Dali Foods Group Company Limited
達利食品集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 3799)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

The board (the "**Board**") of directors (the "**Directors**") of Dali Foods Group Company Limited (the "**Company**" or "**Dali**") is pleased to announce the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the six months ended June 30, 2021, together with the comparative figures for the corresponding period in 2020. The unaudited interim condensed consolidated results for the six months ended June 30, 2021 have been reviewed by the audit committee of the Board (the "**Audit Committee**").

FINANCIAL HIGHLIGHTS

	For the six months ended June 30,		
	2021	2020	
	(Unaudited)	(Unaudited)	
	RMB'000	*RMB'000*	*% change*
Revenue	**11,287,241**	10,156,083	11.1%
Gross profit	**4,325,165**	4,066,845	6.4%
Gross profit margin	**38.3%**	40.0%	-1.7 percentage points
EBITDA	**3,150,308**	2,873,415	9.6%
Net profit	**2,012,830**	1,876,198	7.3%
Net profit margin	**17.8%**	18.5%	-0.7 percentage point
Earnings per share	**RMB0.15**	RMB0.14	7.3%

DIVIDEND

The Board has resolved to declare payment of an interim dividend of HK$0.087 per ordinary share for the six months ended June 30, 2021.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2021

		For the six months ended June 30,	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*5(a)*	**11,287,241**	10,156,083
Cost of sales	*6(a)*	**(6,962,076)**	(6,089,238)
Gross profit		**4,325,165**	4,066,845
Other income and gains	*5(b)*	**798,109**	585,752
Selling and distribution expenses		**(2,041,500)**	(1,846,536)
Administrative expenses		**(340,649)**	(317,738)
Finance costs		**(36,818)**	(787)
PROFIT BEFORE TAX	*6*	**2,704,307**	2,487,536
Income tax expense	*7*	**(691,477)**	(611,338)
PROFIT FOR THE PERIOD		**2,012,830**	1,876,198
Attributable to:			
Owners of the parent		**2,012,830**	1,876,198
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted			
— For profit for the period		**RMB0.15**	RMB0.14
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,692**	(18,694)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**1,692**	(18,694)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**1,692**	(18,694)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**2,014,522**	1,857,504
Total comprehensive income attributable to:			
Owners of the parent		**2,014,522**	1,857,504

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2021

	Notes	As at June 30, 2021 (Unaudited) RMB'000	As at December 31, 2020 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**5,090,699**	5,111,010
Investment property		**221,195**	225,664
Right-of-use assets		**678,927**	691,425
Intangible assets		**1,045**	1,171
Prepayments		**224,911**	87,184
Deferred tax assets		**63,361**	62,552
Total non-current assets		**6,280,138**	6,179,006
CURRENT ASSETS			
Inventories		**922,821**	1,074,604
Trade and bills receivables	*10*	**1,134,105**	899,559
Prepayments and other receivables		**718,773**	632,368
Pledged deposits		**100,000**	100,072
Cash and bank balances		**16,593,685**	13,825,147
Total current assets		**19,469,384**	16,531,750
CURRENT LIABILITIES			
Trade and bills payables	*11*	**988,503**	983,987
Other payables and accruals		**1,512,092**	1,596,871
Interest-bearing bank borrowings		**2,913,434**	1,917,681
Lease liabilities		**18,255**	17,844
Dividends payable	*8*	**968,560**	–
Tax payable		**351,215**	270,252
Total current liabilities		**6,752,059**	4,786,635
NET CURRENT ASSETS		**12,717,325**	11,745,115
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,997,463**	17,924,121

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)
June 30, 2021

	As at June 30, 2021 (Unaudited) *RMB'000*	As at December 31, 2020 (Audited) *RMB'000*
NON-CURRENT LIABILITIES		
Lease liabilities	**26,927**	32,378
Deferred revenue	**363,283**	358,307
Deferred tax liabilities	**95,999**	68,000
Total non-current liabilities	**486,209**	458,685
NET ASSETS	**18,511,254**	17,465,436
EQUITY		
Equity attributable to owners of the parent		
Share capital	**112,712**	112,712
Reserves	**18,398,542**	17,352,724
Total equity	**18,511,254**	17,465,436

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

In the opinion of the Company's directors, the holding company of the Company is Divine Foods Limited (the "**Parent**"), a company established in the British Virgin Islands ("**BVI**"). The controlling shareholders of the Company are Mr. Xu Shihui, Ms. Chen Liling, Ms. Xu Yangyang, Divine Foods Limited, Divine Foods-1 Limited, Divine Foods-2 Limited, Divine Foods-3 Limited, Hi-Tiger Limited and Xu's Family Trust (together known as the "**Controlling Shareholders**").

