達利食品集團有限公司

DALI FOODS GROUP COMPANY LIMITED

Stock Code : 3799

ANNUAL 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. Chen Ying (陳穎)
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

FIVE-YEAR FINANCIAL SUMMARY

Five-Year Financial Summary

CONSOLIDATED RESULTS

	FY2017 RMB'000	FY2016 RMB'000	FY2015 RMB'000	FY2014 RMB'000	FY2013 RMB'000
Revenue	**19,799,109**	17,841,887	16,864,840	14,894,003	12,827,020
Cost of sales	**(12,341,484)**	(11,001,487)	(11,048,584)	(10,895,178)	(10,239,151)
Gross profit	**7,457,625**	6,840,400	5,816,256	3,998,825	2,587,869
Other income and gains	**665,982**	360,210	276,762	114,093	67,189
Selling, distribution and administrative expenses	**(3,772,007)**	(3,218,966)	(2,384,851)	(1,351,390)	(1,069,353)
Finance costs	**—**	(4,705)	(26,736)	—	—
Profit before tax	**4,351,600**	3,976,939	3,681,431	2,761,528	1,585,705
Income tax expenses	**(917,897)**	(840,146)	(769,106)	(684,812)	(394,928)
Profit for the year	**3,433,703**	3,136,793	2,912,325	2,076,716	1,190,777
Attributable to:					
Owners of the parent	**3,433,703**	3,136,793	2,912,325	2,076,716	1,190,777

CONSOLIDATED ASSETS AND LIABILITIES

			As at December 31,		
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total assets	**16,326,079**	16,480,385	15,797,287	6,945,699	7,450,522
Total liabilities	**2,539,894**	2,614,508	3,895,166	6,395,498	3,417,920
Total equity	**13,786,185**	13,865,877	11,902,121	550,201	4,032,602

Chairman's Statement

Dear respectful shareholders,

2017 was a year full of opportunities and challenges. The Group adhered to the development strategy of multi-brands and multi-products, pursued continuous innovation in line with the market trends and the needs of consumers, and achieved fruitful results in industrial expansion and internal improvement. Sales performance steadily improved and profitability maintained healthy growth. The Group continued to optimize its existing products and actively seized the market opportunities to increase its market share. Product categories under brands such as Daliyuan and Copico were further enriched and the growth of Hi-Tiger also substantially surpassed the industry standard. In particular, the strategic release of the Doubendou brand allowed penetration into the soy milk market with great potential, opening up broader space for the Group's future development. Being confronted with various challenges in the macro environment, especially the sharp rise in raw material prices, the Group maintained steady sales growth and a stable profit margin through the optimization of the industrial structure and further consolidated its market position.

In respect of the food business, the Group launched the "Quality Breakfast" series of bread, cakes and pastries under the brand of Daliyuan in June 2017 to target mainly at the consumption scenario on breakfast. According to the statistics for 2016, the overall market size of bread, Cakes and pastries cakes in China exceeded RMB100 billion, of which breakfast consumption accounted for more than 50%. The launch of the "Quality Breakfast" series has better satisfied the demand of consumers for "nutrition, quality, convenience and affordable price" of high quality breakfast, opened up whole new market space of a magnitude of RMB10 billion for the Group and will further consolidate the position of the Daliyuan brand as a dominator in the baking market.

In respect of the beverage business, since the launch of the soy milk series under the "Doubendou" brand in April 2017, the Group has led the development process of the entire packaged soy milk industry in China with pioneering pure natural high-protein products without any additives that can be stored at room temperature. Soy milk has become the most preferred breakfast beverage with the most extensive

consumption base in China due to its suitability for physical fitness of Chinese people, its long history as a beverage and the general consumption habit, its market size is above RMB100 billion. However, the industrialization process of the soy milk industry is seriously lagging behind due to factors such as the bottleneck in production techniques and the economic weakness of manufacturers. The products under the "Doubendou" series are produced by adopting the most advanced production technique and solution in the industry and using stringently selected locally produced non-GMO soybeans without any additives, they are offered in different flavors and types of packaging to satisfy the demand from different age groups and in different consumption scenarios, with a view to divert habitual consumption from home-made non-packaged soy milk to better quality packaged soy milk. After launching in the market for only a short period of six months, "Doubendou" has contributed outstanding results to the Group and has established first-mover advantages and leading position of the Group in the soy milk market. We believe by leveraging on the huge market potential and our advantageous position, "Doubendou" will open up an unprecedented space for future development of the Group.

On internal management, the Group has formed dedicated sales teams for soy milk and quality breakfast to further enhance the refined management of key segments. In respect of sales system, management teams have been established respectively for e-commerce and beverage channels to improve the market-oriented professional and flattened sales structure for enhancing control over distributors and retailers. Meanwhile, the distributor teams are also streamlined in a systematic manner to improve the quality of distributors effectively. Channels and outlets are developed specifically, not only the advantages of traditional channels are strengthened, the expansion of modern channels has also achieved faster progress, laying a solid foundation for sustainable growth in future.

As of December 31, 2017, revenue of the Group reached RMB19.80 billion, representing a year-on-year increase of 11.0%. Gross profit was RMB7.46 billion, representing an increase of 9.0%. Gross profit margin declined slightly by 0.6 percentage point to 37.7%. Net profit grew by 9.5% to RMB3.43 billion, and net profit margin declined by 0.3 percentage point to 17.3%.

Given the outstanding results performance of the Company and ample cash flow, the Board has proposed to distribute a final dividend of HK$0.10 per share for 2017, dividend payout ratio for the year is 66%.

Looking ahead in 2018, the Group will further penetrate into the breakfast market, enrich the product series of "Doubendou" and "Quality Breakfast", and provide better quality, more convenient and better value for money choices of nutritious breakfast for consumers in China. Meanwhile, the Group will continue adhering to our pragmatic and prudent corporate culture, by riding on our industry advantages in nationwide scale and nationwide branding and our dedication to create quality, continuous enhancement in product optimization, channel development and internal governance will be achieved.

During the past year, the Group has accomplished remarkable developments, which are inseparable from the strong support of our business partners, the diligence of all our Group's staff and the confidence of consumers. On behalf of the Board, I would like to express our gratitude to all Dali members, business partners and consumers. 2018 will be the beginning of our Group's new endeavors, by adhering to our original objectives and encouraging each other on our way forward, all staff of Dali will strive to create abundant returns for shareholders and drive the Company to achieve greater success.

Management Discussion and Analysis

INDUSTRY ENVIRONMENT

In 2017, China's economy grew with a rising trend at a steady pace. According to the Statistical Communiqué on the 2017 National Economic and Social Development published by the National Statistics Bureau in February 2018, in 2017, China's GDP exceeded RMB82 trillion, representing an increase of 6.9% year on year. In particular, the final consumption expenditure in 2017 contributed 58.8% of the GDP growth, with total retail sales of consumer goods exceeding RMB36 trillion for the whole year, representing a year-on-year growth of 10.2%. Recovery of consumption was the main driver for stabilization of the economy. In 2017, the food and beverage industry was characterized by diversified product mix and intensified industry competition, which required companies to have higher capabilities of innovation and management, while surging prices of raw materials brought more severe challenges to the industry's profitability.

Despite pressures and challenges, the food and beverage market in China remained the biggest and most attractive one in the world which still had significant market potentials in terms of per capita consumption. New market opportunities have come with deepened health concept and increased per capita disposable income. The Group believes that there will still be enormous room of development for enterprises which have keen sense of perception and possess strong innovation and execution capability.

BUSINESS OVERVIEW FOR 2017

In 2017, the Group continued to adhere to the development strategy of "multi-brands and multi-products" and developed steadily with ongoing innovation, achieving phrasal results in industry expansion and internal improvement. Through optimizing existing product mix and expanding channels, all major categories of the Group had consolidated and strengthened market positions and still maintained healthy profit growth despite substantial increase in price of raw materials.

Popular new products

In 2017, the Group successfully launched a series of well-received new products in the market, driving revenue and profit growth.

For food business, the Group launched the "Quality Breakfast" bread and bakery products in June 2017, focusing on breakfast-oriented consumption scene. Levering the "Daliyuan" brand which enjoyed a leading position in the bakery industry, the breakfast bread which is manufactured by the Group using the most advanced bread production line in the world, once launched, had been sought after by consumers and led the new trend of breakfast consumption. This has reflected the strong production and R&D capability, extensive and mature nationwide sales network and the comparatively high brand awareness of the Company. In December of the same year, the Group successfully launched the Copico fresh cut potato chips (可比克純切薯片) to enter the untapped sliced potato chips market and created the taste of "spicy crawfish (麻辣小龍蝦)" which have become new products sought after by the market.

For beverages business, the Group launched the "Doubendou" series of soymilk products in April 2017, which are nutritionally good soy milk that is natural without additives. With groundbreaking products that are pure natural, high-protein, non-addictive and stored at room temperature, the Group leads the development process of the entire packaged soybean milk industry of the PRC. The product was favored by the market shortly after its launch. The Group relied on its strong product development capabilities, high-quality production equipment, extensive and matured national sales network and effective brand promotion, which enabled Doubendou to quickly gain a market share and contribute to the growth in the Group's sales for 2017.

As a local food and beverage company in China, the Group will continue to strive for the R&D and production of quality products, for ongoing innovation and progress to meet the changing needs of consumers, and for continuous provision to consumers with safe, healthy, convenient and delicious food and beverage products.

Efficient Operation

Apart from enriching and optimizing the product mix, the Group also optimized its sales force by rationalizing the distributor structure in a targeted manner, thereby making the sales system more efficient. In 2017, the Group not only consolidated its strength in traditional channels, but also made rapid progress in the expansion of modern channels. The quality of distributors has also significantly enhanced. Furthermore, the Group also set up sales teams for the e-commerce channel and catering channel respectively to further explore market potential.

In 2017, through a multi-dimensional brand and media strategy, the Group rapidly increased the popularity of new products with limited investment, effectively driving the sales of products such as Hi-Tiger, Doubendou and Copico fresh cut potato chips (可比克純切薯片). In terms of production layout, the Group completed the phased capacity building of soy milk and sliced potato chips using the existing production bases. As always, the Group strictly controlled costs, maintained abundant cash flow and conducted daily operations smoothly and effectively.

In 2017, the Group continued to uphold the business philosophy of creating quality products, and made unremitting efforts in meeting the ever-increasing demand of consumers, thereby creating huge returns for shareholders.

Food Business

	For the year ended December31,		
	2017 (RMB in million)	2016 (RMB in million)	% change
Food			
Bread, Cakes and Pastries	**6,106**	6,336	(3.6)
Potato Puffed Food	**2,256**	1,878	20.1
Biscuit	**1,610**	1,551	3.8
Total	**9,972**	9,765	2.1

Sales of our food products increased by 2.1% to RMB9,972 million in 2017 from RMB9,765 million in 2016; sales income from bread, cake and pastry products decreased by 3.6% from 2016; and the sales income from potato puffed food and biscuits increased by 20.1% and 3.8% from 2016 respectively.

Bread, Cakes and Pastries

Bread, cake and pastry products of Dali are the traditional products with leading market advantage of the Group. Our products such as soft french bread, small bread, egg yolk pie, chocolate pie, mini french bread and delicious cake are favored by consumers and occupied the absolute leading position of their respective sub-categories.

Meanwhile, the Group closely followed market changes and realized the market opportunities brought by consumption upgrade. The Group successfully launched "Quality Breakfast" of bakery series with a total of 10 major products, 2 major series and 33 packaging specifications, with a focus on breakfast-oriented consumption scene. The launch of the "Quality Breakfast" series has better satisfied consumers' demand for quality breakfast of "nutrition, quality, convenience and cheap price" and opened up the space for a brand new market of billions of orders for the Group, and will further consolidate the dominant position of Dali's brand name in the bakery market.

In 2018, the Group will further upgrade its products and introduce a series of products with short and medium shelf-life focusing on breakfast consumption scenarios to further enrich the product lines and increase the market coverage.

Potato Puffed Food

The Copico potato chips is a leading brand of domestically produced potato chips with good market reputation. The main consumer population of puffed food is the '90 and '00 young groups, as such consumers tend more to pursue individuality and independence. In early 2017, the Group commenced comprehensive upgrade of the packaging and tastes of Copico's products with more stylish packages to cater to the tastes of young consumers. In terms of tastes, the Group has introduced the refreshing cucumber-flavored chips to meet the demand of young consumers for light tastes. In December 2017, Copico launched the fresh cut potato chips with "fresh potato fresh cut technology" and entered the market for sliced potato chips. Industry data showed that at present the compound potato chips and the sliced potato chips account for about 50% of the market share in China, respectively[1]. Through the launch of fresh cut potato chips, the Group strategically entered a new sub-category in the potato chips market, thereby expanding its market share in the Copico potato chips market and further optimizing the sales structure of the food sectors. Meanwhile, the Group cooperated with popular movie IP (such as the "Monster Hunt II (捉妖記2)") and achieved excellent sales performance with the Copico image and promotional activities in core stores nationwide.

In 2018, the Group plans to rapidly increase the market rate of fresh cut potato chips and strengthen promotion of the brand and stores of Copico to enhance consumer attention, thereby expanding the market share of the rapidly growing sliced potato chips to further consolidate the Group's market share in the potato puffed food markets.

Biscuit

In 2017, the sales of Haochidian Biscuit grew steadily. Traditional products such as the crispy series and the high-fiber series were still the leaders in market segments, achieving steady growth in 2017. In addition, the performance of "Zhenhao Cookie" with focus on the Group's mid-to-high end cookie market, was excellent mainly due to the good quality and taste of the cookies themselves, together with accurate pricing strategies and effective marketing. Meanwhile, with the escalating trend of consumption upgrade in recent years, the Group further upgraded the quality and packaging of the crispy series and the high-fiber series of the Haochidian Biscuit in December 2017 to further attract consumers.

[1] *Source: AC Nielsen*

Beverage Business

	For the year ended December31,		
	2017 (RMB in million)	2016 (RMB in million)	% change
Beverage			
Energy Drinks	**2,675**	2,036	31.4
Plant-based and Milk Beverage	**2,192**	1,649	32.9
Herbal Tea	**2,521**	2,711	(7.0)
Other Beverage	**1,210**	1,249	(3.1)
Total	**8,598**	7,645	12.5

Sales of beverage products increased by 12.5% from RMB7,645 million in 2016 to RMB8,598 million in 2017, in which sales of energy drinks, plant-based and milk beverage (including Doubendou) increased by 31.4% and 32.9% respectively, while that of herbal tea and other beverages decreased by 7.0% and 3.1% respectively.

Energy Drinks

Hi-Tiger has maintained rapid growth since its launch in 2013. In 2017, the Group timely seized market opportunities to optimize its sales structure, with focus on strengthening promotion of the 250ml aluminum cans of Hi-Tiger, significantly enhancing the recognition of Hi-Tiger as an energy drink in the minds of consumers. In 2017, Hi-Tiger had significant performance in all-channel network construction, and achieved significant breakthroughs in the number and quality of its sales channels. In particular, the sales ratio of canned Hi-Tiger has increased significantly.

Meanwhile, the Group has conducted a series of publicity campaigns and promotional activities for the Hi-Tiger brand to continuously enhance brand awareness. These included the naming of mainstream e-sports projects (such as the Heroes League Global Finals on the Douyutv.com (鬥魚平臺英雄聯盟全球總決賽), etc.) to strengthen the brand awareness of Hi-Tiger in young people; the Group has become a strategic partner of the FIA F4 China Championship, sponsored the China Formula Grand Prix to associate the brand value of Hi-Tiger with characteristics of racecars to convey limits, speeds and passion, so as establish the brand image among target consumer groups. Moreover, Hi-Tiger has also advertised in popular variety shows and hit series, such as "Surgical Storm (《外科風雲》)", "Run It! (《奔跑吧》)", "Sing China 2 (《中國新歌聲2》)", "White Night Chase (《白夜追凶》)", "Nothing Gold Can Stay (《那年花開月正圓》)" and so on, and broadcasted before the showing of blockbusters such as "Transformers 5 (《變形金剛5》)" and "Chinatown Detective 2 (《唐人街探案2)", to keep abreast mainstream entertainment scenes of young people.

Herbal Tea

In 2017, overall growth of the herbal tea market was weak and industry competition intensified. The unique herbal plants connection extraction technology of Heqizheng has guaranteed differentiation in quality and taste from competitors. The Group adhered to a stable and rational channel profit distribution system so that the space of profit of Heqizheng was not affected by irrational competition, while giving partners full confidence and benefit protection.

In 2018, Heqizheng will optimize its existing packaging specifications, use the Group's national scale and multi-industrial advantages and play a synergistic effect with soy milk products to strengthen the development of catering channels, while enhancing the market penetration rate in key regions through the comprehensive distribution system.

Plant-based and Milk Beverage

The Doubendou series of soymilk products have been well received by the market since its launch in April 2017. The product uses advanced technology and is more suitable for the tastes of Chinese consumers. Meanwhile, with strictly selected domestically produced non-genetically modified soybeans and no addition of any flavors or preservatives, the product can be stored at room temperature only with whole bean grinding. In terms of contents, we prospectively launched original-flavored, organic and sugar-free products to meet the demands of different consumers. In terms of packaging, we had both Tetra Pack that met family's consumption habits and PP bottle packaging that suited leisure requirements to meet the demands from different age groups and different consumption scenarios. In respect of media publicity, the Group set off a soymilk consumption boom nationwide with its strong brand construction capability. Through methods such as brand spokesperson, CCTV, local TV, mainstream Internet media placement and ground outdoor media coverage, the green, healthy, nutritious and high-quality brand image of Doubendou (豆本豆) was quickly established. Currently, Doubendou has already completed distribution of supermarkets in tier-1 and tier-2 cities, and at the same time quickly infiltrated traditional channels and gradually expanded into catering channels.

