provinces. The rapid increase in sales proportion of canned products was the major reason of growth for Hi-Tiger. In addition, the popularity of Hi-Tiger energy drinks was further increased through the sponsorship of various sport competitions such as being an official strategic partner in the FIA F4 Chinese Championship with our products designated as the official energy beverages, the principal title sponsor of China Formula Grand Prix and title sponsor for 2017 Drift Show of CFGP.

Herbal Tea: Heqizheng herbal tea is a traditional product in Dali's beverage segment and has been ranked among the top three in the herbal tea market. During the first half of 2017, based on our continuous premium position in household consumption and ready-to-drink market as well as our steady target consumer base, we maintained a steady growth of sales.

Plant-based and Milk Beverage: The Company launched "Doubendou" series of soy milk product in April this year. By integrating and improving the production processes of soy milk around the world, these products better suit Chinese consumers' tastes. These products originate from grinding of strictly selected domestic non-genetically modified soybeans without edible flavors and preservatives and they can be stored at room temperature and are of high-quality and ready-for-drink soy milk. As a thoughtful gesture to our customers, the products are divided into three types, original flavor, organic and sugar-free. Besides Tetra Pak packaging which suits general household consumption habits, PP bottles are also applied for penetration into leisure markets. The products target to satisfy the diverse needs of customers with different age groups and consumption scenarios. In terms of media communication, by capitalizing our capability in product promotion which has always been our advantage, we have rapidly established a green, healthy, rich in nutrition, high quality brand image for the products by a comprehensive advertising scheme which covers all media communication platforms including CCTV, local satellite TV stations, mainstream internet. The soy milk product series were gradually introduced into the first-tier city and the second-tier city markets and established key accounts as well as obtained outstanding sales records via electronic commerce channels and was highly appraised by the customers. In the first half of 2017, "Doubendou" soy milk made a good sales record. We are very optimistic about the products and will continue to exert further effort in creating a soymilk new era.

Sales of our other products in plant-based and milk beverages (mainly peanut milk) experienced a decline as compared with the same period last year, due to the general downtrend of products, especially by the intense competition of various alternative products. Following the continuous improvements in people's living standard and health awareness, we remain optimistic about the market prospect of our plant-based and milk beverages that accord with healthy diet concept. In the future, we will also carry out our research and development in product innovations and will launch other more pure, more nutritious and are of higher quality plant-bared products.

In the first half of 2017, the Group also put forward a series of sales enhancement measures for other products in the beverage segment, including the annual trade fair, more display items in the store freezers and effective promotion campaigns with seasonal and festival elements. The debut of Daliyuan Plum Fruit Tea (達利園青梅果味茶) series in July were one of the remarkable outcomes of the above measures. As an unique product in the market, Daliyuan Plum Green Tea has a stable consumer base and good sales performance. We have improved and upgraded the formulas and tastes based on the foundation of the original products, and we expect that it will bring a better contribution to the performance.

Cost of Sales and Gross Profit Margins

The primary cost of sales of Dali includes raw material costs (such as sugar, palm oil and flour), packaging materials costs (such as chips, corrugated cartons, etc.), manufacturing costs (such as depreciation, amortization and utilities), wages and salaries, and surcharges. Among them, the raw material costs represented 54.1% of total cost of sales and the packaging materials costs represented 25.5% of total cost of sales. In the first half of 2017, the market price trends of the raw materials varied but their costs as a whole increased as compared with the same period in 2016.

In the first half of 2017, there was an increase in sales of our products with higher gross profit margins (including Hi-Tiger energy drinks, Zhenhao cookies and Copico potato chips) and higher selling prices of our certain products (mainly bread, cakes and pastries products) while the average purchase prices of most of our major raw materials and packaging materials (such as white sugar, powdered milk and chips) went higher. The gross profit margins of food and beverage segments amounted to 35.6% and 46.5%, respectively, representing the increases of 1.0 and 0.5 percentage point, respectively as compared with the same period in 2016. As a result of the expansion of our trading business with lower margin, which involves the advantages of bulk purchase and sufficient funds, the overall gross profit margins for the Group was dropped slightly by 0.6 percentage point to 38.6%.