2. BASIS OF PRESENTATION

The interim condensed consolidated financial information for the six months ended June 30, 2021 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial information, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2020.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond June 30, 2021 (early adopted)*

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate as at June 30, 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after April 1, 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment did not have any impact on the financial position and performance of the Group.

4. OPERATING SEGMENT INFORMATION

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

(a) Manufacture and sale of household consumption;

(b) Manufacture and sale of snack food;

(c) Manufacture and sale of ready-to-drink beverage; and

(d) Others.

The "Others" segment comprises the sale of packing materials in relation to the production of food and beverage, and rental income from the investment property's prime office space.

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.

For the six months ended June 30, 2021

	Household consumption *RMB'000* (Unaudited)	Snack food *RMB'000* (Unaudited)	Ready-to-drink beverage *RMB'000* (Unaudited)	Others *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Segment revenue *(note 5)*					
Sales to external customers	**1,678,615**	**4,859,641**	**3,683,251**	**1,056,263**	**11,277,770**
Other revenue	**–**	**–**	**–**	**9,471**	**9,471**
					11,287,241
Segment gross profit	**746,990**	**1,714,707**	**1,842,384**	**21,084**	**4,325,165**
Reconciliation:					
Other income and gains					**798,109**
Selling and distribution expenses					**(2,041,500)**
Administrative expenses					**(340,649)**
Finance costs					**(36,818)**
Profit before tax					**2,704,307**
Other segment information					
Depreciation and amortisation	**79,277**	**94,274**	**164,959**	**4,722**	**343,232**
Capital expenditure*					
Allocated	**344,444**	**134,361**	**74,119**	**253**	**553,177**
Unallocated					**26,354**
					579,531

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

For the six months ended June 30, 2020

	Household consumption *RMB'000* (Unaudited)	Snack food *RMB'000* (Unaudited)	Ready-to-drink beverage *RMB'000* (Unaudited)	Others *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Segment revenue *(note 5)*					
Sales to external customers	1,279,534	4,839,131	3,313,311	717,082	10,149,058
Other revenue	–	–	–	7,025	7,025
					10,156,083
Segment gross profit	605,983	1,806,837	1,632,351	21,674	4,066,845
Reconciliation:					
Other income and gains					585,752
Selling and distribution expenses					(1,846,536)
Administrative expenses					(317,738)
Finance costs					(787)
Profit before tax					2,487,536
Other segment information					
Depreciation and amortisation	70,307	87,719	173,915	4,783	336,724
Capital expenditure*					
Allocated	86,457	57,856	179,474	1,370	325,157
Unallocated					15,491
					340,648

* Capital expenditure consists of additions to property, plant and equipment, investment property and intangible assets.

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

(a) An analysis of revenue is as follows:

	For the six months ended June 30,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	**11,277,770**	10,149,058
Revenue from other sources		
Gross rental income	**9,471**	7,025
	11,287,241	10,156,083

Disaggregated revenue information for revenue from contracts with customers

For the six months ended June 30, 2021

Segments	Household consumption	Snack food	Ready-to-drink beverage	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Type of goods or services					
Sale of goods	1,678,615	4,859,641	3,683,251	1,056,263	11,277,770
Timing of revenue recognition					
Goods transferred at a point in time	1,678,615	4,859,641	3,683,251	1,056,263	11,277,770

For the six months ended June 30, 2020

Segment	Household consumption	Snack food	Ready-to–drink beverage	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Type of goods or services					
Sale of goods	1,279,534	4,839,131	3,313,311	717,082	10,149,058
Timing of revenue recognition					
Goods transferred at a point in time	1,279,534	4,839,131	3,313,311	717,082	10,149,058