In 2018, the Group will launch more flavors of soymilk products while further increasing market penetration and strengthening overall distribution of channels to consolidate the Group's advantage in soymilk market.

Due to overall market space saturation and serious homogeneity of competition, sales of peanut milk declined to a certain extent in 2017 as compared with the same period of last year. While maintaining the profit margin of peanut milk, the Group increased the sales revenue of plant-based protein sub-segment through soy milk to achieve breakthrough in industry direction. With improving living standards of the people and increasing consumer health awareness, the Group still believes that the market for pure plant-based protein drinks that meets the concept of dietary health has broad prospects. In the future, we will strengthen product innovation and R&D and introduce more pure, healthy and high-quality plant-based protein products.

In addition, the Group also carried out a series of improvements and upgrades for other products in the beverage segment to make the sales of other beverages stabilize. The Daliyuan Plum Fruit Tea (達利園青梅果味茶) launched in July 2017 has become a unique product in the tea market. Daliyuan Plum Green Tea always has a stable consumer base. The Group made improvement and upgrade for its formula and taste on the basis of the original products and achieved good market performance.

Cost of Sales and Gross Profit Margins

The primary cost of sales of the Group 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 53.8% of total cost of sales and the packaging material costs represented 25.5% of total cost of sales. In 2017, the market prices of raw materials and packaging materials basically showed an upward trend. Among the primary items, the costs of packaging materials, sugar, palm oil and powdered milk increased.

Benefited from the Group's comprehensive scale advantages and strong financial strength, we are able to obtain more favorable purchase price, thereby controlling the procurement costs of raw materials. The Group'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 prices of raw materials become volatile in future, the Group will still be able to maintain a 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 2017, the Group's gross profit margin decreased by 0.6 percentage point to 37.7%, which was primarily due to the dilution of trading business. The gross profit margin of the food business increased by 1 percentage points to 35.2% year-by-year, while the gross profit margin of the beverage business remained flat at 45.5% as compared to 2016.

The following table sets forth the Group's gross profit and gross profit margin by segments for the years indicated:

	For the year ended December 31,					
	2017			2016		
	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	**3,506**	**47.0**	**35.2**	3,340	48.8	34.2
Beverage products	**3,910**	**52.4**	**45.5**	3,486	51.0	45.6
Others	**42**	**0.6**	**3.4**	14	0.2	3.2
Total	**7,458**	**100.0**	**37.7**	6,840	100.0	38.3

Other Financial Information

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 16.5% from RMB2,788 million for 2016 to RMB3,248 million for 2017. These expenses as a percentage of revenue increased from 15.6% for 2016 to 16.4% for 2017. The increase was primarily due to the promotion expenses brought by new products and 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 increase in the average salary of sales personnel.

Administrative Expenses

The Group's administrative expenses increased by 21.6% from RMB431 million for 2016 to RMB524 million for 2017. These expenses as a percentage of revenue increased slightly from 2.4% for 2016 to 2.6% for 2017 which was primarily due to the increase in the average salary of the Group's staff.

Cash and Borrowings

The Group financed its liquidity requirements mainly through cash flows generated from its operating activities and the proceeds from the listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**"). The aggregate amount of the Group's pledged deposits and cash and bank balances decreased from RMB9,926 million as at December 31, 2016 to RMB8,146 million as at December 31, 2017. The decrease was primarily due to the increase of RMB1.85 billion being the annual dividend for 2016 and the interim dividend for 2017 distributed by the Group to the investors as compared to previous year. Other changes mainly included the increase of RMB340 million in capital expenditure as compared to last year and the increase of RMB800 million in trade and bills receivables as compared to last year. As at December 31, 2017, 88.9% and 10.6% of the Group's cash and bank deposits were denominated in RMB and HK dollars, respectively.

As at December 31, 2017, the Group did not have any borrowings.

The Group's gearing ratio as at December 31, 2017 was 15.6%, which is calculated by total liability divided by equity plus total liability.

Inventories

The Group's inventories increased by 20.2% from RMB1,109 million as at December 31, 2016 to RMB1,333 million as at December 31, 2017, primarily due to the late Spring Festival in 2018 leading to the increase of material inventory (the Group's stocking period of raw materials was December of the year). The inventory turnover days increased from 33.8 days for 2016 to 35.6 days for 2017.

Trade and Bills Receivables

The Group's trade and bills receivables increased by 282% from RMB284 million as at December 31, 2016 to RMB1,085 million as at December 31, 2017, primarily due to the increase in receivables as a result of the Group's increased expansion in the modern channel, the rapid growth in sales of key accounts and E-commerce and the relaxation of the credit facilities of some distributors who operated in modern channels and with good reputations. The trade receivables and bills turnover days increased from 4.4 days in 2016 to 12.6 days in 2017.

Trade and Bills Payables

The Group's trade and bills payables decreased by 13.4% from RMB1,027 million as at December 31, 2016 to RMB889 million as at December 31, 2017, which was primarily due to the decrease in payables as a result of the Group appropriately shortened the payment period of some raw materials with large price increase in order to control the procurement costs of materials to obtain better purchase prices. The trade and bills payables turnover days decreased from 33.0 days for 2016 to 28.0 days for 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 December 31, 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 December 31, 2017, the Group did not have any significant contingent liabilities.

Asset Pledge

As at December 31, 2017, the Group's bills payable and letter of credit were secured by pledging its short-term deposits in amount of RMB50 million.

Available-for-Sale Investments

As at December 31, 2017, the Group's total available-for-sale investments amounted to RMB250 million, which is the same as compared to RMB250 million as at December 31, 2016. This was primarily because the wealth investment products that the Group purchased at the end of 2016 and during 2017 have already been redeemed on their maturities and the Group continued to purchase these wealth investment products. The Group's available-for-sale investments of RMB250 million as at December 31, 2017 were wealth investment products purchased from financial institutions with maturity periods of 190 days. For the year ended December 31, 2017, the gain in respect of the Group's available-for-sale investments which have been redeemed on their maturities amounted to RMB13 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, 2017 was as follows:

Use of Proceeds from the Listing (As of December 31, 2017)

(HKD million)

No.	Items	Percentage	Available	Utilised	Unutilised
1	Development, introduction and promotion of new products	20%	1,733	425	1,308
2	Expansion and upgrade of production facility and manufacturing network	20%	1,733	1,046	687
3	Enhancing presence in sales channels and promoting brands	20%	1,733	1,142	591
4	Potential acquisitions and business cooperation	30%	2,600	—	2,600
5	Working capital and other general corporate purposes	10%	866	801	65
Total			8,665	3,414	5,251

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 RMB809 million in 2017, primarily incurred from (i) the construction of soy milk production facilities; (ii) the construction of fresh cut potato chips production facilities; (iii) the construction of production facilities in Jiangsu and Guongdong; and (iv) the construction of office building in Xiamen.

As at December 31, 2017, the Group's capital commitments relating to property, plant and equipment were RMB420 million, which were primarily used for the purchases and construction of production lines for "Doubendou" soy milk, Copico sliced potato chips, etc. as well as the repair and maintenance of production facilities.

Improvement of Product Quality and Operational Efficiency

In 2017, the Group, as always, acted on the principle of "quality first" and further improved the quality level of the products by optimizing production processes and speeding up inventory circulation. By upgrading and improving production equipment and facilities, the Group ensured food safety. Through strict process control, the food safety system was implemented in each work stage, which fundamentally eliminated the risk of product quality. In 2017, the Group passed a number of certifications in respect of quality, food safety, environment management, hazard analysis and key controlling point systems such as ISO9001, ISO22000, ISO14001 and HACCP.

Human Resources and Staff Remuneration

The Group 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 2017, the Group 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, 2017, the Group had a total of 35,985 employees, compared to 37,073 as at December 31, 2016. 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, 2017, the total employee benefits expenses (including Directors' remuneration) were RMB1,969 million as compared to RMB1,836 million for the year ended December 31, 2016, which was primarily attributable to the increase in average salary level. The decrease in the number of the Group's employees was primarily attributable to (i) the decrease in the number of production staff as a result of the improvement of product automation level; (ii) the appropriate reduction of the number of sales representatives so that the Group could optimize the allocation of market resources.

PROSPECTS

Looking forward in 2018, facing opportunities and challenges of the market, the Group will continue to adhere to creation of quality with heart and the multi-brand and multi-categories development strategy for ongoing innovation and expansion.

For products, the Group will continue to invest in the research and development of Doubendou and the Quality Breakfast to further enrich our product lines and deepen expansion into the breakfast industry with premium products. As consumers are increasingly concerned about quality and freshness of foods, the Group plan to launch bread and cakes of short and medium shelf-life for breakfast. To this end, the Group will strengthen our sales management and logistics distribution capabilities, improve the market-oriented professional and horizontal sales structure, and enhance our capabilities of management and control of distributors and retail terminals.

For channels, the Group will consolidate our existing channel advantages and focus on strengthening expansion into key accounts' network in a targeted manner. With the launch of new products, the Group will comprehensively select distributors of products of medium and short shelf-life, and will also gradually explore catering channels so that the Group's market coverage and penetration rate will continue to increase.

The Group will adhere to prudent financial management policies, maintain ample cash flow, and maintain a sound financial position. While strengthening own growth, the Group will continue to focus on opportunities for mergers and acquisitions and external cooperation.

In 2018, the Group will keep our faith and work hard to create rich returns for our shareholders, driving our Company to greater success.

REPORT OF THE DIRECTORS


品质早餐
Croissant
牛角包
国民早餐好选择
品质早餐
Croissant
牛角包
国民早餐好选择

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, 2017.

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, 2017 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 pages 6 to 7 and the "Management Discussion and Analysis" on pages 8 to 17 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, 2017.

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, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 100 and 101.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK$0.100 (equivalent to approximately RMB0.081) per ordinary share for the year ended December 31, 2017 (the "**2017 Final Dividend**"), representing a total payment of approximately HK$1,369 million (equivalent to approximately RMB1,103 million). The payment of the 2017 Final Dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting (the "**AGM**") to be held on May 24, 2018.

Upon Shareholders' approval to be obtained at the AGM, the 2017 Final Dividend is expected to be paid on June 20, 2018 to the Shareholders whose names appear on the register of members of the Company on June 4, 2018.

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 5 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, 2017 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, 2017, the Company's reserves available for distribution amounted to RMB3,581 million (2016: RMB6,768 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of the Group's property, plant and equipment during the year ended December 31, 2017 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 16 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. Xu Shihui, Mr. Zhuang Weiqiang, Ms. Xu Yangyang, Ms. Xu Biying, Ms. Hu Xiaoling, Mr. Cheng Hanchuan, Mr. Liu Xiaobin and Dr. Lin Zhijun shall 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 2017 or at any time during 2017.

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)(iii) 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)(ii) 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 expired 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, 2017 are RMB10.7 per sq.m. and RMB5.35 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, 2017 increased by 7% by reference to the GDP growth compared to that for the year ended December 31, 2016;

(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 RMB18,232,000 pursuant to the terms of the Property and Land Leasing Agreement for the year ended December 31, 2017. We have set annual caps for the aggregate rental expenses payable under the Property and Land Leasing Agreement of RMB20,617,000 for the year ended 2017.

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.

As the Property and Land Leasing Agreement expired on 31 December 2017, the Company entered into the property and land leasing agreement dated 1 December 2017 (the "**New Property and Land Leasing Agreement**") with Fujian Dali, pursuant to which the Company agreed to lease the same properties and land in the PRC from Fujian Dali for a term of three years from 1 January 2018 to 31 December 2020.

Pursuant to the New 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 each of the three years ending December 31, 2020 are RMB10.7 per sq.m. and RMB5.4 per sq.m., respectively;

(c) the rental price shall be reviewed and adjusted from the second year of the duration of the New 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;

(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.

We have set annual caps for the aggregate rental expenses payable under the New Property and Land Leasing Agreement of RMB19,000,000, RMB20,000,000 and RMB21,000,000 for each of the three years ending 2020.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE

As at December 31, 2017, 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 Directors	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company
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	Approximate 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 December 31, 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 December 31, 2017, 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 Shareholders	Capacity/Nature of interest	Number of Shares (long positions)	Approximate percentage of interest in the Company
Divine Foods	Beneficial owner	11,640,000,000	85%
Divine Foods-1 Limited[(1)] (“**Divine Foods-1**”)	Interest in controlled corporation	11,640,000,000	85%
Divine Foods-2 Limited[(1)] (“**Divine Foods-2**”)	Deemed interest as an associate of a substantial shareholder	11,640,000,000	85%
Divine Foods-3 Limited[(1)] (“**Divine Foods-3**”)	Interest in controlled corporation	11,640,000,000	85%
Ms. Chen Liling[(1) (2)]	Interest of spouse	11,640,000,000	85%

Notes:

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

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

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 2017.

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 as of March 18, 2018. 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, 2017, 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, 2017.

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, 2017, 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, 2017 is set out below:

Remuneration bands	**Number of Individuals**
HK$1 to HK$500,000	1
HK$500,001 to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	0
HK$1,500,001 to HK$2,000,000	2
HK$2,000,001 to HK$2,500,000	0
HK$2,500,001 to HK$3,000,000	1

Details of the remuneration of each of the Directors for the year ended December 31, 2017 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 2.7% by value of the Group's total goods sales during the year ended December 31, 2017, with the largest customer accounting for 0.6%. The five largest suppliers of the Group comprised 8.4% by value of the Group's total purchases during the year, with the largest supplier accounting for 2.3%.

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, 2017 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 counter-measures for unexpected environmental pollution accidents to minimise our impact on the environment and the adverse effect on our business. We incurred RMB6.8 million (2016: RMB9.0 million) in environmental compliance costs for the year ended December 31, 2017.

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, 2017 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, 2017, we had more than 5,178 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, 2017 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 18, 2018

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 60, 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 30 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 40, was appointed as an executive Director on June 14, 2015. Mr. Zhuang joined the Group in 1998 and has more than 19 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 34, 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 9 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 62, was appointed as a non-executive Director on June 14, 2015. With 30 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 19 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 47, 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 director of Belle International Holdings Limited (a company delisted on the Stock Exchange since July 28, 2017, stock code: 1880) and a non-executive director of Baroque Japan Limited (a company listed on the Tokyo Stock Exchange, stock code: 35480). Ms. Hu had also been a director of Anhui Yingliu Electronmechanical Co., Limited (a company listed on the Shanghai Stock Exchange, stock code: 603308) and Midea Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000333) from April 2006 to March 2017 and from August 2012 to July 2017, respectively. Ms. Hu had also been a director of Beijing Motie Book Corporation Company from July 2010 to December 2017. 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 64, 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 52, 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 63, 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), CITIC Dameng Holdings Limited (a company listed on the Stock Exchange, stock code: 1091) and BOCOM International Holdings Company Limited (a company listed on the stock Exchange in May 2017, stock Code: 3329). Dr. Lin is the Dean of the Business School and an Associate Vice President of the 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 tanght at The University of Hong Kong from August 1996 to June 1998, Lethbridge University in Canada from September 1990 to August 1998 and Xiamen University (廈門大學) from September 1982 to August 1990. 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, the Washington Institute of Certified Management Accountants since May 1995 and the Australian Institute of Certified Management Accountants since 2003. 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 48 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 25 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 37, 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 17 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 51, 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 24 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 39, 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 14 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.

Chen Ying (陳穎)

Joint company secretary

Ms. Chen Ying (陳穎), aged 32, joined the Group in 2016 as the legal counsel of the Group, responsible for legal and compliance matters of the Group. Prior to joining the Group, Ms. Chen was a lawyer at Shanghai Llinks Law Offices from 2011 to 2016, specializing in capital market with extensive professional experience in securities issuance, merger and acquisition, corporate assets reorganization, equity investing and financing and post-listing legal and compliance matters. Ms. Chen graduated from Xiamen University with a master's degree in law in 2011 and graduated from Southwest University of Political Science and Law with a bachelor's degree in law in 2008, as well as a bachelor's degree (dual degree) in English literature from Sichuan International Studies University in the same year. Ms. Chen obtained her practicing certificate in Law in the PRC issued by China Ministry of Justice.

JOINT COMPANY SECRETARIES

Chen Ying (陳 穎), is the legal counsel of the Group and was appointed as a joint company secretary on March 18, 2018. Please refer to "Biographies of Directors and Senior Management – Senior Management" for details of her 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 enhance corporate value, formulate its business strategies and policies, and enhance its transparency 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, 2017, 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, 2017.

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 36 to 39 of this annual report.

The relationships between the members of the Board are disclosed under "Biographies of Directors and Senior Management" on pages 36 to 39 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, 2017, 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 of the Directors

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.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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, 2017, the following Directors participated in the following trainings:-

Directors	Type of Training Note
Executive Directors	
Mr. Xu Shihui	***A,B***
Mr. Zhuang Weiqiang	***A,B***
Ms. Xu Yangyang	***A,B***
Non-executive Directors	
Ms. Xu Biying	***A,B***
Ms. Hu Xiaoling	***A,B***
Independent non-executive Directors	
Mr. Cheng Hanchuan	***A,B***
Mr. Liu Xiaobin	***A,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 pages 2 to 3 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 discuss the audit process and accounting issues with the external audits and to review, among other things, (i) the annual financial results for the year ended December 31, 2016 and the interim results for the six months ended June 30, 2017 and the relevant reports prepared by the external auditors relating to 2017 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.