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

	For the six months ended June 30,			
	2017		2016	
	Gross profit (RMB in thousands)	**Gross profit margin %**	Gross profit (RMB in thousands)	Gross profit margin %
Food products	**1,718,276**	**35.6**	1,651,007	34.6
Beverage products	**2,079,549**	**46.5**	1,876,152	46.0
Others	**17,797**	**3.1**	5,829	3.6
Total	**3,815,622**	**38.6**	3,532,988	39.2

Other Financial Information

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 14.1% from RMB1,420 million for the first half of 2016 to RMB1,620 million for the first half of 2017. These expenses as a percentage of revenue increased from 15.7% for the first half of 2016 to 16.4% for the first half of 2017. The increase was primarily due to higher advertising expenses brought by "Doubendou" soy milk and an increase in the average wages of sales staff.

Administrative Expenses

The Group's administrative expenses for the first half of 2017 was RMB237 million, increased by 25.3% from RMB189 million for the first half of 2016. As a percentage of revenue, the Group's administrative expenses amounted to 2.4% for the first half of 2017, a slight increase or remaining stable from 2.1% for the first half of 2016. The increase was primarily due to higher average wages for our management staff members.

Cash and Borrowings

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

As at June 30, 2017, the Group had pledged deposits and cash and bank balances in the aggregate amount of RMB8,948 million (as at December 31, 2016: RMB9,926 million). This change was primarily attributable to the total payment of dividend of approximately RMB2,148 million for 2016 during the first half of the year, the purchase of fixed assets making a decrease of RMB396 million in cash flow and an increase of RMB1,582 million on net operating cash flow. As at 30 June 2017, 75.7% and 24.3% of the Group's cash and bank balances were denominated in RMB and HKD, respectively.

As at June 30, 2017, the Group did not have any borrowings (as at December 31, 2016: nil).

The Group's gearing ratio as at June 30, 2017 was 16.0% (as at December 31, 2016: 15.9%), which is total liability divided by the capital plus total liability. At the moment, the Group did not have any borrowing.

Inventories

The Group's inventories consist primarily of raw materials, packaging materials and, to a lesser extent, finished goods. The Group's inventories as at June 30, 2017 was RMB913 million, decreased by 17.7% from RMB1,109 million as at December 31, 2016, mainly due to finished goods balance at the end of 2016 was higher than that of the June 30, 2017 as a result of the stock-up for the Chinese New Year at the end of 2016. The inventory turnover days increased from 26.7 days for the first half of 2016 to 30.0 days for the first half of 2017.

Trade and Bills Receivables

The Group's trade and bills receivables refer to the Group's accounts receivable balance from its customers, primarily including distributors and key accounts. The Group's trade and bills receivables as at June 30, 2017 was RMB714 million, increased by 151.4% from RMB284 million as at December 31, 2016, primarily due to loosening credit conditions offered to certain distributors with good credit records and a rapid growth of revenue from key accounts and E-commerce led to an increase of receivables. The trade and bills receivables turnover days increased from 4.7 days for the first half of 2016 to 9.1 days for the first half of 2017.

Trade and Bills Payables

The Group's trade and bills payables primarily include trade payables and, to a lesser extent, bills payables for purchases of raw materials and packaging materials. The Group's trade and bills payables as at June 30, 2017 was RMB817 million, decreased by 20.4% from RMB1,027 million as at December 31, 2016, which was due to similar factors for the decrease of inventories. The trade and bills payables turnover days decreased from 29.0 days for the first half of 2016 to 27.4 days for the first half of 2017.

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 June 30, 2017, 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 June 30, 2017, the Group did not have any significant contingent liabilities.

Asset Pledge

As at June 30, 2017, the Group's bills payable and letter of credit were secured by pledging its short-term deposits in the amount of RMB78 million (as at December 31, 2016: RMB65 million).

Available-for-Sale Investments

As at June 30, 2017, the Group's total available-for-sale investments amounted to RMB255 million, remaining fairly the same as compared to as at December 31, 2016.

Human Resources and Staff Remuneration

As at June 30, 2017, the Group had a total of 35,683 employees (June 30, 2016: 37,542). The Group's employees are remunerated with reference to their positions, performance, experience and prevailing salary trends in the market. In addition to basic salaries, the Company provides various staff benefits to its employees.

The Company adopted a share option scheme on August 25, 2015. As at the date of this announcement, the Company has not granted any share options.

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

For the six months ended June 30, 2017, the total employee benefits expenses (including Directors' remuneration) were RMB940 million (for the six months ended June 30, 2016: RMB771 million).