(b) Other income and gains:

	For the six months ended June 30,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**317,985**	256,135
Government grants*	**443,438**	293,266
Income from sales of scrap, net	**33,278**	26,031
Gain on disposal of items of property, plant and equipment	**117**	13
Foreign exchange differences, net	**3,177**	10,082
Others	**114**	225
	798,109	585,752

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

6. PROFIT BEFORE TAX

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

	For the six months ended June 30,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(a) Cost of sales:		
Cost of inventories sold	**5,929,422**	5,052,136
(b) Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**1,106,404**	1,055,611
Pension scheme contributions, social welfare and other welfare	**149,843**	102,847
	1,256,247	1,158,458
(c) Other items:		
Depreciation of property, plant and equipment	**387,618**	363,593
Depreciation of investment property	**4,722**	4,783
Depreciation of right-of-use assets	**16,434**	15,863
Amortisation of intangible assets	**409**	853
Promotion and advertising expenses	**1,164,864**	1,107,747
Research and development costs	**35,290**	33,194
Foreign exchange differences, net *(note 5(b))*	**(3,177)**	(10,082)
Bank interest income *(note 5(b))*	**(317,985)**	(256,135)
Government grants *(note 5(b))*	**(443,438)**	(293,266)
Loss on disposal of items of property, plant and equipment	**104**	614
Impairment of trade receivables	**2,987**	3,553
Impairment of inventories	**607**	728

The depreciation of property, plant and equipment, investment property and right-of-use assets, and amortisation of intangible assets are included in "administrative expenses", "selling and distribution expenses" and "cost of sales" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

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

7. INCOME TAX

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2020: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

Under the Income Tax Law of the People's Republic of China (the "**PRC**"), the Company's subsidiaries that are established in the PRC are subject to income tax at a base rate of 25%, except for some subsidiaries which are subject to income tax at a preferential rate of 15% in different periods between January 1, 2014 and December 31, 2030.

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. In addition, under the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. For the Group, the applicable rate is 5%. Deferred tax liabilities have been provided for based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since January 1, 2008.

The major components of income tax expense are as follows:

	For the six months ended June 30,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax:		
Income tax	**664,287**	815,030
Deferred tax	**27,190**	(203,692)
Total tax charge for the period	**691,477**	611,338

8. DIVIDENDS

A final dividend of HK$0.085 (equivalent to approximately RMB0.072) per ordinary share, totaling HK$1,164,000,000 (equivalent to approximately RMB968,704,000) was approved at the annual general meeting on May 18, 2021, and the balance was recognised as a liability as at June 30, 2021.

The board of directors resolved to declare interim dividend of HK$0.087 (equivalent to approximately RMB0.0735) per ordinary share, totaling HK$1,191,388,000 (equivalent to approximately RMB1,006,415,000) for the six months ended June 30, 2021 (the six months ended June 30, 2020: HK$1,027,059,000 (equivalent to approximately RMB902,744,000)).

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 13,694,117,500 (2020: 13,694,117,500) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended June 30, 2021 and 2020.

The calculation of basic earnings per share is based on:

	For the six months ended June 30,	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	**2,012,830**	1,876,198

	Number of shares	
	June 30, 2021	June 30, 2020
	(Unaudited)	(Unaudited)
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)*	**0.15**	0.14

10. TRADE AND BILLS RECEIVABLES

	June 30, 2021	December 31, 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**1,142,183**	904,950
Bills receivable	**2,800**	2,500
Impairment	**(10,878)**	(7,891)
	1,134,105	899,559

10. TRADE AND BILLS RECEIVABLES *(continued)*

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

	June 30, 2021	December 31, 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**1,037,948**	841,332
91 to 180 days	**84,856**	48,399
181 to 365 days	**11,301**	9,828
	1,134,105	899,559

11. TRADE AND BILLS PAYABLES

	June 30, 2021	December 31, 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**882,573**	817,407
Bills payable	**105,930**	166,580
	988,503	983,987