During the year, the Audit Committee also met the external auditors twice without the presence of the management of the Company to discuss the audit procedures 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 31 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 2017 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, 2017 is set out in the table below:

	Attendance/Number of Meetings				
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**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, 2017.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 94 to 99 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, 2017 is set out below:

Service Category	Fees Paid/Payable *RMB*
Audit services	4,500,000
Non-audit services (including Tax compliance service, Tax advisory, ESG reporting advisory and Risk management reporting advisory)	629,000
Total	5,129,000

COMPANY SECRETARIES

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 during the year ended December 31, 2017 and up to March 17, 2018 was Mr. Tu Zhiqian, joint company secretary of the Company. With effect from March 18, 2018 Mr. Tu resigned and Ms. Chen Ying was appointed as the joint company sectectary and Ms. Chen is the primary contact person at the Company since then.

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 pages 68 to 93 of this report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board's Responsibility for Risk Management and Internal Control

The Board of Directors, as the risk management supreme leading organ of the Group, undertakes ultimate responsibility for 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 Board of Directors is responsible for evaluating and determining the nature and extent of the risks the Group is willing to take in achieving its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems.

Characteristics of Risk Management and Internal Control Systems

The Group's internal control system is formulated according to the principles of the internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the US. In order to apply the philosophy of risk management at all levels, the Group has been implementing the risk management work to the group headquarters and all the subsidiaries with intensive management against critical risks therein. The components of the framework are shown as follows:

1. Environmental control – providing enterprise discipline and structure, creating corporate culture and influencing employees' internal control consciousness, which forms a basis of all other internal control elements.

2. Risk assessment – aiming at identification and evaluation of the risks associated with achieving internal control objectives in the operating activities, thereby establishing risk management objectives in light of specific businesses.

3. Control activities –establishing control measures through policies and procedures to help ensure that management directives to mitigate risks are carried out for achievement of objectives.

4. Information and communication – internal and external information communication to provide the Group with the information needed to carry out day-to-day controls.

5. Internal monitoring – supervision and inspection that a company conducts in respect of the establishment and implementation of internal control to evaluate the effectiveness of internal control and identify internal control defects which should be improved in time.

The risk management and internal control systems adopted by the Group are designed to manage rather than eliminate the risks associated with its failure to fulfill business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk Management Organizational System

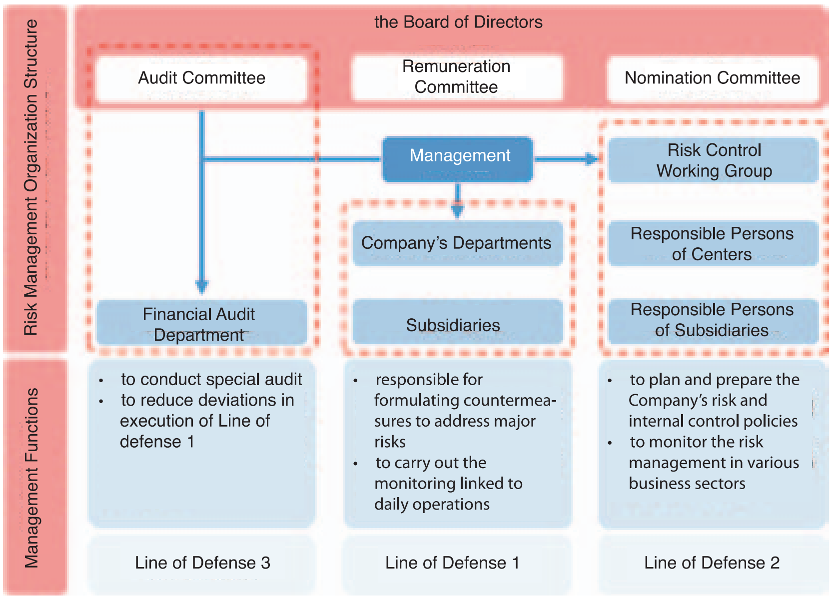


Figure 1: Risk Management Organizational System

Based on the respective responsibilities of the management, the Board of Directors and the Audit Committee for risk management, the Group has set up three lines of defense regarding the risk management and internal control work:

Line of Defense 1

- The Group's Departments and Subsidiaries;
- As a risk bearer, undertaking the primary and direct responsibility for the management and control of risks in business activities;
- Taking charge of identifying, quantifying and overseeing the risks within each business scope;
- Formulating risk countermeasures linked to daily operations.

Line of Defense 2

- Risk Control Working Group, Responsible Persons of Centers and Responsible Persons of Subsidiaries;
- Responsible for planning and preparing the Group's risk and internal control policies and systems;
- Responsible for implementation of the major risk countermeasures and key internal control points;
- The Risk Control Working Group is staffed by members from the legal, HR and financial operation center, facilitating the improvement and execution of risk management and control measures through the transfer and accumulation of professional knowledge and skills as well as the coordination, summariation and supervision of risk exposures and management status in each business sector.

Line of Defense 3

- Audit Committee and Financial Audit Department;
- Responsible for carrying out special test, verification and evaluation on the integrity and effectiveness of the risk management framework and internal control system to conclude independent and objective appraisal.

Risk Management and Internal Control and Management Procedures

The Group has set up a risk management and internal control sysem cycle applicable to the group management characteristics, running regularly to manage and monitor the Group's risks for this financial year. The cycle contains:

Figure 2: Risk Management and Internal Control Procedures

1) Collection of risk information

The Group conducts the collection and update of risk information internally and externally. The Group has collected industry-related information from outside, carried out industry benchmarking, and analyzed industry risks. At the same time, the Group has collected internal risk management information through various channels such as internal visits and questionnaires, effectively identified and analyzed various risk points, and updated the "Comprehensive Risk Database", providing further support for risk analysis.

2) Analysis of risk assessment

The Group goes through the current risk management status at regular intervals, mobilizes all members of the Group to participate in risk assessments, and deeply explores the connotation of risks by means of interviews and risk scoring with the causal analysis method. Quantitative analysis and comprehensive assessment of the risks have been conducted from the two dimensions of the possibility of occurrence and influence level of the risks, to determine the major risks of the Group for the current year and form the "List of Major Risks".

3) Implementation of risk countermeasures

The Group's management jointly discusses and identifies major risk response plans, refines countermeasures, and links such risk countermeasures with day-to-day business operations, so as to put the risk countermeasures into responsible positions and make clear the arrangement of nodes for work. The Group has established a bottom-up reporting channel to ensure effective monitoring of the risk countermeasures and give full play to the risk control responsibilities under the "Line of defense 1".

4) Continuous supervision of risks

The Group conducts continuous supervision of risks through various means to ensure the effectiveness of risk management and internal control system. The Group further deepens the construction of three defense lines of risk control, conducts daily supervision duties for risks, clarifies the relevant responsible departments for each risk, and conducts normal supervision over the content and frequency of its risk management implementation. In addition, the Group regularly conducts audit work in special areas to ensure that the risk control under the "Line of defense 1" has been put in place.

5) Optimization of risk management

The management of the Group combines the results of risk assessment and internal audit for the update of the Group's internal control system. The Group has further enriched and improved the risk database, systematically analyzed the causes, impacts and internal logic of each risk, traced the root causes of risks, seized the risk drivers, and grasped the core risks, so as to realize the efficient management and control of risks and the optimization and upgrade of internal control system.

Major Risks and Management Measures in 2017

Major risk management achievements of the year

- To conduct a comprehensive risk assessment. The Group's Risk Control Working Group took the lead in carrying out a comprehensive review of businesses of the Group and its subsidiaries: The Risk Control Working Group understood the potential risks of the Group's business processes through field visits and questionnaire surveys to various functional departments, and then revised and improved the Group's risk database. Secondly, the Risk Control Working Group took the lead with each department's employees to score risks in the risk database from the two dimensions of the possibility of occurrence and influence level of the risks, in order to identify the risks that the Group faces or will face.

- To strengthen risk cause management. Through the analysis of the industry benchmarking and business processes, the Group analyzed the risk causes of the major risks that the Group faced, grasped the risk priorities and related relationships, accurately located the source of risks, formulated countermeasures for specific issues, and achieved effective risk management and control.

- To fully optimize the Group's business processes. The Group continued to pay attention to and reviewed business processes on a regular basis, improved the construction of internal control system, optimized inefficient business processes, and achieved both "risk control" and "high efficiency". Through the establishment of an OA system, the Group optimized the business approval process and used system controls instead of traditional manual controls to achieve the automation of work processes and the improvement of work efficiency.

- To build risk management culture. The Group's internal control system has been adjusted in accordance with the latest requirements of the US COSO ERM 2017, so as to focus on building enterprises risk management culture, communicate and clarify the main responsible departments and their respective responsibilities for each risk.

After the risk assessment process, the Group has identified seven major risks and potential industry risks, and carried out risk cause analysis on the seven major risks faced by the Group.

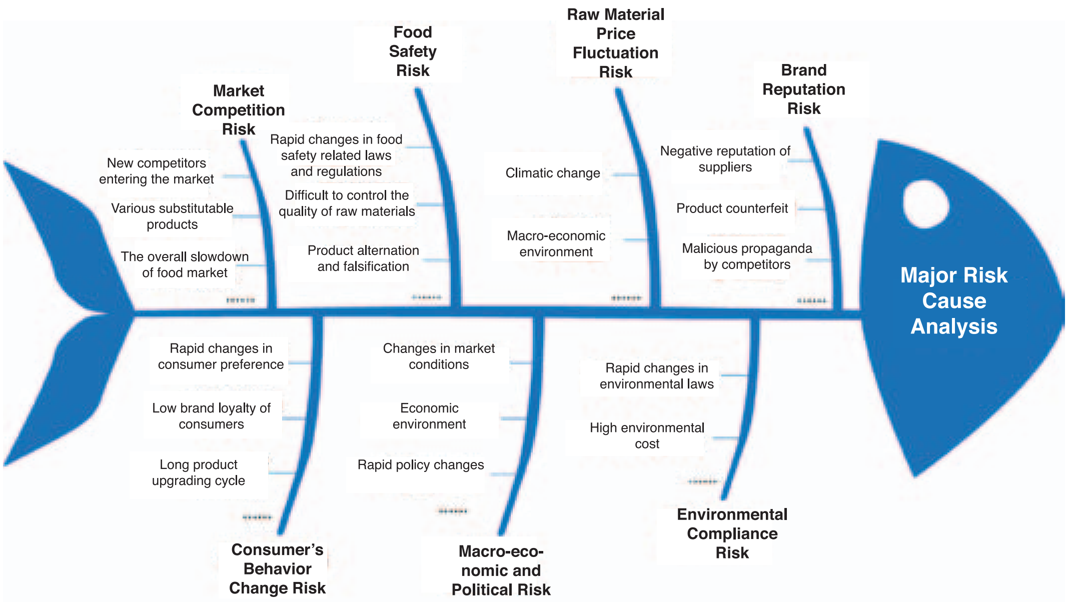


Figure 3: Fishbone Diagram of Major Risk Cause Analysis

In respect of its risk exposure, the Group has designed and monitored the implementation of the following countermeasures through streamlining the business operating process:

No.	Risk	Description	Countermeasures
1	Market competition	The PRC leisure food and non-alcoholic beverage industries are facing fierce market competition. Some competitors or new competitors may produce and sell products that are similar with ours, which may weaken the existing market share of the Group and affect its market competitiveness. In addition, the overall slowdown in the growth of the food and beverage industry in recent years may further increase the market competition risk.	**1. To choose a reasonable market and enhance brand competitiveness** In 2017, the Group selected the soymilk market with relatively low competition and high gross profit, and launched the "Doubendou" soymilk, tailoring to the traditional dietary habits and preferences of the Chinese people, thus solved the problems caused by lactose intolerance of certain Chinese people, and enhanced the market competitiveness of the products. **2. To diversify product categories and expand customer base** The Group adheres to the development strategy of "multi-brand and multi-products", with existing products including bakery products, puffed snack foods, herbal tea, and functional beverages. Various brands target different markets, with a wide coverage of consumer base. **3. To introduce product during the change of peak sales season and stabilize the annual market share** The Group regularly analyzes the annual sales distribution of various products, and introduces a variety of products during the change of peak sales season, to ensure that the market share is stable throughout the year and reduce the market competition risks of fast moving consumer goods. **4. To establish a market analysis mechanism to adjust the Group's product strategy according to market conditions** Through market research and purchase of AC Nielsen database, the Group understands the market conditions to position the Group's products and provide protection for the Group's new products.

No.	Risk	Description	Countermeasures
2	Food safety	Risks in food safety exist throughout the whole industrial chain of the Group. If the Group has any negligence in any aspect, it may cause significant food safety incidents, affect the reputation of the Group and incur economic compensation losses. In addition, changes to food safety related laws and regulations at the national, local and food consumption location levels may incur extra compliance cost and uncertainty.	**1. To strictly control the quality of raw materials** 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 during the input, storage and output stages. The Group is actively obtaining the quality certification of the relevant raw materials. For the new product "Doubendou" soymilk launched in 2017, soybean bean milk, the raw soybean has the certification of organic agricultural products and the quality is guaranteed. **2. To establish the pre-sale whole process inspection mechanism** In strict compliance with the national food safety standards, the Group carries out seamless inspections during the whole business process, covering the production, packaging and transportation processes. For the production process, a comprehensive food quality monitoring mechanism has been set up, to ensure that the defective products cannot be moved out of the factory. For the packaging process, the packing materials, ingredients and surface residue are tested. For the transportation process, the pressure test of the products is carried out, to prevent the pollution due to the damage caused by the change of natural environment. Through strict control of each pre-sale process, the Group greatly reduced the risk of food safety.

No.	Risk	Description	Countermeasures
			3. To implement internal and external spot check mechanism for finished products The Group adopts a combination of internal and external spot check on products. Internal spot checks are carried out by each subsidiary and the results are sent back to headquarters quality control department for quality inspection. External spot checks are carried out by all subsidiaries on products that have been produced and put into sale on designated markets according to the requirements of headquarters, and the results are sent back to headquarters for quality inspection. In 2017, the Group completed more than 1000 batches of internal and external checks.
3	Raw material price fluctuation	The price of raw materials for production fluctuates due to various factors that are beyond our control such as the international or domestic macro-economic environment change, exchange rate movement, climatic change or natural disaster and market supply and demand. Given that the management of the Group fails to foresee the raw material prices or fails to implement effective measures in response to unfavorable changes in material prices, the Group may have to bear increased cost of materials due to price fluctuation.	**1. To improve forecasting and analysis mechanism for raw material price trends** The procurement department of the Group analyze raw material market conditions on a monthly basis in accordance with the procurement plan and target, combined with the regional and seasonal nature of raw material procurement. Through observing and analyzing historical purchase prices of raw materials, market price fluctuations, market demand and inventory, among others, and forecast the future trend of raw material prices will be, and timely reflect such forecast results in the formulation of procurement plans, to ensure that countermeasures are taken to effectively reduce procurement costs. **2. To optimize raw material demand seasonal analysis mechanism** The Group conducts lean analysis on the seasonal demand for raw materials and products. Under full consideration of the Group's inventory and inventory turnover, it implements anti-season procurement for certain raw materials. The Group procure raw materials during the period with relatively weak market demand, to effectively circumventing the risk of raw material prices rising due to market demand concentration.

No.	Risk	Description	Countermeasures
			3. To strategically control raw material procurement costs In addition to lock in raw material prices by signing future contracts with futures traders, the Group has actively carried out order agriculture. Through the signing of production and marketing contracts with farmers, the connection between raw material procurement and production is achieved. Before the production of agricultural products, the purchase price is determined based on the approved profit rate, which reduces the risk of market price fluctuations.
4	Brand reputation	The reputation of the Group may be damaged due to internal reasons such as improper response to negative news and external factors such as damaged supplier's reputation, product counterfeiting and malicious propaganda from competitors. Where the Group fails to manage brand reputation risks in a timely manner and maintain the brand image established among consumers, the reputation of the Group may be negatively affected and the long-term development of the Group may be hindered.	**1. To obtain certification from authoritative organizations to enhance brand reputation** During the 2017 China Nutritionist Prospect Planning Seminar(2017年中國營養師前景規劃研討會), the nutritional value of soymilk products was confirmed by a number of nutrition experts. In addition, the "Doubendou" organic soymilk of the Group also received organic product certification from Wantai (萬泰), a third-party certification entity, which endorsed the quality of our products, enables the brand to gain authoritative and public trust. At the same time, the Group actively participated in large-scale trade fairs and won the gold medal in the 7th Shenzhen International Natural and Organic Industry Expo(第七屆深圳國際天然有機產業博覽會) in 2017, which effectively improved the brand reputation of the Group.

No.	Risk	Description	Countermeasures
			2. To actively obtain user feedback to improve customer satisfaction Through internal and external channels, the Group actively collect consumer feedbacks and enhances customer satisfaction. The Group used its own sales channels to visit product sales terminals, and obtained opinions from users through questionnaire surveys and interviews. At the same time, the Group cooperated with third-party consulting agencies to carry out consumer satisfaction surveys, to understand consumers' perceptions of our products and brands and satisfaction. Based on consumer feedbacks, we further optimize our product and maintain the brand reputation. **3. To improve the public opinion monitoring mechanism and reasonably respond to crisis events** The Group further improved the brand public opinion monitoring mechanism. In addition to the management team's daily monitoring of brand and publicity information via Weibo, Wechat, self-media and other channels, the Group enhanced internal communication, and timely obtained feedback from various sales teams, leveraging on its advantages in sales channels. In the event of a crisis, the crisis management team of the Group can promptly address public opinion, issue a statement and take effective measures to prevent the spread of public opinion and avoid brand reputation risks.