Use of Proceeds from the Listing

The shares of the Company were listed on the Main Board of The Stock Exchange of the Hong Kong Limited on November 20, 2015 with net proceeds from the global offering of approximately HK$8,665 million (after deduction of underwriting fees and commissions and estimated expenses payable in connection with the global offering). According to the intended use as set out in "Future Plans and Use of Proceeds" in the prospectus dated November 10, 2015 (the "Prospectus"), the amount utilised as at June 30, 2017 was as follows:

		Net Proceeds (HKD million)		
Items	**Percentage**	**Available**	**Utilised**	**Unutilised**
Development, introduction and promotion of new products	20%	1,733	214	1,519
Expansion and upgrade of production facility and manufacturing network	20%	1,733	734	999
Enhancing presence in sales channels and promoting brands	20%	1,733	857	876
Potential acquisitions and business cooperation	30%	2,600	—	2,600
Working capital and other general corporate purposes	10%	866	580	286
		8,665	2,385	6,280

Capital Expenditures and Capital Commitments

The Group had capital expenditures of RMB397 million in the first half of 2017 (as at December 31, 2016: RMB464 million), primarily incurred from (i) the construction of soy milk production facilities; (ii) the construction of production facilities in Fujian, Jiangsu and Guongdong provinces; and (iii) the construction of office building in Xiamen.

As at June 30, 2017, the Group's capital commitments relating to property, plant and equipment was RMB356 million (as at December 31, 2016: RMB307 million), which were primarily used for the construction of certain production facilities and purchases of production lines.

PROSPECTS

Looking ahead to the second half of 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 of the Company.

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 instance, the product upgrade and transformation of Teddy Bear Biscuits, chocolate pie, Chinese almond cookies and grains cake. Meanwhile, the high-growth categories in existing products, such as energy drinks, 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.

The marketing of soymilk products and bread, cakes and pastries for breakfast will be our focus in the second half of this year. They will be supplied in all nationwide sales channels and it is hoped that the sales would reach a higher level in their start-up year. To this end, we will carry out a variety of attempts in the product brand promotion and at the same time, we hope to make a first breakthrough for selling the products in the developed areas and modern channels, with the aim to lead a consumption boom of the products throughout the whole country.

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

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

Other Information

INTERIM DIVIDEND

On August 24, 2017, the Board has resolved to declare payment of an interim dividend of HK$0.10 (equivalent to approximately RMB0.085) (2016: nil) per ordinary share for the six months ended June 30, 2017 (the "**2017 Interim Dividend**") to shareholders whose names appear on the register of members of the Company on September 12, 2017, representing a total payment of approximately HK$1,369 million (equivalent to approximately RMB1,169 million).

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of the shareholders of the Company to receive the 2017 Interim Dividend, the register of members of the Company will be closed from Friday, September 8, 2017 to Tuesday, September 12, 2017, both dates inclusive, during which period no transfer of shares of the Company will be registered. The record date for entitlement to the 2017 Interim Dividend is Tuesday, September 12, 2017. In order to qualify for the entitlement to receive the 2017 Interim Dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, September 7, 2017. The payment date of the 2017 Interim Dividend is expected to be on Monday, September 25, 2017.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE

As at June 30, 2017, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), were as follows:

i. Interest in shares or underlying shares of the Company

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

ii. Interest in shares of associated corporations of the Company

Name of directors	Name of associated corporation	Capacity/Nature of interest	Number of shares in the associated corporation	Percentage of interest
Mr. Xu Shihui	Divine Foods Limited (“**Divine Foods**”)	Interest in controlled corporation	50	50%
		Interest of spouse[1]	10	10%
			60	60%
Ms. Xu Yangyang	Divine Foods	Interest in controlled corporation	40	40%

Notes:

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

Save as disclosed above, as at June 30, 2017, none of the directors and the chief executive of the Company had or were deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified under Divisions 7 and 8 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2017, the interests or short positions of the following persons (other than the directors and the 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 shareholders	Capacity/Nature of interest	Number of shares (long positions)	Approximate percentage of interest in the Company
Divine Foods	Beneficial owner	11,640,000,000	85%
Divine Foods-1 Limited[1] (“**Divine Foods-1**”)	Interest in controlled corporation	11,640,000,000	85%
Divine Foods-2 Limited[1] (“**Divine Foods-2**”)	Deemed interest as an associate of a substantial shareholder	11,640,000,000	85%
Divine Foods-3 Limited[1] (“**Divine Foods-3**”)	Interest in controlled corporation	11,640,000,000	85%
Ms. Chen Liling[1][2]	Interest of spouse	11,640,000,000	85%

Notes:

(1) Divine Foods is 50%, 10% and 40% owned by Divine Foods-1, Divine Foods-2 and Divine Foods-3 respectively, which in turn are separately wholly-owned by Mr. Xu Shihui, Ms. Chen Liling and Ms. Xu Yangyang respectively.