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

	June 30, 2021	December 31, 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**979,556**	827,297
91 to 365 days	**8,126**	148,664
1 to 2 years	**190**	4,457
Over 2 years	**631**	3,569
	988,503	983,987

Certain bills payable were secured by the pledge of the Group's short-term deposits of RMB100,000,000 at June 30, 2021 (December 31, 2020: RMB100,000,000). The trade payables are non-interest-bearing and normally settled within 30 days. The bills payable are non-interest-bearing and normally settled within 365 days.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY ENVIRONMENT

During the first half of 2021, China's economy experienced a strong recovery, recording a growth of 12.7% in gross domestic product and an increase of 23.0% in total retail sales of consumer goods, substantially resuming to pre-pandemic levels. Despite a resurgence of the pandemic across the globe, with rising vaccination rates in the PRC, proper anti-pandemic measures and controls in place and outstanding results of policies supporting economic growth, the macro-economic condition and domestic demand will witness healthy development for the second half of this year. Regarding the consumption sector, pursuit of food quality, health and nutrition has become a norm. Enterprises with the ability to provide high quality and a strong brand image will capture larger market shares. On the other hand, diversification of demand has prompted the segmentation of product category and pipeline and urged businesses to extend to multiple categories and pipelines from single ones, thereby accelerating industry upgrade and increasing concentration. Advantages of leading enterprises in aspects of product research and development, brand promotion, pipeline coverage and client development are further highlighted, while the iterative evolution in the consumer goods industry and the trend of "the strong gets stronger" will become more prominent.

BUSINESS OVERVIEW FOR THE FIRST HALF OF 2021

Leveraging on its strong market insight and industry foresight, the Group has successfully achieved industry layout across a number of high-growth sectors and become one of the few leading enterprises in the industry with multi-brand and multi-category operations. Thanks to its advanced planning, the Group has occupied the front positions in the short shelf-life bread sector, the plant protein sector and the energy drink sector. During the first half of 2021, the overall sales of the Group reached a record high of RMB11,287 million. The Group proactively seized opportunities in the post-pandemic era to drive rapid development of the three major strategic brands. Meibeichen recorded a year-on-year growth of 52.4% and sales revenue of RMB614 million; Doubendou recorded a year-on-year growth of 21.5% and sales revenue of RMB1,064 million; and Hi-Tiger recorded a year-on-year growth of 15.1% and sales revenue of RMB1,900 million. For the short shelf-life bread sector, Meibeichen is among the few nationwide brands in the industry, and enjoys the advantage of large-scale manufacture bases, branding and distribution network. During the first half of this year, the Group focused its efforts on enhancing sales quality and channel efficiency, supporting key distributors, optimizing supply chain management and improving various operating indicators. As a result, it achieved a growth rate of sales significantly higher than its industry peers and further expanded its market share. With the economies of scale of Meibeichen gradually come to fruition, there is huge room for market share growth in the future. In the area of plant-based protein, since the launch of Doubendou in 2017, the Group has always been a front runner in promoting healthy consumption. Leveraging its top-notched technology level and excellent productivity, Doubendou has grown into a leading brand in the industry through in-depth consumer education and prolonged market cultivation. The Group has established a product matrix that covers various price ranges and all consumer scenarios according to the needs of segmented markets and consumer scenarios, enabling Doubendou to reach different kinds of consumer groups in a comprehensive and convenient manner. In the first half of this year, our soy milk series further optimized their product portfolio, enhanced efficiency of sales channels and stepped up efforts on omni-channel penetration; Flogurt launched a differentiated branding marketing to further enhance the high-end image of Doubendou and strengthen its leading image in the soy milk industry. In light of the prevalence and popularity of the plant-based protein industry in the PRC, the Group believes that Doubendou will benefit from both the market growth and increase of market share in the future. In the area of energy drinks, as one of the most professional brands, Hi-Tiger has built up a group of loyal consumers in the industry with its proven reputation and by capitalizing on its good quality and diversified product offering, making it a nationwide leading brand of the industry. In the first half of this year, the Group refined its management on sales channels and terminals by optimizing its sales team, the management model and incentive mechanism of distributers, so as to enhance market share and broaden coverage of quality sales outlets. On the other hand, Hi-Tiger continued with its precise marketing to reinforce its brand image as a professional energy drink and drive rapid sales growth.