No.	Risk	Description	Countermeasures
5	Consumer's behavior change	If the Group does not conduct in-depth research on consumers' preferences and purchase behaviors, it may not be able to accurately predict and effectively respond to rapidly changing consumer behavior preferences when formulating its brand and product development strategies. In addition, if the consumer profile analysis is not thorough, the incomplete knowledge of reputation in the minds of the consumers, purchase rate, loyalty, evaluation and alternative products of the brands and other information may lead to reducing demands for the Group's products, resulting in damage to product sales and operating income, and adversely affecting the Group's performance.	**1. To promote new products to meet consumer needs:** The Group has built a specialized R&D team to make recipe renovation and flavor innovation on existing products, conduct research and innovation on new products, and has satisfied consumers' increasingly diversified consumer demands on the premise of guaranteed product quality. In 2017, the Group has launched two new products, i.e. the "Doubendou" soymilk with no addition of any flavors or preservatives and the "Quality Breakfast". Taking into account the current dietary habits of people, all the soymilk products are low in saturated fat and cholesterol-free, and different flavors of soymilk are launched for different people to meet the dual needs of consumers for taste and healthy diet and to gain a higher rating among consumers. **2. To establish a consumer behavior research mechanism:** The Group conducts research and analysis of consumer behaviors by the internal and external combined method. The internal data is provided by the finance department which shall conduct regular and aggregate analysis of sales data to understand consumers' shopping preferences; external data is provided by industry research agencies and consulting firms which shall understand consumer spending habits, purchase drivers and other information. Through the internal and external internal and external combined research method, the Group can accurately grasp the changes in consumer behaviors, and it provides guarantee for the long-term stable development of the Group.

No.	Risk	Description	Countermeasures
6	Macro-economics and politics	China's food and beverage industry is affected by macro-economic and political fluctuations. At present, the global economic growth is slowing down, the market environment is constantly changing and the industry competition is becoming increasingly fierce. If the Group fails to accurately grasp the policy orientation of the governmental regulatory authorities, macroeconomic trends and changes in the social and political environment, it may lead to unreasonable group decisions and affect the promotion and sales of the Group's products and services.	**1. To participate in the formulation of food safety standards:** The Group is an important member and governing unit of the China National Food Industry Association. It can participate in the process of formulating food safety related policies, know the policy changes of the national food and beverage industry earlier, and conduct strategic control and overall understanding of the macroeconomic and political changes. In 2017, the Group participated in the preparation of standards for deoxidizers and standards for whole grain products. **2. To participate in laws and regulations and risk assessment training:** The Group regularly organizes relevant departments to participate in the training and seminars on national laws and regulations. In 2017, the Group participated in the risk assessment training of the National Institute of Administration, system extension training, BRC certified internal auditor training, BRC quality control training, organic certification body training, expanded food risk seminar, internal risk seminar of China Food and Drug Administration, etc., to ensure the real-time understanding of macroeconomic trends and industry dynamics. In addition, the Group also participated in training together with suppliers to ensure that the qualifications of the suppliers shall meet the production requirements of the Group.

No.	Risk	Description	Countermeasures
7	Environmental compliance	National and local laws and regulations relating to health, safety and environmental protection have been continuously updated, and the attention of the public to environmental protection have been increasing. The Group may be exposed to the risk of environmental protection compliance penalties due to failure to identify and comply with laws and regulations relating to environmental protection. In addition, difficulties on and high costs of environmental protection compliance also bring additional compliance costs and uncertainties to the Group.	**1. To pass professional certification:** The Group passed ISO14000, the international standard for the environmental management system developed by the International Organization for Standardization (ISO). Passing the certification means that the Group can save energy, reduce consumption, optimize costs, meet governmental legal requirements and maintain the group image. In addition, the certification is an access permit to break the international green barrier and enter the European and American markets, and passing it has also brought convenience to the Group's business expansion in the future. **2. To actively improve the production environment and reduce pollution emissions:** The Group has established a whole process of environmental protection management system that covers the source of pollution, treatment process and daily control. The Group has fully complied the requirement for conversion of coal to gas, and has further expanded the scale of sewage treatment and improved the capacity of sewage treatment. At present, the maximum sewage disposal capacity of the Group's sewage treatment stations is higher than the national requirements. The Group monitors and manages the emission of three wastes (exhaust gas, waste water, and waste residue) in the production process in real time, strictly implements national and local regulations, and ensures that the on-line monitoring of emissions complies with the standards.

No.	Risk	Description	Countermeasures
			3. To understand the latest requirements of the environmental protection department: The Group assigns specific personnel to interface with the environmental protection departments, regularly reports on the Group's daily environmental protection work and understands the latest requirements of the environmental protection departments, so as to ensure that the Group effectively fulfills its environmental protection responsibilities.

Risk management and internal control systems review of 2017

The Financial Audit Department, in accordance with the annual audit plan approved by the Audit Committee in 2017, carried out independent review on the effectiveness of the Group's risk management and major internal control, covering the financial control, operation control and compliance control. The Financial Audit Department reported the audit results and recommend rectification measures to the Audit Department and the Board of Directors, and 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 regularly and reports major event if there is any to the Board of Directors.

As of December 31, 2017, the Board of Directors and the Audit Committee have reviewed the effectiveness of the risk management and internal control systems, and concluded 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. Such annual review also included the consideration of the resources adequacy for accounting and financial reporting functions, employee's qualification and experience, training program and budget.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


豆本豆
SOYMILK
豆奶
豆本豆
SOYMILK
豆奶
豆本豆
有机豆奶
净含量:250ml
豆本豆
有机豆奶
净含量:360ml
豆本豆
SOYMILK
纯豆奶
不添加蔗糖
4.0
豆本豆
SOYMILK
唯怡营养好豆奶
纯豆奶
不添加蔗糖
4.0
净含量:1L

Environmental, Social and Governance Report

About the Report

Overview

The report is the second annual Environmental, Social and Governance (hereinafter referred to as "ESG") Report issued by Dali Foods Group Company Limited (referred to as the "Group" or "We" in the report) which mainly discloses the Company's performance on ESG. The report covers work for the financial year from 1 January 2017 to 31 December 2017 (the "reporting period").

Preparation basis

The report was prepared in accordance with the revised Environmental, Social and Governance Reporting Guide published in December 2015 as set out in Appendix 27 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Hong Kong 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 topics, 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

Unless specially stated, the policies, statements and data in the report basically cover the Group's headquarters and subsidiaries and certain information on community is related to the "Huian Educational Foundation by Xu Shihui of Dali". The currency used in the report is RMB.

Data source and reliability assurance

The data and cases of the report are mainly from the statistics report and related documents of the Group. The Group 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.

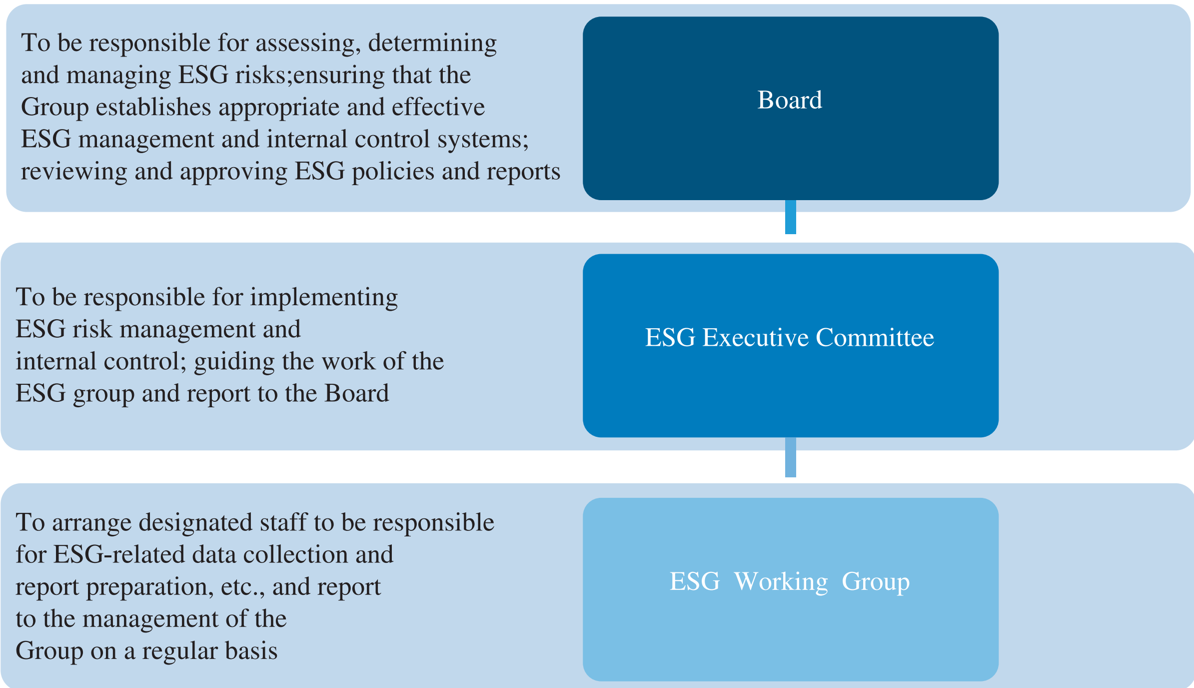
Confirmation and approval

As confirmed by the management, the report was approved by the board of directors ("Board") on 18 March 2018 .

Governance——Responsibility · Communication

ESG Governance

A sound ESG management system is fundamental to ensuring the ESG work. The Group has established a multi-level ESG internal management structure with the Board as the lead, the executive committee as the core, the ESG working group as the driving force and specialists of all departments as the main force for implementation to specify the responsibility of implementing ESG management and objectives. The ESG working group was established by the Group to implement the ESG measures effectively with members from, among others, the legal department, the production department, the administration department, the human resources department, the finance department, the internal audit department and the purchase department for arranging designated staff to be responsible for, among other things, ESG-related data collection and report preparation. The ESG working group regularly reports to the Board to help them assess and determine whether the Group's risk management and internal control systems in relation to the ESG are appropriate and effective.



Performance of Honor

Relying on a sound ESG governance structure, the Group has made many efforts in the field of sustainable development in recent years and actively fulfilled its social responsibilities. It won the titles of "Caring Business" and "Social Responsibility Model Enterprise" in 2017. Meanwhile, we have actively developed, introduced and improved production technology, and constantly carried out product innovation and upgrade. Its product strength was widely recognized by the society. In 2017, we were one of the Top 50 Enterprises in the Light Industry and Food Industry of China, one of the Top 100 Enterprises with Special Ability in China Light Industry and one of the Top 10 Enterprises in China Bakery & Confectionery Industry (Chips, Fries and Others), respectively. The amino acid vitamin functional beverage under the Hi-tiger brand was even recognized as "Famous Brand Product of Fujian" by the Fujian Provincial People's Government.

In January 2017, the Group was awarded the title of “Caring Business” by Aixin Club, Huian County

In February 2017, the Group won the title of “Social Responsibility Model Enterprise”

In June 2017, the Group was named one of the Top 50 Enterprises in the Light Industry and Food Industry of China

In June 2017, the Group was named one of the Top 100 Enterprises with Special Ability in China Light Industry

In June 2017, the Group was named one of the Top 10 Enterprises in China Bakery & Confectionery Industry (puffed food)

In June 2017, the amino acid vitamin functional beverage under the Hi-tiger brand was recognized as “Famous Brand Product of Fujian” by the Fujian Provincial People’s Government

Stakeholder Communication

Effective participation by stakeholders is crucial to the Group's ESG governance. Maintaining adequate communication with stakeholders can help the Group to correctly assess the impact of its own decisions, truly understand the concern of stakeholders, respond promptly to the appeals of stakeholders and adjust its own development direction.

We actively communicate with stakeholders, establish multiple channels of communication to understand the topics they cared about, and regularly review the effectiveness of relevant actions to improve the communication channels and more fully reflected 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 held once a year. The investor presentation and field research are conducted on an irregular basis.
Government agency	Green production Food safety– Talks	– Field research	Irregular
Supplier	Supply chain management Food safety	– Field research – Supplier assessment	Irregular Regular
Employee	Employment and labor Salary and welfare	– Employee interview – Internal email – Internal WeChat Official Account	Irregular
Community people/ organization/ non-governmental organization	Green production Food safety	– Field research – Talks	Irregular
Media	Community public welfare Food safety	– Press release/ announcement – Interview– Meeting	Irregular
Consumer	Food safety Green production	– Online promotion release – Offline promotion activities – Tel./email – WeChat/Microblog – Questionnaires – Forum	Irregular

Major Issue Matrix

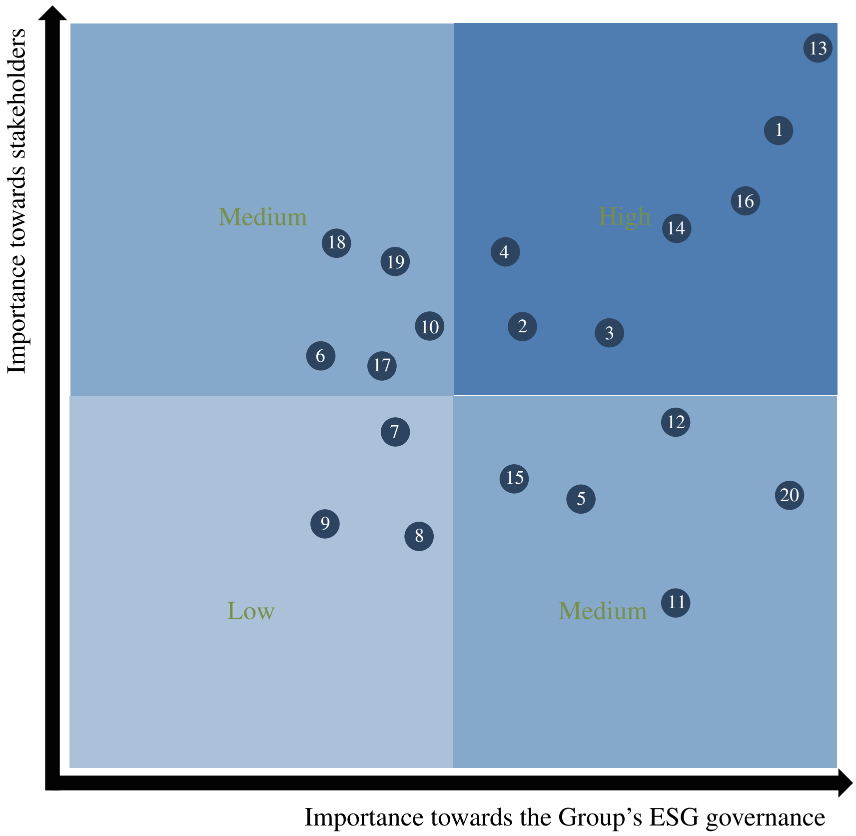
During the reporting period, we gained a full understanding of stakeholders' expectations and concerns about the response to and disclosure of the ESG issues by the Group through conducting media analyses, peer benchmarking and conducting interviews with stakeholders. It provided a strong basis for the Group to make its long-term strategy.

Our materiality analysis is divided into two phases. As shown below, we first identified material ESG issues which could impact on the Group's business or stakeholders. And then we prioritized those issues, and understood the importance of the issues.

Materiality Analysis Process

Identifying potential material issues	We identified potential material issues that could reflect the impact of the Group's business on the economy, environment and society, or affect stakeholders' assessment of and decisions on the Group through detailed review, including media analysis, peer benchmarking analysis and other related documents.
Prioritizing potential material issues	We understood the prioritized issues about which the stakeholders were concerned through interviews with stakeholders, finally made the materiality matrix, and identified the real material issues from the matrix.

Important ESG issues of the Group were identified through the above assessment process and constituted the key part of the content of the report. We will disclose the relevant content in detail in this report.



1	Integrity	11	Supply chain management
2	Resource management	12	Product innovation
3	Pollutant management	13	Food safety
4	Carbon footprint	14	Food health
5	Packaging materials	15	Intellectual property rights
6	Employee rights	16	Product tracing
7	Employee salary and benefits	17	Customer communication and service
8	Employee development and training	18	Customer privacy
9	Employee care	19	Social participation
10	Occupational health and safety	20	Public welfare and charity

Integrity

We promote a corporate culture of honesty and integrity and actively build a corporate atmosphere against fraud. We strictly abide by laws and regulations such as the *Company Law of the People's Republic of China* and the *Basic Standards for Corporate Internal Control*, strictly implement the Group's "Anti-fraud Management Rules", strengthen the Group's internal fraud risk control, and protect the legitimate interests of investors and ensure the steady development of the Group. We have formulated the procedure and mechanism for regulating and assessing fraud risk and control risk, and established a permanent anti-fraud body to receive, investigate, report, and put forward handling suggestions for fraud reports.

The Anti-fraud Management Rules of the Group sets out the vesting of responsibilities for anti-fraud endeavors in the Group:

- The management of the Group 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 Group's anti-fraud behaviors;
- The anti-fraud standing body shall organize and implement anti-fraud work of the inter-department within the scope of the Group;
- All business departments shall undertake the anti-fraud work of own department.