(2) Mr. Xu Shihui and Ms. Chen Liling are spouses. Accordingly, each of Mr. Xu Shihui and Ms. Chen Liling is deemed, or taken to be, interested in all shares and underlying shares in which their spousal counterpart is interested in for the purpose of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") on August 25, 2015 to enable the Company to grant share options to qualified participants 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 participants whose contributions are or may be beneficial to the growth of the Group.

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Board considered that for the six months ended June 30, 2017, the Company has complied with the applicable code provisions set out in the CG Code, save and except for code provision A.2.1. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

COMPLIANCE WITH MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (the "**Securities Dealing Code**") on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all Directors and all of them have confirmed that they have complied with the Model Code and the Securities Dealing Code during the six months ended June 30, 2017.

AUDIT COMMITTEE

The interim report of the Group for the six months ended June 30, 2017 has been reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial report complies with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2017.

UPDATE ON DIRECTOR'S INFORMATION

Below is an update on the director's information required to be disclosed pursuant to Rule 13.51(B) of the Listing Rules:

Dr. Lin Zhijun serves as an associate vice president of Macau University of Science and Technology since February 2017. He also serves as an independent non-executive director of BOCOM International Holdings Company Limited (a company listed on the Stock Exchange (stock code: 03329)) with effect from May 19, 2017.

Report on Review of Interim Condensed Consolidated Financial Statements

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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)

Introduction

We have reviewed the accompanying interim condensed consolidated financial information set out on pages 19 to 44, which comprises interim condensed consolidated statement of financial position of Dali Foods Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at June 30, 2017 and the related interim consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by Hong Kong Institute of Certified Public Accountants.

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

Scope of review

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

Conclusion

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

Ernst & Young
Certified Public Accountants
Hong Kong

August 24, 2017

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

For the six months ended June 30, 2017

	Notes	For the six months ended June 30, 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
REVENUE	4(a)	**9,888,914**	9,020,555
Cost of sales	5(a)	**(6,073,292)**	(5,487,567)
Gross profit		**3,815,622**	3,532,988
Other income and gains	4(b)	**280,230**	173,540
Selling and distribution expenses		**(1,620,198)**	(1,420,414)
Administrative expenses		**(237,454)**	(189,468)
Finance costs	6	**—**	(4,705)
PROFIT BEFORE TAX	5	**2,238,200**	2,091,941
Income tax expense	7	**(483,401)**	(450,377)
PROFIT FOR THE PERIOD		**1,754,799**	1,641,564
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**4,965**	29,078
Reclassification adjustment for gains included in the consolidated statement of profit or loss – gain on disposal		**—**	(17,989)
Income tax effect		**(1,242)**	(2,772)
		3,723	8,317
Exchange differences on translation of foreign operations		**(74,474)**	100,414
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(70,751)**	108,731

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

For the six months ended June 30, 2017

	Notes	For the six months ended June 30, 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**(70,751)**	108,731
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,684,048**	1,750,295
Profit attributable to:			
Owners of the parent		**1,754,799**	1,641,564
Total comprehensive income attributable to:			
Owners of the parent		**1,684,048**	1,750,295
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted			
– For profit for the period		**RMB 0.13**	RMB 0.12