With rising income levels and increasingly divergent consumption habits, the trend of consumption upgrade is positive, imposing higher demands on the innovation capabilities of enterprises. The Group attaches great importance to innovation, focusing on brand, product and marketing innovation to consolidate its core competitiveness as a leader in the industry. During the first half of 2021, the Group accelerated the research and development of new products, product upgrade and digital marketing to seize the opportunities brought by new traffic and new scenarios. In terms of new products, the Group launched sparkling water in response to the demand for healthy sparkling beverage from young consumers, tapping into incremental market space. In terms of product upgrade, the Group launched sugar-free herbal tea in line with the trend towards sugar-free to meet the new demand of consumers for herbal tea. In terms of digital marketing, the Group has increased its online investment, leveraging the appeal of its spokesperson to expand traffic, and through big data analysis, the Group has been able to precipitate the brand's own fan base, optimize its product portfolio and increase the conversion rate of transactions. The Group has drawn the attention of young consumers with stereoscopic marketing, such as achieving deeper communication with consumers and expanding word-of-mouth promotion through TikTok, Xiaohongshu and other social media. During the first half of this year, the Group achieved a total media exposure of over 83.98 million times on Xiaohongshu, with 4.61 million reads and a total click-through rate of over 5.5%. At the same time, the company also promoted a scaled expansion of its fan base through joint promotions with popular variety shows and TV dramas, and achieved good results.

In terms of operation, the Group continued to strengthen its channel advantages to adapt to the market trends, and improved channel efficiency to the fullest by upgrading channel quality and expanding emerging channels. In terms of channel quality, the Group enhanced the operational efficiency of our sales team in a comprehensive manner through a number of measures such as team structural optimization, distributor reorganization and incentive policy optimization. In terms of channel expansion, we proactively deployed traditional channel, modern channel and new retail channel by means of rational matching of products, teams and channels. On the traditional channel side, our leading position in the industry was consolidated thanks to our in-depth and delicate efforts and the precise and targeted sales plans formulated. On the modern channel side, we expanded the coverage of our outlets and increased high-end product promotions, resulting in further improvement in our penetration rate. On the emerging channel side, we delved into new platforms and strengthened resource allocation. We completed the preliminary system construction of TikTok and Kuaishou, and speedily broadened sales from live streams by combining self-run and agency live streaming modes, thus achieving fast growth in the overall e-commerce sales. As for the community group purchase, we adopted refined management and rapidly expanded the scale of our platform sales by increasing the repeat purchase rate through precise product match.

Looking back to the first half of this year, the Group actively made use of the tremendous business opportunities brought by the new consumer scenario and new channels, and, leveraging on digital marketing and innovative products, achieved remarkable results in household consumption, energy drinks and new channels. Looking ahead, the Group will improve its efficient innovation mechanism and actively expand the size of its new channels and platforms as well as business teams, so as to further consolidate its leading position in the snack food industry, continuously increase its market share in the ready-to-drink segment, establish plant-based protein as a new leading sector, and expand the national scale advantage of the short shelf-life sector. The Group believes that its business model of multi-category operation and omni-channel layout is in line with the trend of consumer market diversification, which will lay a solid foundation for long-term and sustainable performance growth in the future.

During the first half of 2021, the Group's revenue reached RMB11,287 million, representing a year-on-year increase of 11.1%, of which, revenue from the household consumption segment increased to RMB1,679 million with a year-on-year increase of 31.2%; revenue from the snack food segment increased to RMB4,860 million with a year-on-year increase of 0.4%; and revenue from the ready-to-drink beverage segment increased to RMB3,683 million with a year-on-year increase of 11.2%. Gross profit amounted to RMB4,325 million, representing a year-on-year increase of 6.4%. Gross profit of the household consumption, snack food and ready-to-drink beverage segments were RMB747 million, RMB1,715 million and RMB1,842 million, respectively, representing an increase of 23.3%, a decrease of 5.1%, and an increase of 12.9%, respectively, compared to the same period of last year. Influenced by factors such as the increase in the cost of raw materials, overall gross profit margin of the Group was 38.3%, showing a decrease of 1.7 percentage points as compared to the first half of last year. Profit before tax was RMB2,704 million, representing a year-on-year increase of 8.7%; net profit increased by 7.3% year-on-year to RMB2,013 million, with a net profit margin of 17.8%, representing a year-on-year decrease of 0.7 percentage point. Cash flow remained strong, with a net increase in cash by RMB2,332 million, and net cash amounting to RMB14,704 million, an increase of 18.8% compared to the end of 2020.