The Group values the building of an integrity culture and has zero tolerance for corruption. The Group constantly requests that its employees shall abide by honesty and integrity when engaging in each business of the Group. It requires the management of the Group to set an example, and any employees or third parties are strictly forbidden to use fraud and other means to obtain improper and illegal benefits for themselves or the Group. Meanwhile, we have enhanced anti-fraud training and integrity and morality education for employees to increase employees' self-consciousness and comprehensively promote the corporate culture of honesty and integrity so as to ideologically prevent the violation of laws and regulations.

We will impose the penalties of fines, downgrading, demotion, dismissal, adjustment of positions, and termination of labor contracts separately or concurrently according to the severity of the violations and the Group's disciplines in accordance with the anti-bribery procedure. Party officials who commit fraud or corruption shall be handed over to the discipline inspection and supervision authorities for handling in accordance with party and government disciplines in addition to being imposed the above penalty(ies). Behaviors constituting bribery or accepting bribes shall be transferred to the judicial authorities for handling in accordance with relevant national laws and regulations.

During the reporting period, the Group did not have any corruption lawsuit cases.

Product——Quality · Health

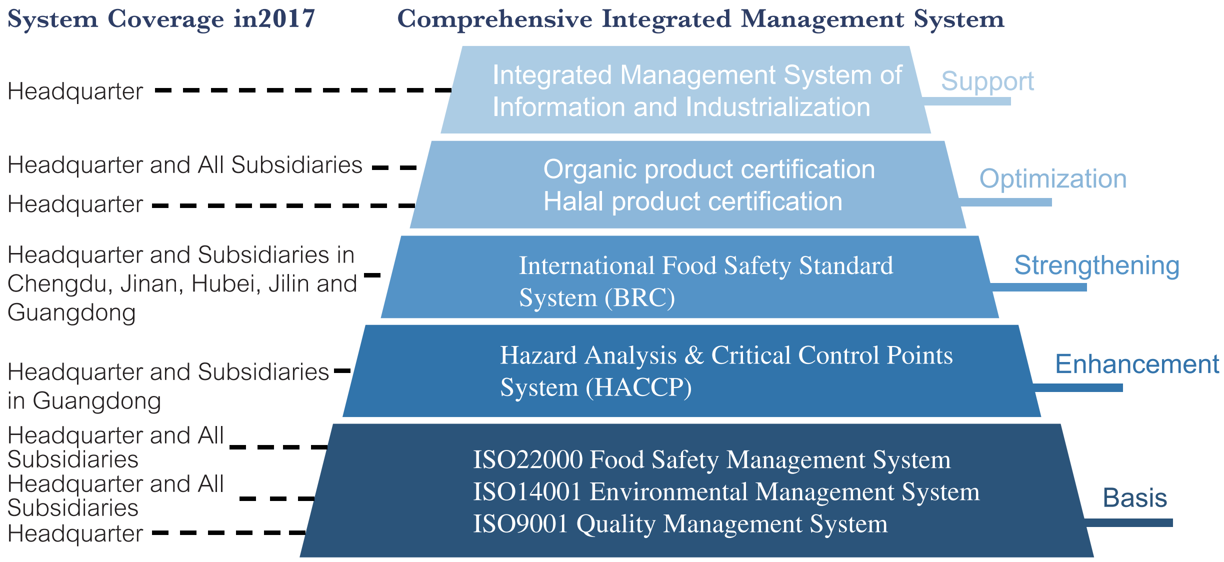
Quality is the life of an enterprise and also the cornerstone of brand value. Through solid and credible product quality, continuous technological innovation and meticulous and enthusiastic customer services, the Group constantly introduces healthy and safe products of high quality in the market in order to increase market competitiveness and customer satisfaction.

Food Safety and Security

The Group has adhered to the quality control policy of "leading by awareness, controlling sources, paying attention to details and process and ensuring inspection and safety", continuously improved the quality control system, and constantly improved the comprehensive food safety control measures from farmland to dining table, truly allowing consumers to eat at ease and with confidence.

Quality Guarantee System

The Group continued to strengthen its quality control team, and continuously expanded its professional quality control team integrating three levels, i.e. Group Quality Management Department, Quality Management Testing Center and Workshop Quality Control Specialists. We have established a preventive food safety control system to strengthen the prevention of hazards, and focused the technical strength on the main issues and practical prevention measures to ensure the continuous stability of product quality and realize "zero defect" products. We have gradually established a set of comprehensive integrated management system, which is based on the ISO management systems, enhanced by the Hazard Analysis & Critical Control Points System (HACCP), strengthened by the Global Standards for International Food Safety System (BRC), optimized by the organic and halal product certifications and supported by the integrated management system of information and industrialization. In 2017, we completed the networking operation in respect of online quality inspection of the Doubendou soymilk during the group-wide informatization, to ensure that the model of the inspection instrument can be maintained, data can be monitored and the quality can be controlled, as well as enable us to understand the actual status of on-site inspection data anytime and anywhere.



During the reporting period, the Group strictly controlled the product quality and no product recalls occurred.

Supplier Management

The Group adopts the principle of equality, voluntariness and mutual benefit to enter into purchase agreements with suppliers and requires suppliers to supply high-quality products to us in compliance with national and industry standards in purchase agreements. In the process of raw material transportation, we require suppliers to use waterproof, shockproof and rust-proof packaging boxes which can be dismantled for multiple times to ensure the quality of raw materials in transit. Before raw materials are stored, we will implement the acceptance procedure in strict with the Group's raw material acceptance standards.

In order to more effectively ensure the quality of raw materials purchased from the source, we assess the food safety risks of raw materials and classify raw materials into three categories, A, B and C, according to the risk levels so as to achieve hierarchical and efficient management and control. Meanwhile, we continue to strictly implement the order-based agriculture model in the procurement of some of our major raw materials to strengthen the order-based management, and cooperate in depth with the distributors of the countries of origin through the means of group procurement to ensure the quality of raw materials. During the reporting period, the purchase volume of our order-based agriculture increased compared to the previous year, and the order-based agriculture procurement category was added for the "Doubendou" series of products introduced during the reporting period.

The Group continues to improve its supplier introduction, assessment and management processes and implements a procurement model combining group centralized procurement with subsidiaries' procurement. In the process of assessing new suppliers and existing suppliers, the functional departments jointly rank and comprehensively evaluate the relevant performance such as the qualifications, product quality, prices, services, delivery speed, environmental protection and labor rights and interests of the suppliers introduced.

Organize Training Course on Organic Soybean Supply Chain Risk Management

In order to improve the management and control levels of organic soybean suppliers and enhance the standards for organic planting and acceptance, the Group successfully organized a training course on organic soybean supply chain risk management in Hangzhou in collaboration with the third-party certification bodies. The training focused on the complete system of organic soybean raw material traceability system, the national standards for organic cultivation of raw materials, the Group's acceptance standards and technical requirements for raw materials and others, and detailed requirements for the procurement and production standards of organic soybean milk raw materials.

We continue to improve the supplier management system. In 2017, we amended the supplier framework contract, and mandatorily included environmental and social requirements imposed on suppliers in the new version of the supplier procurement framework contract, and the new version of the supplier framework contract will be formally adopted in 2018. During the reporting period, we conducted a review of the relevant qualifications of all our suppliers, and we gave feedback to and communicated with relevant persons in charge in a timely manner regarding the audit status. In addition, we also visited approximately 70% of the suppliers through on-site inspections in accordance with the requirements of risk management and control, and strictly reviewed the suppliers' performance in terms of safety, environment and employment in strict accordance with the "Supplier On-site Review Rules". Through high standards and strict requirements, the Group looks forward to achieving joint improvement with its supplier partners in risk tolerance, food safety, supply chain management, environmental protection and human rights protection.

Product Testing and Tracing

Product quality testing before leaving the factory is an important line of defense for food safety. We have set up testing centers in food processing plants to complete testing in respect of raw materials and ingredients, products and process control through professional testing equipment, providing effective support and guarantee for quality control. During the reporting period, we conducted thousands of internal and external random tests on products and raw materials and further promoted the Group's quality management through information technology and information transparency construction.

As the model for food safety inspection in the industry, we established a food testing and inspection laboratory in accordance with international leading technologies in 2016. In addition, we have gradually established a supplier tracing system. Currently, the system has achieved the function of tracing suppliers, raw material production places and production lot information. During the reporting period, we tagged key products such as the Doubendou series of products to achieve the tracing upgrade of "one bottle, one code". We combined the tracing function with the product sampling and testing system that had been implemented for a long time, which greatly enhanced the Group's ability in product quality management and control and tackling emergencies.

Product Innovation and Upgrade

Through the development, introduction and improvement of production technologies, the Group constantly pursues product innovation and upgrade to respond to the rapidly changing consumption environment and the increasing demand of people for product quality. We have established a scientific product R&D system, continuously purchased and upgraded advanced R&D equipment for the product R&D centre, and conducted a number of R&D projects to further consolidate the R&D foundation of the Group. During the reporting period, the Group invested a total of RMB54.92 million in R&D and innovation, with increase of 10% in the number of research and development staff. During the reporting period, the Group applied for a total of 45 invention and utility patents and obtained a total of 15 patents. While strengthening product innovation, the Group strictly complies with the Intellectual Property Rights Law of the People's Republic of China. While ensuring the non-infringement of intellectual property rights of others, we also firmly defend our own intellectual property rights by legal means.

The Group closely follows the market trend and launched new products targeting different consumer groups through market demand analysis, leading the development direction of the industry. In order to cater to the more fashionable needs of young consumer groups, we actively communicate with young consumer groups to gain insights into the preferences of the younger generation, and comprehensively upgrade the production process and packaging of our products. We have launched a series of products incorporating both "fun" and "deliciousness" for young people. In addition, to meet the consumption demand of families, we also add family packaging for some products.

National Health Concern

With the increased demand for national health, low-sugar and low-sodium health products are gradually becoming popular with consumers. The Group has always been concerned about the public health and placed the research and development of health products at the strategic level of the Group's development. Through continuous innovation, adjustments to product formulations, reduction of additives such as oil and sodium, we continue to introduce new organic health products such as low-sugar and low-sodium products, providing more healthy choices for consumers. We will also advocate the concept of a green, quality and healthy life to the public during product promotion to arouse the public's attention to the attitude of life.

Organic and Healthy "Quality Breakfast"——Doubendou Series of Products

In April 2017, the Group launched the Doubendou Series of soymilk, to continuously meet the demand of consumers for green, quality, nutritive and healthy foods. The Doubendou Series of organic soymilk is produced with strict control over the quality of raw materials and the use of non-genetically modified soybeans. We guarantee the soymilk is organic and natural, and adopt advanced processing technology, which includes only the processes that are permitted by the organic standards such as grinding, separation and purification, without adding any food flavors and preservatives. The plant protein content reaches 3.6g/100ml. The Doubendou Series of organic soymilk has passed the national authoritative organic certification, and won the Gold Prize at the Shenzhen Organic Industry Expo.

We engage qualified third-party certification companies to conduct on-site checking and evaluation on the raw material source, ingredients, processing technology and processing course, and logos and labels on packing boxes of the "Doubendou Organic Soymilk", and the designated certified testing authority to conduct over 200 tests on aspects such as pesticide residues, heavy metals and transgenes. We manage to complete the whole industry chain supervision from non-genetically modified seeds to organic cultivation and to organic production and processing, and achieve a code for a bottle and full traceability throughout the organic process.

Good Customer Communication

We emphasize the quality of customer services and persist in the "consumer-oriented". In order to allow consumers to feel at ease, have peace of mind and rest assured when purchasing and enjoying our products, and constantly increase consumer satisfaction, we have formulated and strictly complied with the after-sales service policy in accordance with the requirements of the Law on the Protection of Consumer Rights and Interests, and understand consumer complaints and suggestions through channels such as the official Weibo, WeChat public account, customer service phone, customer seminars and various market activities, and actively respond to and solve the problems at the earliest possible time.

To promptly and properly handle customer complaints, safeguard the legitimate rights and interests of customers, and constantly improve the quality of products and services, we have formulated the Customer Complaint Handling Rules and established a quality complaint hotline and a unified national customer service hotline. If the customer service department of the Group's headquarters or the customer service departments of our subsidiaries receive customer complaints, they will give feedback and make reports level by level in accordance with the customer complaint handling working procedure. The business area will conduct a follow-up investigation, and handle and report on the complaint based on its severity to ensure that the investigation and handling results are promptly fed back to the customer.

During the year, we strictly implemented the Customer Satisfaction Measurement Procedure and evaluated customers' satisfaction with the Company's work. We distribute the Customer Satisfaction Survey Form to major customers and collect the form on an annual basis, and conduct a statistical analysis of the survey and carry out internal communication and summary on a regular basis to make corresponding improvement countermeasures.

The Group attaches great importance to the protection of the privacy of its customers. All employees of the Group are required to keep customer information strictly confidential so as to prevent the occurrence of the illegal disclosure of customer information. With respect to product advertising and food label identification, the Group firmly complies with the *Food Safety Law of the People's Republic of China*, the *Advertising Law of the People's Republic of China* and the corresponding implementation regulations, promises not to provide any false information to consumers, and organizes new law, new regulation and new standard learning, training and evaluation irregularly to ensure that new laws, regulations and standards are implemented within the Group on a timely basis.

Employee——Warm and Safe

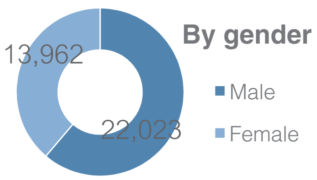
The Group regards its employees as one of the most important assets for the Group's development. In the course of conducting all businesses, it adheres to the concept of sustainable development as a guide, respects human rights, ensures that all employees receive fair and impartial treatment, and strives to create a safe and healthy working environment and a sustainable career platform for employees, so that employees from different regions and with different cultural backgrounds can make use of their strengths to grow with the Group.

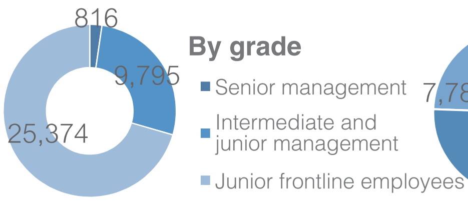
A Warm Home

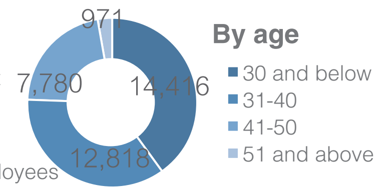
Employment and Labor Practices

The Group strictly complies with laws and regulations such as the *Labor Law of the People's Republic of China* and the *Labor Contract Law of the People's Republic of China*, and constantly improves the Human Resources Management Rules and the Human Resources Control Procedure by taking into account its own development needs, gradually establishes the human resources management system. Such system regulates the staff recruitment process and improves the talent selection mechanism, sets out the staff recruitment and training requirements for each position, optimizes the structure of human resources, and increases the recruitment ratio of highly qualified and high caliber employees. We oppose discrimination and treat each job seeker and employee fairly and impartially. The Group promises not to use child labor and forced labor, strictly complies with the *Provisions on the Prohibition of the Use of Child Labor* of the State Council, and carefully examines job seekers' information during the recruitment process to prevent the occurrence of employment of child labor and forced labor.

In 2017, we launched the OA (Office Automation) system, which enhanced the Group's human resources management standard. As at 31 December 2017, the Group had a total of 35,985 employees. The charts below show the distribution of our employees by type:







The Group has established a turnover rate target for its branches. If a branch exceeds the warning line of the turnover rate, the headquarters will investigate further, identify the problem and resolve it in a timely manner to ensure the healthy operation of the Group.

Employee Salary and Benefits

The Group adheres to the principles of fairness, impartiality and transparency and provides employees with reasonable and competitive salary and benefits. We conduct a performance evaluation of our employees every six months and adjust the salary according to the evaluation results to reflect the employee value return. While safeguarding the general benefits of all employees according to laws, we also provide employees with additional personalized benefits by understanding their needs and opinions.

General Benefits

- Five social insurances and the housing fund and welfare funds
- Paid annual leave, home leave, marriage leave, maternity leave and other vacations
- Assignment allowances, transportation allowances, meal allowances, night shift allowances, overtime allowances, etc.

Other Benefits

- Free physical examination
- Sending gifts to the employees in major holidays
- Employee dormitories are provided with a gym, theater, KTV and other entertainment facilities, providing employees with high quality facilities for entertainment.