Interim Condensed Consolidated Statement of Financial Position

June 30, 2017

	Notes	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**3,976,294**	3,896,296
Prepaid land lease payments	11	**583,640**	591,059
Intangible assets		**2,696**	2,854
Prepayments		**222,431**	218,405
Deferred tax assets		**62,225**	26,265
Total non-current assets		**4,847,286**	4,734,879
CURRENT ASSETS			
Inventories	12	**913,103**	1,109,276
Trade and bills receivables	13	**713,807**	284,067
Prepayments, deposits and other receivables		**279,997**	176,340
Available-for-sale investments	14	**255,233**	250,268
Pledged deposits		**77,963**	64,924
Cash and bank balances		**8,870,270**	9,860,631
Total current assets		**11,110,373**	11,745,506
CURRENT LIABILITIES			
Trade and bills payables	15	**816,618**	1,027,032
Other payables and accruals		**1,179,983**	1,091,776
Tax payable		**240,985**	177,129
Total current liabilities		**2,237,586**	2,295,937
NET CURRENT ASSETS		**8,872,787**	9,449,569
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,720,073**	14,184,448

Interim Condensed Consolidated Statement of Financial Position

June 30, 2017

	Notes	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred revenue		**318,367**	318,571
Total non-current liabilities		**318,367**	318,571
NET ASSETS		**13,401,706**	13,865,877
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	**112,712**	112,712
Reserves		**13,288,994**	13,753,165
Total equity		**13,401,706**	13,865,877

Xu Shihui
Director

Zhuang Weiqiang
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017

	Share capital RMB'000 (note 16)	Share premium RMB'000*	Merger reserve RMB'000*	Available for-sale investment revaluation reserve RMB'000*	Statutory reserve RMB'000*	Exchange fluctuation reserve RMB'000*	Retained profits RMB'000*	Total RMB'000
At January 1, 2017	112,712	6,715,905	(23,165)	201	1,328,212	437,741	5,294,271	13,865,877
Profit for the period	—	—	—	—	—	—	1,754,799	1,754,799
Other comprehensive income for the period:								
Changes in fair value of available-for-sale investments, net of tax	—	—	—	3,723	—	—	—	3,723
Exchange differences on translation of foreign operations	—	—	—	—	—	(74,474)	—	(74,474)
Total comprehensive income for the period	—	—	—	3,723	—	(74,474)	1,754,799	1,684,048
Final 2016 dividend declared	—	(2,148,219)	—	—	—	—	—	(2,148,219)
At June 30, 2017 (Unaudited)	112,712	4,567,686	(23,165)	3,924	1,328,212	363,267	7,049,070	13,401,706

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017

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

* These reserve accounts comprise the consolidated reserves of RMB13,288,994,000 and RMB12,080,131,000 in the interim condensed consolidated statement of financial position as at June 30, 2017 and June 30, 2016, respectively.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017

	Notes	Six months ended June 30, 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,238,200**	2,091,941
Adjustments for:			
Fair value gains, net:			
available-for-sale investments (transfer from equity on disposal)	4(b)	**—**	(17,989)
Gain on disposal of items of property, plant and equipment, net	4(b)/5(c)	**(37)**	(8)
Finance costs	6	**—**	4,705
Depreciation	5(c)	**275,052**	267,706
Amortization of prepaid land lease payments	5(c)	**6,620**	6,534
Amortization of intangible assets	5(c)	**650**	359
Reversal of provision for impairment of trade receivables	5(c)	**(329)**	—
(Reversal of provision)/provision of inventories	5(c)	**(793)**	59
Interest income – bank deposits		**(36,027)**	—
Government grants recognized in profit or loss		**(11,014)**	(10,767)
		2,472,322	2,342,540
(Increase)/decrease in pledged deposits		**(13,039)**	12,046
Increase in trade and bills receivables		**(429,411)**	(179,119)
Increase in prepayments, deposits and other receivables		**(103,690)**	(4,625)
Decrease in inventories		**196,966**	230,323
Decrease in trade and bills payables		**(210,414)**	(158,766)
Increase in other payables and accruals		**125,635**	100,768
Cash generated from operations		**2,038,369**	2,343,167
Tax paid		**(456,746)**	(464,145)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,581,623**	1,879,022