HOUSEHOLD CONSUMPTION INDUSTRY

In the first half of 2021, the household consumption industry saw a strong growth momentum with an increase in sales revenue by 31.2% to RMB1,679 million in the first half of 2021 from RMB1,280 million in the first half of 2020, accounting for 14.9% of the overall sales of the Group. Gross profit margin saw a decrease of 2.9 percentage points to 44.5%, mainly due to the faster growth rate of short shelf-life bread in its incubation stage. Our sales team and distributor team in the household consumption industry have been equipped with strong capabilities in execution and responsiveness. Since 2021, the Group has been continuously optimising its sales system and channel network for concrete development of quality products, laying a solid foundation for the next round of large-scale expansion. Meanwhile, we have strengthened our capability in product innovation, introduced new products which cater for the needs of our target consumer groups and optimised our product portfolio. Through a product matrix with excellent quality and a wide selection, we have constantly expanded our consumer base and improved our brand loyalty.

- *Meibeichen*

  With the development of China's economy, the level of urbanization continues to improve with a quicker tempo of life. Against this backdrop, people's demand for convenient breakfast is increasingly prominent. Meanwhile, with the improvement in quality of life, health and quality have become what consumers mainly ask for at breakfast. As a leading national brand in the short-life bread market, Meibeichen has fully grasped the market trend and continuously facilitated the process of industrialisation of the industry with its excellent product quality and strong capability in product category operation.

  In the first half of 2021, Meibeichen continued to consolidate the development of quality products based on its solid nationwide layout, enhance the quality of its terminal outlets and strengthen the profitability of its distributors. Faced with the situation of differentiated regional development, Meibeichen was more efficient in its market operation and adapted its policies on operation to local conditions. Through flexible incentive policies, Meibeichen motivated distributors, giving full play to the advantages of its distributors and teams so as to strengthen operational efficiency. In line with the trend of omni-channel, Meibeichen made reasonable use of the development opportunities of group purchase in neighbourhoods to expand its regional influence. The series of measures achieved significant improvements in core indicators such as distribution lines, sales staff and terminal outlets. In terms of products, after more than two years of building a product matrix, Meibeichen was far ahead of its industry peers in terms of the product mix. In the first half of this year, Meibeichen continued to innovate and develop new products with fresher taste, healthier raw materials and richer nutrients, while increasing the share of shelf space and sales percentage of its innovative products through channel promotion and other means.

  Highly regarded by the Group, Meibeichen has established a product matrix with a wide range of products, a brand image with excellent quality and a professional and efficient sales system. Looking ahead to the second half of this year, Meibeichen will consolidate the development of quality products, further scale up its sales and strengthen its moat against threats to the brand, with a view to becoming the most influential short shelf-life food brand in China.

- *Doubendou*

  Given the increasing health awareness and concern over sustainable development by consumers in wake of the pandemic, the plant-based protein category has witnessed rapid growth around the world and gradually become a mainstream consumption product. In developed markets with similar soy milk consumption habits, such as Japan and Hong Kong, there is a very high penetration rate and brand concentration in the soy milk market; while the penetration rate in the PRC is substantially lower with bigger headroom for price increase as compared to the developed markets. It is expected that the soy milk market will benefit from the increase in both price and sales volume and Doubendou will continue to expand its market share in the future.