Employee Care and Communication

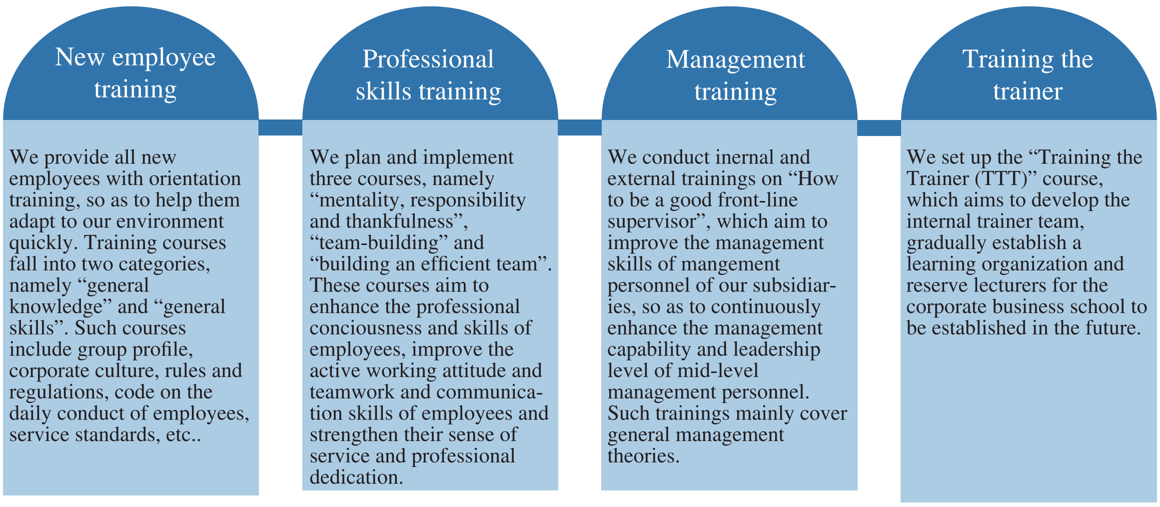
The Group places emphasis on employee care and communication activities. The Group's headquarters and subsidiaries organize employee care and communication activities in various forms every year. During the festivals every year such as May Day, National Day, Mid-Autumn Festival, the labor union will organize employee variety show and sports activities and other activities, and actively communicate with employees. Each department, workshop and team or group will also organize parties and other entertainment activities for employees each month. We strengthen the cohesion of the Group's employees, enhance communication and enrich the life of employees through multi-level and all-round collective activities to promote corporate cultural identity and integration.

In addition, we focus on paying attention to the group of employees suffering hardship. When learning the difficult situation of employees, the Group and the labour union of each subsidiary will provide support to the employees who are in difficulty, and organize donations and offer difficulty subsidies.

Employee Training and Development

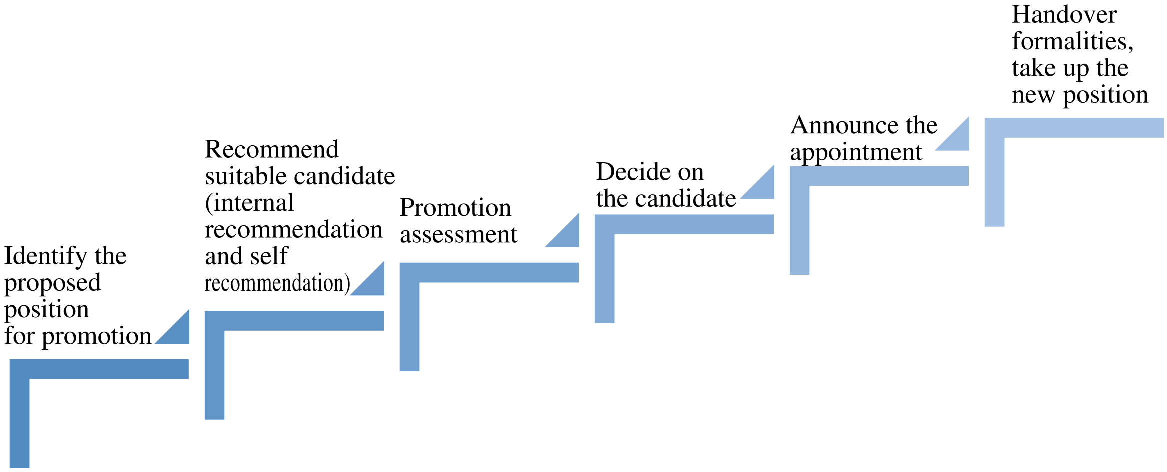
The Group attaches great importance to employee training and development. In order to enrich the professional knowledge and skills of employees and their overall quality, improve work quality and performance, build a high-quality employee team and improve our management standards to meet the requirements of the Company' strategic development, the Group has constantly improved the employee training and management system, solidified the training process, established the training feedback and results assessment mechanism and improved the training management and implementation system.

During the reporting period, the Group determined the key points of training for 2017 and formulated and implemented the annual training plan in view of the training interviews and training needs surveys conducted by each department and with the help of the roll-out and operation of the OA system.



We have also established a tutor system for new employees where "experienced employees" of relevant working position act as tutors and provide guidance for new employees. In addition to the afore-said training plan for 2017, the Group continued to strengthen the provision of relevant requisite trainings for food production enterprises, such as food safety training, production safety training, skill training and other themed trainings. We strengthen the assessment of training results to continuously conduct analyses and summarization and improve the standard and effectiveness of internal and external trainings. Meanwhile, we have kept employee trainings records which are used as main references for change of position and promotion of employees. During the reporting period, the total number of trainings within the Group was 41,922, total training hours reached 8,168 hours and the training coverage rate was 89.2%.

The Group has established a promotion management procedure so that all employees can continuously develop their careers through a fair and just promotion mechanism. The promotion procedure stipulates the qualifications required for promotion, the division of managerial responsibilities, and the intra-departmental and inter-departmental paths for the career development of employees.



Employee Promotion Procedure

Health and Safety

The Group is highly concerned about the occupational health and safety of employees and is committed to providing employees with a safe, healthy and comfortable working environment. We believe that the operational efficiency of an enterprise is closely related to the occupational health and safety of its employees. We strictly comply with the *Production Safety Law of the People's Republic of China* to regulate production safety. We have set up a safety production group, specified the duty of each member of the safety production group, adhered to the principle of "safety first, prevention-oriented, and comprehensive governance", comprehensively strengthened safety management, improved rules and regulations, enhanced safety standards, kept to produce and operate according to laws and regulations, as well as implemented the responsibility for production safety and accountability. We have formulated a series of production safety management measures such as the Emergency Preparation and Response Control Procedure, the Regulations for Electrical Protection and the Fire Control Management Rules to ensure that we can promptly respond to emergencies and handle emergencies in a timely and effective manner. Meanwhile, we have established the occupational health and safety policy, made determinations on hazard source identification, risk assessment and control measures, and set requirements for emergency preparation and response. We have placed eye catching labels and necessary warning signs in potential hazardous areas. We have also installed emergency apparatus such as fire alarms, fire extinguishers, and fire mask etc.

In order to promote personal and workplace health and safety among our employees, we have enhanced trainings on workplace health and safety. For example, we organize annual fire safety awareness and skill training sessions. In addition, we also conduct safety inspection and supervision events from time to time. For example, each of the subsidiaries of the Group shall conduct a monthly whole-plant safety inspection, and assign a specific person to follow up, record and save the rectification in the form of photographs; our quality control team will conduct comprehensive and professional inspection on the workplace environment every six months to eliminate potential hazards.

During the reporting period, the Group has not experienced any lethal events in relation to our workplace.

Environment- Friendly and Harmonious

The Group adhered to the principle of "priority to environmental protection, pollution control, energy saving and consumption reducing and sustainable development" as a guideline, with and aim to protect the environment and resources to the maximum extent, and to promote civilized development within the People's Republic of China. During the reporting period, the Group deployed a total of RMB12.32 million in environmental protection.

Environmental Management

The Group strictly complied with laws and regulations such as the *Environmental Protection Law of the People's Republic of China*, the *Air Pollution Prevention and Control Law of the People's Republic of China*, the *Water Pollution Prevention and Control Law of the People's Republic of China* and the *Solid Waste Pollution Prevention and Control Law of the People's Republic of China*. We continuously enhance environmental management and optimize the environmental management system. The Group actively seek ISO14001 authentication. As of December 31, 2017, the Group's headquarters and all its subsidiaries have completed ISO14001 authentication on environmental management system. We have efficiently lifted the internalenvironmental management ability, minimize environmental risks, increase corporate competitiveness and laid a solid internal management foundation for us to materialize sustainable business operation.

We have adopted a series of environmental management measures to ensure our waste water, exhaust gas and solid waste discharge comply with national requirements and standards. Specific measures are as follow:

Exhaust Gas Management

- Upgrade of coal-fired boilers to natural gas-fired boilers was substantially completed in 2017, efficiently reducing exhaust gas pollution

WasteWater Management

- Adopt centralized water treatment to enhance efficiency and outcome of waste water treatment
- Speed up the upgrade of waste water treatment equipment such as upgrade of AO (Anarobic-Oxic technique) new technique, installation of internal circulation anaerobic reactor to increase processing capacity to ensure satisfaction of waste water discharge
- Divert domestic wastewater into sewage treatment station for centralized treatment
- Each company adds on-line monitoring equipment such as COD monitoring equipment, ammonia nitrogen detection equipment and cameras used to monitor drainage turbidity and directly connects such equipment with environmental protection authorities for periodic random inspection. On-line monitoring equipment is entrusted with a third party for maintenance and supervision purpose throughout the year.

Solid Waste Management

- Classify solid waste into hazardous and non-hazardous wastes and recycle non-hazardous solid wastes
- Hazardous waste such as automobile waste oil, acid and alkali solution is placed in special containers and properly handled
- Classify non-hazardous wastes and recycle them as much as possible
- Promote environmental protection awareness among employeesand and control the volume of solid waste generated

In 2017, the Group generated a total of 37,600 tons of recyclable non-hazardous waste, representing 0.019 tons of non-hazardous waste recycled per RMB10,000 of revenue. In 2017, the Group discharged a total of 4,815,445 tons of wastewater.

Energy Management

The Group strictly complied with the PRC Energy Conservation Law and striving to comply with the energy conservation and emission reduction target as well as green house gas control under the "13th five-year plan". We apply strict energy management, actively explore the possibility of new energy usage and strive to reduce carbon footprint during operation. In 2017, we continue to achieve energy saving goals through optimization of administrative management and technology advancement.

Administrative Management	• Constantly promote efficiency of energy control departments, enhance electricity consumption control within local office and production • Advertise energy saving through notices and energy saving labels
Technology Advancement	• Steam condensate from plants and production workshops is recycled to the energy-saving water tank of the gas-fired boiler and influent of the boiler is further heated, thereby saving natural gas consumption • The centralized control system is used to upgrade the distributed airconditioning system into the centralized air-conditioning system • Remould and produce new energy-saving equipment, e.g. low-pressure air compressor or medium-pressure air compressor operate at variable frequency and constant pressure, thereby reducing electricity waste during no-load • Steam pipelines adopt the new heat preservation process to reduce transmission loss

Improvement in the Cleaning in Place (CIP) Process

In 2017, the Group optimized and improved the CIP process. Without an increase of cleaning costs, the optimize CIP process can save 2.23 tons of steam during each CIP. One production line can save a total of 579.8 tons of steam within a year.

Energy consumption

Category	Consumption	Unit
Comprehensive energy consumption	192,055.04	tons of standard coal
Comprehensive energy consumption per RMB10,000 of revenue	0.103	ton of standard coal per RMB10,000

Note: Comprehensive energy consumption includes processing and production of food products and beverage products.

Greehouse gas emission

Category	Emission	Unit
Total greenhouse gas emission (Scope 1 and Scope 2)	624,790.87	tons of carbon dioxide equivalence
Greenhouse gas emission per RMB10,000 of revenue	0.336	ton of carbon dioxide equivalence per RMB10,000

Notes:

Greenhouse gas emissions include processing and production of food products and beverage products.

Scope 1 greenhouse gas is mainly derived from direct energy consumption—mainly natural gas; and Scope 2 greenhouse gas is derived from indirect energy consumption—mainly include purchased electricity and purchased steam.

Resource Management

In light of our production characteristics as a food enterprise, we consume large amount of water and packaging materials. The Group highly value the efficiency usage of water resources and packaging materials and constantly optimize its resource management system. We design and implement series of measures to reduce water and packaging material consumption. Meanwhile, we actively adopt waste recycling measures to practice loop economy.

Water Resources Management

- Constantly promote efficiency of water resources control department, enhance water consumption control within local office and production and conduct enhanced water saving assessment
- Strict analysis on water consumption indicator for different products, carry out rectifying measure in case of any malfunction
- Advertise water saving through notices and water saving labels
- Replace existing water faucets with inductive faucets and install water-saving faucets in staff dormitories to save more water
- Enhance recycling of treated wastewater for toilets, landscaping and fire fighting and other purposes efficiency of water resources
- Upgrade techniques such as CIP cleaning to reduce water consumption for cleaning; water will be filtered and recycled to the raw water pit for reuse after it is used in the production and filling workshops and treated through reverse osmosis (RO) process

Packaging Material Management

- Carefully select packaging material suppliers, using recycle paper or paper produced from fast growing forest
- Redesign bottle packing to reduce the use of packaging material

Recycle

- Adhere to the "Reducing, Reuse and Recycling" (3R) principle, maximize recycling material usage
- Recycle plastic, finished barrel, metal, packing wastes, byproduct (scrap) and waste oil, process in downstream industry

Carefully select packaging material

In 2017, the Group used "Tetra Pak" packaging for its "Doubendou" box packages. "Tetra Pak" packaging has been certified by Forest Stewardship Council ("FSC"). It uses materials from "renewable forests" to reduce carbon footprint and effectively reduce harm done to the nature. In the future, we will adopt more environmental friendly packaging and initiatives to materialize "loop economy" in terms of resources looping. We shall be responsible to the nature as well as to the general public, and enhance sustainable development.

Resource consumption

Category	Consumption	unit
Water consumption	9,887,875	tons
Water consumption per RMB10,000 of revenue	4.994	ton/RMB10,000
Packaging materials consumption	316,000	tons
Packaging materials consumption per RMB10,000 of revenue	0.16	ton/RMB10,000

Note: packaging materials refer to cartons and paper sheets

Society——Integration · Care

As the Group is expanding, strengthening and optimizing, it follows president Xu Shihui's the benefit idea of "priority to the development of education and promotion of Chinese traditional virtue". It enthusiastically responded to the government's appeal with its deep involvement in public benefits and charity. It truly gains from and also gives back to the society. We have been granted the "China Charity Award" by Ministry of Civil Affairs twice.

Community participation

The Group actively participated in various social activities, allowing the public to better understand our philosophy and development.

Development of school-corporate cooperation

On 29 August 2017, more than 200 students and teachers from Junior 1 of Huian No.1 Secondary School visited the headquarter of the Group. In the activity, the teachers and students visited the corporate complex, brand experience hall and scientific research and quality control experience hall of the Dali Group. The students got a thorough understanding of the history and the scale of the Dali Group's development, learnt about the well-known brands under the Dali Group and experienced the process of product research and development.

Through this model of school-corporate cooperation, students can understand the difficulties of establishing an enterprise and creating a brand. It also allowed them to understand the Group's dedication in public benefits and our corporate culture guided by the idea of "creating quality with heart". This activity gained high recognition from the teachers and students from Huian No.1 Secondary School and they presented a flag recognizing the school-corporate cooperation.

Contribution to public benefits

Over 20 years since the Group was founded, the Group always remember to perform its social responsibilities as it develops and made its contributions in promoting economic development, promoting employment, supporting charity and donating for social benefits. Over the years, we focused on areas such as elderly, education, disaster relief and rescue. It actively participates in charity and public benefit and gives back to the society.

Reunion — Care for the left-behind children

From 18 to 22 January 2017, "Where is daddy – Daliyuan Reunion" reunion meal was held respectively in places such as Fuzhou, Quanzhou, Jiangxi and Chongqing. 50 left-behind children from these regions and their parents came together for a reunion meal after a long separation with the help of Daliyuan Reunion.

This Daliyuan reunion charitable activity no only reimbursed the transport expenses of parents of the left-behind children to help them to return home. It also helped children whose parents were unable to return home for Chinese New Year. They were brought to the cities where their parents are and reunited with their parents over a delicious New Year's Eve dinner. We helped the children to fulfill their wish to reunite with their parents to the best of our effort.

Activities for the Elderly

On 17 January 2017, the presentation ceremony of "the 8th Old-age Subsidy" of the Group was held at Huian Dali Century Hotel. In this activity, Dali granted old-age subsidy to the elder in various villages and communities in Luocheng Town and Zishan Town in Huian County. It brought more warmth to over 9,000 elderly people in Chinese New Year. After presenting the old-age subsidy, the elderly enjoyed a feast at the Dali Century Hotel and also cultural and arts activities we planned for them.

Care should be shown in a thoughtful way. The Group has presented old-age subsidy for eight consecutive years with increasing impact, presenting old-age subsidy to nearly 60,000 local elderly.

Education——Chinese New Year Seminar

Since 2011, the Huian Educational Foundation by Xu Shihui of Dali has distributed reward to outstanding teachers and students for 7 consecutive years, benefiting over 10,000 teachers and students. It has set an example in charity culture and education support in Huian County.

On 5 February 2017, we organized the third "Dali Huian Educational Foundation – Chinese New Year Students' Seminar" at the headquarter of the Group. The seminar invited over 30 students awarded by the "Xu Shihui Huian Educational Foundation of Dali Group" in 2014, 2015 and 2016 from top institutions in the country such as Tsinghua University, Peking University, Fudan University, Xiamen University, Jinan University, Zhejiang University and Nanjing University. Guided by our staff, the students and teachers visited the exhibition hall of the Group's headquarter. They gained a deep understanding of the development of Dali foods, the founding ideas of brand and products, the innovation in research and development and craft, social responsibility of the Group and the Group's ideal of "creating quality with heart". The Group's achievement and operating ideas were highly praised by the students and teachers.

Education—Scholarship Award Ceremony

On 16 August 2017, the 7th "Xu Shihui Huian Educational Foundation of Dali Group" Scholarship Award Ceremony was held at Huian County Cultural Center with over 900 attendants. The ceremony celebrated the performance of nearly 3,000 outstanding students and teachers.

This year, there were 6 categories of student awards, namely "Dali Education Talent Award", "Dali Education Special Award (Excellence Award)", "Dali Education Skills Award", "Dali Education Wisdom Award", "Dali Education Inspiration Award" and "Dali Education Outstanding Award". In addition, to encourage students inclined towards arts and sports and to facilitate all-rounded development, arts and sports awards were newly established.