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017

	Notes	Six months ended June 30, 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(396,299)**	(150,247)
Proceeds from disposal of items of property, plant and equipment		**663**	51
Additions to prepaid land lease payments		**—**	(11,386)
Purchases of intangible assets		**(492)**	(212)
Receipts of assets related government grants		**10,810**	30,770
Proceeds from disposal of an available-for-sale investments		**—**	963,687
Net decrease of bank deposits		**616,352**	—
Interest received from bank deposits		**36,027**	—
Purchases of available-for-sale investments		**—**	(1,809,000)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**267,061**	(976,337)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of other borrowings		**—**	(1,500,000)
Interest paid		**—**	(6,706)
Dividends paid		**(2,148,219)**	(1,459,573)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(2,148,219)**	(2,966,279)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(299,535)**	(2,063,594)
Cash and cash equivalents at beginning of period		**7,986,383**	8,935,420
Effect of foreign exchange rate changes		**(74,474)**	100,414
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**7,612,374**	6,972,240
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		**7,031,814**	6,972,240
Bank deposits with original maturity of less than three months		**580,560**	—
Bank deposits with original maturity of over three months		**1,257,896**	—
Cash and bank balances as stated in the statement of financial position		**8,870,270**	6,972,240
Less: Bank deposits with original maturity of over three months		**(1,257,896)**	—
Cash and cash equivalents as stated in the statement of cash flows		**7,612,374**	6,972,240

1. CORPORATE INFORMATION

Dali Foods Group Company Limited (the "**Company**") is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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

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

2.1 BASIS OF PRESENTATION

The interim condensed consolidated financial statements for the six months ended June 30, 2017 have been prepared in accordance with HKAS 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the HKICPA.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except available-for-sale investments, which have been measured at fair value. The interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated. These unaudited interim condensed consolidated financial statements have been approved for issue by the Board on August 24, 2017.

2.2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those in the Group's annual financial statements for the year ended December 31, 2016, except for the adoption of the revised standards effective on January 1, 2017, set out below:

a) The following new standard and amendment to the standards are mandatory for the first time for the financial year beginning January 1, 2017:

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*

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

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

Amendments to HKFRS 1	*First-time Adoption of HKFRS–Deletion of Short-term exemptions for the first-time adopters*[1]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contract with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendment to HKAS 28	*Investments in Associates and Joint Ventures*[1]

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

3. OPERATING SEGMENT INFORMATION

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

a) Manufacturing and sale of food;

b) Manufacturing and sale of beverage;

c) Others.

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

	For the six months ended June 30, 2017 (Unaudited)				For the six months ended June 30, 2016 (Unaudited)			
	Food RMB'000	Beverage RMB'000	Others RMB'000	Total RMB'000	Food RMB'000	Beverage RMB'000	Others RMB'000	Total RMB'000
Segment revenue								
Sales to external customers	4,832,209	4,474,405	582,300	9,888,914	4,771,267	4,081,366	167,922	9,020,555
Segment gross profit	1,718,276	2,079,549	17,797	3,815,622	1,651,007	1,876,152	5,829	3,532,988
Reconciliation:								
Other income and gains				280,230				173,540
Selling and distribution expenses				(1,620,198)				(1,420,414)
Administrative expenses				(237,454)				(189,468)
Finance costs				—				(4,705)
Profit before tax				2,238,200				2,091,941
Other segment information:								
Depreciation and amortization	68,319	190,063	—	258,382	68,886	179,474	—	248,360
Capital expenditure								
Allocated	132,586	248,682	—	381,268	67,597	56,379	—	123,976
Unallocated				15,523				12,175
				396,791				136,151

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

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

Information about a major customer

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

(a) Revenue:

	For the six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of goods	**9,888,914**	9,020,555

(b) Other income and gains:

	For the six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	**137,584**	66,575
Government grants*	**116,134**	68,033
Income from sales of scrap, net	**20,084**	20,422
Gain on disposal of available-for-sale investments	**—**	17,989
Gain on disposal of items of property, plant and equipment	**37**	8
Others	**6,391**	513
	280,230	173,540

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

5. PROFIT BEFORE TAX

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

		For the six months ended June 30,	
		2017	2016
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(a)	**Cost of sales:**		
	Cost of inventories sold	**5,414,920**	4,839,045
(b)	**Employee benefit expenses (including directors' and chief executive's remuneration):**		
	Wages and salaries	**850,335**	698,699
	Pension scheme contribution, social welfare and other welfare	**89,243**	72,643
		939,578	771,342
(c)	**Other items:**		
	Depreciation	**275,052**	267,706
	Amortization of prepaid land lease payments	**6,620**	6,534
	Amortization of intangible assets	**650**	359
	Promotion and advertising expenses	**941,765**	845,543
	Logistics expense	**271,795**	251,793
	Auditors' remuneration	**1,500**	1,500
	Research and development costs	**33,911**	25,874
	Minimum lease payments under operating leases:		
	Land and buildings	**9,416**	8,520
	Foreign exchange differences, net	**(6,391)**	5,285
	Fair value gains, net:		
	available-for-sale investments		
	(transfer from equity on disposal) (note 4(b))	**—**	(17,989)
	Bank interest income (note 4(b))	**(137,584)**	(66,575)
	Government grants (note 4(b))	**(116,134)**	(68,033)
	Reversal of impairment of trade receivables	**(329)**	—
	(Reversal of impairment)/impairment of inventories	**(793)**	59

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

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on other borrowings	**—**	4,705

7. INCOME TAX

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

Pursuant to the rules and regulations of the Cayman Islands and 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% (the six months ended June 30, 2016: 16.5%). No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended June 30, 2017 (the six months ended June 30, 2016: Nil).

Under the Income Tax Law of the People's Republic of China (the "**PRC**"), the Company's subsidiaries that are established in the PRC are subject to income tax at a base rate of 25% (the six months ended June 30, 2016: 25%), except for some subsidiaries which are subject to preferential income tax rate of 15%, as approved by the relevant local tax authorities in 2015, in different periods ranging from January 1, 2014 to December 31, 2020.

The major components of income tax expense are as follows:

	For the six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
Income tax in the PRC for the period	**520,602**	472,619
Deferred tax	**(37,201)**	(22,242)
Total tax charge for the period	**483,401**	450,377

8. DIVIDENDS

A final dividend of HK$0.180 (equivalent to approximately RMB0.160) per ordinary share totalling HK$2,464,941,000 (equivalent to approximately RMB2,148,219,000) was paid in June 2017. The board of directors resolved to declare interim dividend of HK$0.10 (equivalent to approximately RMB0.085) per ordinary share totalling HK$1,369,412,000 (equivalent to approximately RMB1,168,739,000) for the six months ended June 30, 2017 (the six months ended June 30, 2016: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 13,694,117,500 (June 30, 2016: 13,694,117,500) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended June 30, 2017 and 2016.

The calculation of basic earnings per share is based on:

	For the six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	**1,754,799**	1,641,564

	Number of shares	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period	**13,694,117,500**	13,694,117,500
Earnings per share		
Basic and diluted (RMB)	**0.13**	0.12

10. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended June 30, 2017, the Group acquired items of property, plant and equipment at a cost of RMB345,642,000 (the six months ended June 30, 2016: RMB124,553,000).

Items of property, plant and equipment with a net book value of RMB626,000 were disposed of by the Group during the six months ended June 30, 2017 (the six months ended June 30, 2016: RMB43,000).

11. PREPAID LAND LEASE PAYMENTS

Acquisitions and disposals

During the six months ended June 30, 2017, there is no additions of prepaid land lease payments (the six months ended June 30, 2016: RMB11,386,000).

No prepaid land lease payments were disposed of during the six months ended June 30, 2017 (the six months ended June 30, 2016: Nil).

12. INVENTORIES

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
Raw materials and packaging materials	**650,085**	679,306
Finished goods	**263,018**	429,970
	913,103	1,109,276

13. TRADE AND BILLS RECEIVABLES

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
Trade receivables	715,015	286,966
Bills receivable	1,362	—
Impairment	(2,570)	(2,899)
	713,807	284,067

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

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
Within 90 days	677,915	264,942
91 to 180 days	30,287	8,612
181 to 365 days	5,605	10,513
	713,807	284,067

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

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
At beginning of period/year	2,899	715
Impairment losses recognized	1,843	2,184
Reversal of impairment	(2,172)	—
At end of period/year	2,570	2,899

13. TRADE AND BILLS RECEIVABLES (continued)

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

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
Neither past due nor impaired	**584,188**	224,183
Past due but not impaired:		
Less than 90 days past due	**124,014**	49,371
90 to 180 days past due	**2,751**	10,362
Over 180 days past due	**2,854**	151
	713,807	284,067

14. AVAILABLE-FOR-SALE INVESTMENTS

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
Available-for-sale investments	**255,233**	250,268

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 in December 2017.

During the six months ended June 30, 2017, the gross gain in respect of the Group's available-for-sale investments recognized in other comprehensive income amounted to RMB4,965,000 (the six months end June 30, 2016: RMB29,078,000), of which no gross gain (the six months end June 30, 2016: RMB17,989,000) was reclassified from other comprehensive income to profit or loss.