Disaster relief and rescue

Since 22 June 2017, Ningxiang County in Changsha City, Hunan Province was struck by extreme torrential rain consecutively due to extreme climate. There was severe flooding with major damages to houses and infrastructure, causing huge loss of lives and properties. On 12 July 2017, our Hunan branch organized flood relief operations and visited the disaster stricken area in Ningxiang County. 8 supplies vehicles carried a total of over 7,000 food and drink items to Ningxiang County as relief supplies. The emergency food and drinks were sent to the victims through local civil affairs authorities and volunteers.

Our helping hands can support lives and our caring heart can give rise to hope. The Group promotes the Chinese virtue of "pouring in help for those in need" by giving help to people in the disaster-stricken area. Together with the people of Hunan, we will defend against flooding and rebuild homes.

Appendix: Hong Kong Stock Exchange ESG Report Guide content index

General Disclosures and KPIs		2017 Annual Environmental, Social and Governance Report
A1	General Disclosure	Environmental-Friendly and Harmonious
A1.1	The types of emissions and respective emissions data.	Environmental management
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Energy management
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	The Group generates relatively less hazardous wastes
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Resource management
A1.5	Description of measures to mitigate emissions and results achieved.	Environmental management
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Resource management
A2	General Disclosure	Energy management and Resource management
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Energy management
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Resource management
A2.3	Description of energy use efficiency initiatives and results achieved.	Energy management
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Resource management
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Resource management
A3	General Disclosure	Resource management
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Resource management

General Disclosures and KPIs		2017 Annual Environmental, Social and Governance Report
B1	General Disclosure	A Warm Home
B1.1	Total workforce by gender, employment type, age and geographical region.	A Warm Home
B1.2	Employee turnover rate by gender, age and geographical region.	The Group plans to disclose in the future
B2	General Disclosure	Health and Safety
B2.1	Number and rate of work-related fatalities.	Health and Safety
B2.2	Lost days due to work injury.	The Group plans to disclose in the future
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety
B3	General Disclosure	A Warm Home
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Currently, the percentage of employees trained has been disclosed and the Group plans to make detailed disclosure in the future
B3.2	The average training hours completed per employee by gender and employee category.	The Group plans to disclose in the future
B4	General Disclosure	A Warm Home
B4.1	Description of measures to review employment practices to avoid child and forced labor.	A Warm Home
B4.2	Description of steps taken to eliminate such practices when discovered.	A Warm Home

General Disclosures and KPIs		2017 Annual Environmental, Social and Governance Report
B5	General Disclosure	Food Safety and Security
B5.1	Number of suppliers by geographical region.	The Group plans to disclose in the future
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Food Safety and Security
B6	General Disclosure	Product——Quality · Health
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Food Safety and Security
B6.2	Number of products and service related complaints received and how they are dealt with.	Good Customer Communication
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Innovation and Upgrade
B6.4	Description of quality assurance process and recall procedures.	Food Safety and Security
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Good Customer Communication
B7	General Disclosure	Integrity
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Integrity
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Integrity
B8	General Disclosure	Society——Integration · Care
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Society——Integration · Care
B8.2	Resources contributed (e.g. money or time) to the focus area.	Society——Integration · Care

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 100 to 168, which comprise the consolidated statement of financial position as at December 31, 2017, 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, 2017, 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 inventories was RMB1,333,204,000 as at December 31, 2017, which accounted for approximately 11.8% 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 labor 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 included 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 inventories.

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Key audit matter	How our audit addressed the key audit matter
Impairment of trade and bills receivables	
The appropriateness of provisions for trade and bills receivables is a key area of judgement for management. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving significant management judgement including their assessment of the creditworthiness and the past collection history of each customer. As at December 31, 2017, the balance of trade and bills receivables was RMB1,084,902,000, which accounted for approximately 9.6% 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 management's processes and controls relating to the monitoring of trade and bills receivables and considered aging to identify collection risks. We obtained and re-tested the aging 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.

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.

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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.

- 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 18, 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5(a)	**19,799,109**	17,841,887
Cost of sales	6(a)	**(12,341,484)**	(11,001,487)
Gross profit		**7,457,625**	6,840,400
Other income and gains	5(b)	**665,982**	360,210
Selling and distribution expenses		**(3,248,094)**	(2,787,563)
Administrative expenses		**(523,913)**	(431,403)
Finance costs	7	**—**	(4,705)
PROFIT BEFORE TAX	6	**4,351,600**	3,976,939
Income tax expense	10	**(917,897)**	(840,146)
Attributable to:			
Owners of the parent		**3,433,703**	3,136,793
PROFIT FOR THE YEAR		**3,433,703**	3,136,793

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR		**3,433,703**	3,136,793
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**12,953**	59,940
Reclassification adjustment for gains included in profit or loss	5	**(12,981)**	(59,672)
Income tax effect		**7**	(67)
		(21)	201
Exchange differences:			
Exchange differences on translationof foreign operations		**(208,699)**	293,397
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(208,720)**	293,598
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(208,720)**	293,598
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,224,983**	3,430,391
Profit attributable to:			
Owners of the parent		**3,433,703**	3,136,793
Total comprehensive income attributable to:			
Owners of the parent		**3,224,983**	3,430,391
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted			
– For profit for the year		**RMB0.25**	RMB0.23

Consolidated Statement of Financial Position

December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,273,050**	3,896,296
Prepaid land lease payments	14	**576,740**	591,059
Intangible assets	15	**3,576**	2,854
Prepayments	16	**149,845**	218,405
Deferred tax assets	24	**51,724**	26,265
Total non-current assets		**5,054,935**	4,734,879
CURRENT ASSETS			
Inventories	17	**1,333,204**	1,109,276
Trade and bills receivables	18	**1,084,902**	284,067
Prepayments, deposits and other receivables	19	**457,261**	176,340
Available-for-sale investments	20	**250,240**	250,268
Pledged deposits	21	**49,889**	64,924
Cash and bank balances	21	**8,095,648**	9,860,631
Total current assets		**11,271,144**	11,745,506
CURRENT LIABILITIES			
Trade and bills payables	22	**889,279**	1,027,032
Other payables and accruals	23	**1,143,361**	1,091,776
Tax payable		**183,068**	177,129
Total current liabilities		**2,215,708**	2,295,937
NET CURRENT ASSETS		**9,055,436**	9,449,569

	Notes	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,110,371**	14,184,448
NON-CURRENT LIABILITIES			
Deferred revenue	25	**324,186**	318,571
Total non-current liabilities		**324,186**	318,571
NET ASSETS		**13,786,185**	13,865,877
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**112,712**	112,712
Reserves	27	**13,673,473**	13,753,165
Total equity		**13,786,185**	13,865,877

Xu Shihui
Director

Zhuang Weiqiang
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2017

	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

	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, 2017	112,712	6,715,905	(23,165)	201	1,328,212	437,741	5,294,271	13,865,877
Profit for the year	—	—	—	—	—	—	3,433,703	3,433,703
Other comprehensive income for the year:								
Changes in fair value of available-for-sale investments, net of tax	—	—	—	(21)	—	—	—	(21)
Exchange differences related to foreign operations	—	—	—	—	—	(208,699)	—	(208,699)
Total comprehensive income for the year	—	—	—	(21)	—	(208,699)	3,433,703	3,224,983
Final 2016 dividend declared	—	(2,148,221)	—	—	—	—	—	(2,148,221)
Interim 2017 dividend	—	(1,156,454)	—	—	—	—	—	(1,156,454)
Transfer from retained profits	—	—	—	—	313,342	—	(313,342)	—
At December 31, 2017	112,712	3,411,230	(23,165)	180	1,641,554	229,042	8,414,632	13,786,185

* These reserve accounts comprise the consolidated reserves of RMB13,673,473,000 (2016: RMB13,753,165,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,351,600**	3,976,939
Adjustments for:			
Finance costs	7	**—**	4,705
Interest income – bank deposits		**(78,840)**	(14,312)
Fair value gains, net:			
Available-for-sale investments (transfer from equity)	5(b),6(c)	**(12,981)**	(59,672)
Loss on disposal of items of property, plant and equipment, net	6(c)	**3,900**	15
Depreciation	6(c)	**555,388**	531,485
Amortization of prepaid land lease payments	6(c)	**14,319**	13,191
Amortization of intangible assets	6(c)	**920**	614
Impairment of property, plant and equipment	6(c)	**403**	657
Impairment loss on trade and bills receivables	6(c)	**1,063**	2,184
Impairment of inventories	6(c)	**455**	438
Government grants recognized in profit or loss	25	**(22,822)**	(20,960)
		4,813,405	4,435,284
(Increase)/decrease in pledged bank deposits		**(10,738)**	8,201
Increase in trade and bills receivables		**(801,898)**	(141,298)
Increase in prepayments, deposits and other receivables		**(283,725)**	(81,569)
Increase in inventories		**(224,383)**	(180,191)
(Decrease)/increase in trade and bills payables		**(137,753)**	62,862
(Decrease)/increase in other payables and accruals		**(13,940)**	119,082
Cash generated from operations		**3,340,968**	4,222,371
Tax paid		**(937,410)**	(810,781)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2,403,558**	3,411,590

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(807,160)**	(451,636)
Proceeds from disposal of items of property, plant and equipment		**4,800**	1,020
Additions to prepaid land lease payments		**—**	(10,598)
Purchases of intangible assets		**(1,642)**	(1,877)
Receipt of government grants for property, plant and equipment		**28,437**	42,556
Proceeds from available-for-sale investments		**562,981**	2,703,369
Purchases of available-for-sale investments		**(550,000)**	(2,059,000)
Interest received from bank deposits		**81,644**	14,312
Decrease/(increase) in pledged bank deposits		**25,773**	(51,644)
Net decrease/(increase) bank deposits		**542,375**	(1,874,248)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(112,792)**	(1,687,746)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(3,304,675)**	(1,459,573)
Repayment of other borrowing		**—**	(1,500,000)
Interest paid		**—**	(6,706)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(3,304,675)**	(2,966,279)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,013,909)**	(1,242,435)
Cash and cash equivalents at beginning of year		**7,986,383**	8,935,420
Effect of foreign exchange rate changes		**(208,699)**	293,398
CASH AND CASH EQUIVALENTS AT END OF YEAR		**6,763,775**	7,986,383
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	21	**5,360,569**	7,783,383
Bank deposits with original maturity of less than three months		**1,403,206**	203,000
Bank deposits with original maturity of over three months		**1,331,873**	1,874,248
Cash and bank balances as stated in the statement of financial position		**8,095,648**	9,860,631
Less: Bank deposits with original maturity of over three months		**(1,331,873)**	(1,874,248)
Cash and cash equivalents as stated in the statement of cash flows		**6,763,775**	7,986,383

Notes to the Financial Statements

December 31, 2017

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, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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

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

Information about subsidiaries

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

Name of company	Place of incorporation/ registration, type of legal entity, and date of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Dali Foods Holdings Limited	BVI Limited liability company November 4, 2014	BVI	USD100	100%	—	Investment holding
Dali Foods Group (Hong Kong) Company Limited	Hong Kong S.A.R. Limited liability company November 11, 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 February 10, 1993	Mainland China	RMB 1,450,000,000	—	100%	II
Quanzhou Dali Foods Co., Ltd. (泉州達利食品有限公司) *	The PRC Limited liability company January 12, 1993	Mainland China	RMB 90,939,305	—	100%	III

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/ registration, type of legal entity, and date of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hubei Dali Foods Co., Ltd. (湖北達利食品有限公司) *	The PRC Limited liability company June 16, 2005	Mainland China	RMB 209,000,000	—	100%	I
Jilin Dali Foods Co., Ltd. (吉林達利食品有限公司) *	The PRC Limited liability company June 17, 2005	Mainland China	RMB 100,000,000	—	100%	I
Gansu Dali Foods Co., Ltd. (甘肅達利食品有限公司) *	The PRC Limited liability company August 31, 2005	Mainland China	RMB 209,000,000	—	100%	I
Jinan Dali Foods Co., Ltd. (濟南達利食品有限公司) *	The PRC Limited liability company June 18, 2005	Mainland China	RMB 190,000,000	—	100%	I
Chengdu Dali Foods Co., Ltd. (成都達利食品有限公司) *	The PRC Limited liability company June 28, 2005	Mainland China	RMB 105,000,000	—	100%	I
Ma'anshan Dali Foods Co., Ltd. (馬鞍山達利食品有限公司) *	The PRC Limited liability company October 9, 2007	Mainland China	RMB 160,000,000	—	100%	I
Shanxi Dali Foods Co., Ltd. (山西達利食品有限公司) *	The PRC Limited liability company November 15, 2007	Mainland China	RMB 105,000,000	—	100%	I
Yunnan Dali Foods Co., Ltd. (雲南達利食品有限公司) *	The PRC Limited liability company March 25, 2008	Mainland China	RMB 110,000,000	—	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/ registration, type of legal entity, and date of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xiamen Dali Trading Co., Ltd. (廈門達利商貿有限公司) *	The PRC Limited liability company April 2, 2010	Mainland China	RMB 40,000,000	—	100%	Trading
Henan Dali Foods Co., Ltd. (河南達利食品有限公司) *	The PRC Limited liability company July 21, 2010	Mainland China	RMB 150,000,000	—	100%	I
Guangdong Dali Foods Co., Ltd. (廣東達利食品有限公司) *	The PRC Limited liability company August 5, 2010	Mainland China	RMB 200,000,000	—	100%	I
Nanchang Dali Foods Co., Ltd. (南昌達利食品有限公司) *	The PRC Limited liability company August 2, 2010	Mainland China	RMB 140,000,000	—	100%	III
Jiangsu Dali Foods Co., Ltd. (江蘇達利食品有限公司) *	The PRC Limited liability company August 23, 2010	Mainland China	RMB 250,000,000	—	100%	I
Hebei Dali Foods Co., Ltd. (河北達利食品有限公司) *	The PRC Limited liability company April 22, 2011	Mainland China	RMB 100,000,000	—	100%	I
Shaanxi Dali Foods Co., Ltd. (陝西達利食品有限公司) *	The PRC Limited liability company June 28, 2011	Mainland China	RMB 80,000,000	—	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/ registration, type of legal entity, and date of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenyang Dali Foods Co., Ltd. (瀋陽達利食品有限公司)*	The PRC Limited liability company May 21, 2012	Mainland China	RMB 35,000,000	—	100%	I
Fujian Dali Development Co., Ltd. (福建達利發展有限公司)*	The PRC Limited liability company August 26, 2016	Mainland China	RMB 50,000,000	—	100%	Trading
Fujian Dali Foods Technology Co., Ltd. (福建達利食品科技有限公司)*	The PRC Limited liability company June 19, 2017	Mainland China	RMB 50,000,000	—	100%	Research and development

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

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, 2017. 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.

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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a 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*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[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*[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]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

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 Effective for annual periods beginning on or after January 1, 2021

4 No mandatory effective date yet determined but available for adoption

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

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 an 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from January 1, 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 will adopt HKFRS 9 from January 1, 2018. The Group will not restate comparative information and will recognize any transition adjustments against the opening balance of equity at January 1, 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group's available-for-sale investments of RMB250,240,000 were wealth management products issued by banks in the PRC with an expected interest rate of 5% as at December 31, 2017, which would not pass the contractual cash flow characteristics test in HKFRS 9 and will be reclassified as financial assets at fair value through profit or loss.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and bills receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. So far the Group has concluded that there would be no material impact upon the initial adoption 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 recognized 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 adoption now.

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

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 will adopt HKFRS 15 from January 1, 2018 and plans to adopt the modified retrospective approach. The Group has assessed that the application of HKFRS 15 will not have a significant impact on the Group's consolidated financial statements.

HKFRS 16, issued in May 2016, 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 recognize 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 recognize 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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 recognize 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 r\ate used to determine those payments. Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

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. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from January 1, 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 30(b) to the financial statements, at December 31, 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB55,423,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognized as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognized, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from January 1, 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognizes a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from January 1, 2018. The interpretation is 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)

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii)the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates;and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from January 1, 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

In January 2018, the HKICPA issued HKFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, HKFRS 17 will replace the existing HKFRS 4 Insurance Contracts. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in HKFRS 4, which are largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach)
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

HKFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies HKFRS 9 and HKFRS 15 on or before the date it first applies HKFRS 17. The standard is not expected to have any impact on the Group.

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

Annual Improvements to HKFRSs 2015-2017 Cycle, issued in February 2018, sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- HKFRS 3 Business Combinations: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- HKFRS 11 Joint Arrangements: Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- HKAS 12 Income Taxes: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- HKAS 23 Borrowing Costs: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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;

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 their 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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 labor 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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. Proposed final dividends are disclosed in the notes to the financial statements.

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

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 and bills receivables

The provision policy for impairment of receivables of the Group is based on ongoing assessment of the recoverability and the aging analysis of the outstanding receivables and on management's judgement. A considerable amount of judgements 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 aging 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 profits 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, 2017 was RMB51,724,000 (2016: RMB26,265,000), 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 the 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, 2017	**Food RMB'000**	**Beverage RMB'000**	**Others RMB'000**	**Total RMB'000**
Segment revenue				
Sales to external customers	**9,971,884**	**8,597,895**	**1,229,330**	**19,799,109**
Segment gross profit	**3,506,036**	**3,910,249**	**41,340**	**7,457,625**
Reconciliation:				
Other income and gains				**665,982**
Selling and distribution expenses				**(3,248,094)**
Administrative expenses				**(523,913)**
Profit before tax				**4,351,600**
Other segment information:				
Depreciation and amortization	**129,322**	**370,706**	**—**	**500,028**
Capital expenditure				
Allocated	**215,928**	**560,415**	**—**	**776,343**
Unallocated				**32,459**
				808,802

4. OPERATING SEGMENT INFORMATION (continued)

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

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 sales 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:

	2017	2016
	RMB'000	RMB'000
Sale of goods	**19,799,109**	17,841,887

(b) Other income and gains:

	2017	2016
	RMB'000	RMB'000
Interest income (note 6)	**369,215**	104,989
Fair value gains, net:		
available-for-sale investments (transfer from equity) (note 6)	**12,981**	59,672
Government grants*	**230,302**	150,634
Income from sales of scrap, net	**52,584**	43,329
Gain on disposal of items of property, plant and equipment	**105**	8
Foreign exchange differences, net	**758**	—
Others	**37**	1,578
	665,982	360,210

* 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/(creaditing):

		2017 RMB'000	2016 RMB'000
(a)	**Cost of sales:**		
	Cost of inventories sold	**10,694,774**	9,592,780
(b)	**Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):**		
	Wages and salaries	**1,774,975**	1,670,975
	Pension scheme contributions, social welfare and other welfare	**193,770**	164,954
		1,968,745	1,835,929
(c)	**Other items:**		
	Depreciation (note 13)	**555,388**	531,485
	Amortization of land lease payments (note 14)	**14,319**	13,191
	Amortization of intangible assets (note 15)	**920**	614
	Promotion and advertising expenses	**1,877,375**	1,563,134
	Logistics expense	**532,894**	511,881
	Auditor's remuneration	**4,500**	4,500
	Research and development costs	**54,923**	48,467
	Minimum lease payments under operating leases	**19,019**	17,629
	Foreign exchange differences, net	**(758)**	7,189
	Fair value gains, net:		
	available-for-sale investments (transfer from equity)	**(12,981)**	(59,672)
	Bank interest income (note 5)	**(369,215)**	(104,989)
	Net loss on disposal of items of property, plant and equipment	**3,900**	15
	Government grants	**(230,302)**	(150,634)
	Impairment of items of property, plant and equipment (note 13)	**403**	657
	Impairment of trade and bills receivables (note 18)	**1,063**	2,184
	Impairment of inventories	**455**	438

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 and other comprehensive income.

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on other borrowings	—	4,705

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:

	2017 RMB'000	2016 RMB'000
Fees	557	552
Other emoluments:		
Salaries, allowances and benefits in kind	8,563	6,545
Pension scheme contributions and social welfare	16	78
	8,579	6,623

(a) Independent non-executive directors

The payables of the fees to independent non-executive directors during the year were as follows:

	2017 RMB'000	2016 RMB'000
Mr. Cheng Hanchuan	135	131
Mr. Liu Xiaobin	135	131
Dr. Lin Zhijun	287	290
	557	552

There were no other emoluments payable to the independent non-executive directors during the year (2016: 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
2017				
Executive directors:				
Mr. Xu Shihui (Chief executive)	**—**	**2,006**	**—**	**2,006**
Ms. Xu Yangyang	**—**	**2,499**	**8**	**2,507**
Mr. Zhuang Weiqiang	**—**	**4,058**	**8**	**4,066**
	—	**8,563**	**16**	**8,579**
Non-executive directors:				
Ms. Xu Biying	**—**	**—**	**—**	**—**
Ms. Hu Xiaoling	**—**	**—**	**—**	**—**
	—	**—**	**—**	**—**
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	—	—	—	—
	—	—	—	—

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2016: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries, allowances and benefits in kind	**4,061**	2,529
Pension scheme contributions	**17**	52
	4,078	2,581

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	
	2017	2016
HKD1,000,001 to HKD1,500,000	**—**	1
HKD1,500,001 to HKD2,000,000	**1**	1
HKD2,000,001 to HKD2,500,000	**—**	—
HKD2,500,001 to HKD3,000,000	**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% (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 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 income tax at a preferential rate of 15%, as approved by the relevant local tax authorities in 2015, in different periods between January 1, 2014 and December 31, 2020.

10. INCOME TAX (continued)

The major components of income tax expense are as follows:

	2017 RMB'000	2016 RMB'000
Current tax:		
Income tax in Mainland China for the year	**943,349**	838,413
Deferred tax (note 24)	**(25,452)**	1,733
Total tax charge for the year	**917,897**	840,146

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:

	2017 RMB'000	2016 RMB'000
Profit before tax	**4,351,600**	3,976,939
Tax at the statutory tax rate (25%)	**1,087,900**	994,235
Effect of tax relief enjoyed by certain subsidiaries	**(157,535)**	(123,736)
Effect of tax relief approved in the current period enjoyed by certain subsidiaries for previous periods	**—**	(15,043)
Income not subject to tax*	**(16,317)**	(18,088)
Expenses not deductible for tax	**1,011**	1,573
Unrecognized tax losses	**2,838**	1,205
Tax charge at the Group's effective rate	**917,897**	840,146

* 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

	2017 RMB'000	2016 RMB'000
Interim – HK$0.100 (2016: Nil) per ordinary share	**1,156,454**	—
Proposed final – HK$0.100 (2016: HK$0.180) per ordinary share	**1,102,787**	2,192,228
	2,259,241	2,192,228

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 (2016: 13,694,117,500) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended December 31, 2017 and 2016.

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

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**3,433,703**	3,136,793

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year	**13,694,117,500**	13,694,117,500
Earnings per share		
Basic and diluted (RMB)	**0.25**	0.23

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, 2017						
At January 1, 2017:						
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
At January 1, 2017, net of accumulated depreciation and impairment	1,114,410	15,557	2,390,383	216,640	159,306	3,896,296
Additions	3,553	5,653	381,587	70,198	480,254	941,245
Depreciation provided during the year (note 6)	(68,879)	(6,582)	(428,979)	(50,948)	—	(555,388)
Transfers	43,796	—	340,253	5,558	(389,607)	—
Disposals	—	(63)	(8,637)	—	—	(8,700)
Impairment during the year (note 6)	—	—	(401)	(2)	—	(403)
At December 31, 2017, net of accumulated depreciation and impairment	1,092,880	14,565	2,674,206	241,446	249,953	4,273,050
At December 31, 2017:						
Cost	1,542,965	75,172	5,246,402	487,655	249,953	7,602,147
Accumulated depreciation and impairment	(450,085)	(60,607)	(2,572,196)	(246,209)	—	(3,329,097)
Net carrying amount	1,092,880	14,565	2,674,206	241,446	249,953	4,273,050

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, 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

As at December 31, 2017, the Group had yet to obtain property ownership certificates for certain buildings with an aggregate net book value of RMB246,057,000 (2016: RMB219,289,000). 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

	2017 RMB'000	2016 RMB'000
Carrying amount at January 1	**591,059**	592,742
Additions during the year	**—**	11,508
Amortization provided during the year (note 6)	**(14,319)**	(13,191)
Carrying amount at December 31	**576,740**	591,059

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 RMB38,176,000 as at December 31, 2017 (2016: RMB39,894,000).

15. INTANGIBLE ASSETS

	Software RMB'000	Pipeline rights RMB'000	Total RMB'000
December 31, 2017			
Cost at January 1, 2017, net of accumulated amortization	**2,724**	**130**	**2,854**
Additions during the year	**—**	**1,642**	**1,642**
Amortization provided during the year (note 6)	**(864)**	**(56)**	**(920)**
At December 31, 2017	**1,860**	**1,716**	**3,576**
At December 31, 2017:			
Cost	**5,023**	**4,078**	**9,101**
Accumulated amortization	**(3,163)**	**(2,362)**	**(5,525)**
Net carrying amount	**1,860**	**1,716**	**3,576**
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

16. PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Prepayments for the purchase of property, plant and equipment	**149,845**	218,405

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

17. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials and packaging materials	**952,089**	679,306
Finished goods	**381,115**	429,970
	1,333,204	1,109,276

18. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**1,085,861**	286,966
Bills receivable	**3,003**	—
Impairment	**(3,962)**	(2,899)
	1,084,902	284,067

The credit periods range from 30 to 90 days. The aging analysis of trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 RMB'000	2016 RMB'000
Within 90 days	**1,054,994**	264,942
91 to 180 days	**18,031**	8,612
181 to 365 days	**11,877**	10,513
	1,084,902	284,067

18. TRADE AND BILLS RECEIVABLES (continued)

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

	2017 RMB'000	2016 RMB'000
At beginning of year	**2,899**	715
Impairment losses recognized (note 6)	**3,235**	2,184
Reversal of impairment (note 6)	**(2,172)**	—
At end of year	**3,962**	2,899

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**996,998**	224,183
Past due but not impaired:		
Less than 90 days past due	**74,987**	49,371
90 to 180 days past due	**3,419**	10,362
Over 180 days past due	**9,498**	151
	1,084,902	284,067

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 track record 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

	2017 RMB'000	2016 RMB'000
Prepayments to suppliers	**258,048**	116,464
Prepayments for advertising services	**34,660**	3,075
Deposits	**10,450**	13,875
VAT recoverable (i)	**3,283**	1,071
Interest receivables	**140,168**	31,078
Other receivables	**10,652**	10,777
	457,261	176,340

(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

	2017 RMB'000	2016 RMB'000
Available-for-sale investments	**250,240**	250,268

The available-for-sale investments were wealth management products issued by banks in the PRC with an expected interest rate of 5.0% per annum and a maturity period of 190 days.

During the year, the gross gain in respect of the Group's available-for-sale investments recognized in other comprehensive income amounted to RMB12,953,000 (2016: RMB75,709,000), of which RMB12,981,000 (2016: RMB59,672,000) was reclassified from other comprehensive income to profit or loss.

21. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash at banks and on hand	**5,360,569**	7,783,383
Bank deposits	**2,784,968**	2,142,172
	8,145,537	9,925,555
Less: Pledged short-term deposits	**(49,889)**	(64,924)
Cash and bank balances	**8,095,648**	9,860,631

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

The Group's cash and bank balances at December 31, 2017 were denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**7,195,719**	5,265,040
HKD	**857,720**	4,328,062
USD	**41,994**	267,311
EUR	**215**	218
	8,095,648	9,860,631

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

	2017 RMB'000	2016 RMB'000
Trade payables	**850,827**	1,011,502
Bills payable	**38,452**	15,530
	889,279	1,027,032

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:

	2017 RMB'000	2016 RMB'000
Within 90 days	**863,186**	1,004,144
91 to 365 days	**17,992**	9,781
1 to 2 years	**6,815**	8,621
Over 2 years	**1,286**	4,486
	889,279	1,027,032

The bills payable were secured by the pledge of the Group's short-term deposits of RMB24,018,000 at December 31, 2017 (2016: RMB13,280,000) (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

	2017 RMB'000	2016 RMB'000
Advances from customers	**335,535**	498,495
Payables for purchase of property, plant and equipment	**199,933**	134,408
Payables for purchase of prepaid land lease payments	**33,865**	33,865
Payroll and welfare payables	**243,570**	206,160
Other tax payable	**148,700**	104,872
Other payables	**86,578**	72,976
Accruals	**95,180**	41,000
	1,143,361	1,091,776

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

	2017 Fair value adjustments arising from available-for-sale investments RMB'000
At January 1, 2017	**(67)**
Deferred tax credited directly to equity during the year	**7**
Gross deferred tax liabilities at December 31, 2017	**(60)**

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)

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, 2017 were RMB51,724,000 (2016: RMB26,265,000).

24. DEFERRED TAX (continued)

Deferred tax assets

	2017				
	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, 2017	**7,700**	**5,054**	**9,675**	**3,903**	**26,332**
Deferred tax credited to profit or loss during the year (note 10)	**2,915**	**1,076**	**9,867**	**11,594**	**25,452**
Gross deferred tax assets at December 31, 2017	**10,615**	**6,130**	**19,542**	**15,497**	**51,784**

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 have not been recognized in respect of tax losses of RMB14,596,000 as at December 31, 2017 (2016: RMB6,674,000), 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)

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 January 1, 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 January 1, 2008.

As at December 31, 2017, 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 January 1, 2008 to December 31, 2017 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 RMB8,326,045,000 as at December 31, 2017 (2016: RMB5,332,345,000).

25. DEFERRED REVENUE

	2017 **RMB'000**	2016 RMB'000
At beginning of year	**318,571**	296,975
Additions during the year	**28,437**	42,556
Released to profit or loss	**(22,822)**	(20,960)
At end of year	**324,186**	318,571

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

	2017 RMB'000	2016 RMB'000
Authorized:		
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	**112,712**	112,712

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, 2016	13,694,117,500	112,712	8,175,478	8,288,190
Final 2016 dividend declared	—	—	(1,459,573)	(1,459,573)
At December 31, 2016 and January 1, 2017	13,694,117,500	112,712	6,715,905	6,828,617
Final 2016 dividend declared	—	—	(2,148,221)	(2,148,221)
Interim 2017 dividend declared	—	—	(1,156,454)	(1,156,454)
At December 31, 2017	13,694,117,500	112,712	3,411,230	3,523,942

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 104 to 105 of the financial statements.

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

29. PLEDGE OF ASSETS

Details of the Group's bills payable and letters of credit, which are secured by the assets of the Group, are included in note 21 to the financial statements.

30. COMMITMENTS

(a) Capital commitments

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

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**420,638**	307,371

(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:

	2017 RMB'000	2016 RMB'000
Within one year	**18,671**	17,629
In the second to fifth years, inclusive	**36,752**	68,450
After five years	**—**	51,116
	55,423	137,195

31. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

(i) Sales of products:

	2017 RMB'000	2016 RMB'000
Dali Century Hotel Co., Ltd.	**165**	103

The sales to Dali Century Hotel Co., Ltd., which is the company 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) Rental expenses:

	2017 RMB'000	2016 RMB'000
Fujian Dali Foods Group Co., Ltd.	**18,232**	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.

(iii) Services purchased:

	2017 RMB'000	2016 RMB'000
Dali Century Hotel Co., Ltd.	**508**	435

(iv) Commitment with a related party:

Pursuant to the operating lease agreement with Fujian Dali Foods Group Co., Ltd., the amount of total rental expenses for the year is included in note 31(a) (ii) and the amount of total future minimum payments under the operating lease arrangement is RMB55,128,000.

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

	2017 RMB'000	2016 RMB'000
Salaries	**15,663**	11,157
Pension scheme contributions and social welfare	**51**	47
	15,714	11,204

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) (ii) and (a) (iii) 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:

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	250,240	250,240
Trade and bills receivables	1,084,902	—	1,084,902
Financial assets included in prepayments, deposits and other receivables	161,270	—	161,270
Pledged deposits	49,889	—	49,889
Cash and bank balances	8,095,648	—	8,095,648
	9,391,709	250,240	9,641,949

Financial liabilities

	Financial liabilities at amortized cost RMB'000
Trade and bills payables	889,279
Financial liabilities included in other payables and accruals	415,556
	1,304,835

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

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

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, 2017 RMB'000	December 31, 2016 RMB'000	**December 31, 2017 RMB'000**	December 31, 2016 RMB'000
Financial assets				
Available-for-sale investments	**250,240**	250,268	**250,240**	250,268

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

Management has assessed that the fair values of cash and bank balances, pledged deposits, 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 December 31, 2017

	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	**—**	**250,240**	**—**	**250,240**

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

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

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, 2017, 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
2017			
If RMB weakens against HKD	**1**	**(3,596)**	**8,482**
If RMB strengthens against HKD	**(1)**	**3,596**	**(8,482)**

* 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
2016			
If RMB weakens against HKD	1	(3,865)	57,116
If RMB strengthens against HKD	(1)	3,865	(57,116)

* 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)

Liquidity risk (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:

2017

	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	—	889,279	—	—	—	889,279
Financial liabilities included in other payables and accruals	181,758	233,798	—	—	—	415,556
	181,758	1,123,077	—	—	—	1,304,835

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

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 attributable to the owners of the parent. The gearing ratio as at the end of each reporting period was as follows:

	2017 **RMB'000**	2016 RMB'000
Total liabilities	**2,539,894**	2,614,508
Equity attributable to owners of the parent	**13,786,185**	13,865,877
Capital and total liabilities	**16,326,079**	16,480,385
Gearing ratio	**15.6%**	15.9%

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:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**1**	1
Total non-current assets	**1**	1
CURRENT ASSETS		
Cash and bank balances	**2,465,106**	5,974,931
Due from a subsidiary	**1,514,004**	1,483,957
Other receivables	**17,770**	25,698
Total current assets	**3,996,880**	7,484,586
CURRENT LIABILITIES		
Other payables and accruals	**17,181**	18,385
Total current liabilities	**17,181**	18,385
NET CURRENT ASSETS	**3,979,699**	7,466,201
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,979,700**	7,466,202
Net assets	**3,979,700**	7,466,202
EQUITY		
Share capital	**112,712**	112,712
Reserves (note)	**3,866,988**	7,353,490
Total equity	**3,979,700**	7,466,202

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, 2016	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 and January 1, 2017	6,715,905	585,297	52,288	7,353,490
Total comprehensive income for the year	—	(298,970)	117,143	(181,827)
Final 2016 dividend declared	(2,148,221)	—	—	(2,148,221)
Interim 2017 dividend	(1,156,454)	—	—	(1,156,454)
At December 31, 2017	3,411,230	286,327	169,431	3,866,988

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on March 18, 2018.

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