15. TRADE AND BILLS PAYABLES

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
Trade payables	**803,868**	1,011,502
Bills payable	**12,750**	15,530
	816,618	1,027,032

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

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
Within 90 days	**780,905**	1,004,144
91 to 365 days	**26,988**	9,781
1 to 2 years	**6,034**	8,621
Over 2 years	**2,691**	4,486
	816,618	1,027,032

The bills payable were secured by the pledge of the Group's short-term deposits of RMB12,750,000 at June 30, 2017 (December 31, 2016: RMB13,280,000).

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

16. SHARE CAPITAL

Shares

	As at June 30, 2017 RMB (Unaudited)	As at December 31, 2016 RMB (Audited)
Authorized:		
50,000,000,000 ordinary shares of HKD0.01 each (December 31, 2016: 50,000,000,000 ordinary shares of HKD0.01 each)	**409,085**	409,085
Issued and fully paid:		
13,694,117,500 ordinary shares of HKD0.01 each (December 31, 2016: 13,694,117,500 ordinary shares of HKD0.01 each)	**112,712**	112,712

17. COMMITMENTS

(a) Capital commitments

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

	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	**355,764**	307,371

17. COMMITMENTS (continued)

(b) Operating lease commitments

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

	As at June 30 2017 RMB'000 (Unaudited)	As at December 31 2016 RMB'000 (Audited)
Within one year	**18,832**	17,629
In the second to fifth years, inclusive	**72,926**	68,450
After five years	**45,579**	51,116
	137,337	137,195

18. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

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

Sales of products:

	Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Dali Century Hotel Co., Ltd.	**70**	44

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

Rental expenses

	Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Fujian Dali Foods Group Co., Ltd.	**9,116**	8,520

18. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties: (continued)

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

Services purchased:

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dali Century Hotel Co., Ltd.	**230**	226

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

(b) Commitment with a related party:

On 31 December 2014, the Group entered into a ten-year operating lease agreement ending 31 December 2024 with Fujian Dali Foods Group Co., Ltd.. The amount of total rental expense for the period is included in note 18(a) and the amount of total future minimum payments under the operating lease arrangement through 2024 is RMB127,196,000.

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

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries	**8,199**	4,471
Pension scheme contribution	**25**	105
	8,224	4,576

19. FINANCIAL INSTRUMENTS BY CATEGORY

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

As at June 30, 2017

Financial assets

	Loans and receivables RMB'000 (Unaudited)	Available-for-sale financial assets RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Available-for-sale investments	—	255,233	255,233
Trade and bills receivables	713,807	—	713,807
Financial assets included in prepayments, deposits and other receivables	37,036	—	37,036
Pledged deposits	77,963	—	77,963
Cash and bank balances	8,870,270	—	8,870,270
	9,699,076	255,233	9,954,309

Financial liabilities

	Financial liabilities at amortized cost RMB'000 (Unaudited)
Trade and bills payables	816,618
Financial liabilities included in other payables and accruals	519,761
	1,336,379

19. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at December 31, 2016

Financial assets

	Loans and receivables RMB'000 (Audited)	Available-for-sale financial assets RMB'000 (Audited)	Total RMB'000 (Audited)
Available-for-sale investments	—	250,268	250,268
Trade and bills 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

Financial liabilities

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

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		**Fair values**	
	As at June 30, 2017 RMB'000 (Unaudited)	As at December 31, 2016 RMB'000 (Audited)	**As at June 30, 2017 RMB'000 (Unaudited)**	As at December 31, 2016 RMB'000 (Audited)
Financial assets				
Available-for-sale investments	**255,233**	250,268	**255,233**	250,268

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

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

Assets measured at fair value:

As at June 30, 2017 (Unaudited)

	Fair value measurement using			
	Quoted prices in active inputs (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	**—**	**255,233**	**—**	**255,233**

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

As at December 31, 2016 (Audited)

	Fair value measurement using			
	Quoted prices in active inputs (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

The Group did not have any financial liabilities measured at fair value as at June 30, 2017 and December 31, 2016.

There were no transfers between Level 1 and Level 2 fair value measurements during the period and no transfers into or out of Level 3 fair value measurements for both financial assets and financial liabilities during the six months period ended June 30, 2017.

21. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Group after the six months period ended June 30, 2017.

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