As a leading brand in the soy milk industry, Doubendou has been committed to consumer education in recent years to lead the industrialization development of the industry. In the first half of 2021, with a superb product matrix, Doubendou focused on product optimization in response to the demand of the general consumption group to rapidly boost its scale of sales. In respect of channels, Doubendou fostered channel penetration through a number of measures. First, it matched products and channel characteristics to precisely promote product sales on channels. Second, it developed high output channels and expanded the coverage of specialised channels to explore market potential. Last, it tapped into development opportunities brought by emerging platforms and secured development opportunities arising from new channels by establishing live streaming business on content platforms, such as TikTok and Kuaishou.

Through over three years of research and development, the Group achieved a number of technical breakthroughs and launched Flogurt, a key plant-based yogurt product, at the beginning of this year. Thanks to its fresh plant-based nature and smooth and rich yogurt texture, Flogurt was well-received by consumers at launch. With regard to spokesperson, Flogurt selected celebrities from younger generation to highlight the high-end, healthy and nutritious image of plant-based protein beverage and enhance general brand perception. In the first half of this year, Flogurt concentrated on brand promotion as the business priority to attain prevalent and constant brand exposure through comprehensive presence in popular variety shows and television dramas, as well as in-depth communication with consumers via emerging social platforms. In respect of marketing, Flogurt adopted for the first time a model of online initial launch and offline channel follow-up. The products are now available in various supermarket and convenience store chains in the PRC and incorporated into scenario marketing to further enhance consumers' awareness.

Looking ahead to the second half of 2021, Doubendou will continue to promote product portfolio optimization and channel refinement to expand its sales scale rapidly. Flogurt will stick to the genre promotion approach combining online brand marketing and offline scenario marketing to improve its brand recognition. The Group believes that capitalizing on its capabilities of brand building and genre operation, together with the new trend of a healthy and nutritious diet, Doubendou will eventually lead the plant-based protein industry to achieve greater success.

SNACK FOOD BUSINESS

As a leading enterprise in the snack food sector in China, the Group has a leading market share with its rich product portfolio and extensive channel network. The Group's snack food products cover three main categories: bakery, puffed potatoes and biscuits. In the first half of 2021, Daliyuan upgraded its industrial structure and sales channels and optimised its product portfolio to meet the needs of various consumption groups. In the face of the ongoing consumption upgrade and healthy diet market trend, the Group placed great emphasis on product development and continued to launch products that tasted fresher and more delicious with finer packaging to continuously expand the young consumer base. In terms of channel structure, the Group has expanded its modern channel coverage to improve operational efficiency and profitability.

In the first half of 2021, our sales revenue increased by 0.4% to RMB4,860 million from RMB4,839 million in the first half of 2020 while our gross profit margin decreased by 2.1 percentage points to 35.3%, mainly due to the impact of higher raw material costs. In line with the market trend of consumer fragmentation, the Group optimized its allocation of resources to promote the development of products in various price bands. Given the huge size and orderly landscape of the snack food market, the long-term positive trend remains unchanged. It is believed that with the upgrading of the industry and our advantages as a leading market player, sales and profits will gain further momentum to resume strong growth.

- *Bakery*

  Bakery is the largest category among snack food in China and has maintained rapid growth in recent years. According to Euromonitor, the bakery and pastry market has exceeded RMB230 billion by 2020, with strong growth potential. As a household name in the bakery industry, Daliyuan has the largest market share in the industry and has built a solid stronghold with its diverse product portfolio, excellent brand reputation and extensive channel resources.

  In the first half of 2021, Daliyuan continued to promote the development of new products and formulated targeted marketing strategies based on the characteristics of different channels to expand the shelf and sales share of high-end products in the channels and deepen the penetration into the high-end consumer market. On the other hand, Daliyuan continued to upgrade its product mix, extending its product portfolio around its core and best-selling products, meeting consumers demand for healthier products through unique product positioning and packaging, expanding its consumer base and increasing its repeat purchase rate. For example, based on its popular French petite bun, the Company launched a low-calorie, low-fat, high-fibre rye whole wheat petite bun, which won the hearts of families and young ladies with its original flavour and efficacy features.

  Compared with developed countries, China's bakery market is still relatively less concentrated and the market share of the top players still has ample room for improvement. In the future, Daliyuan will continue to consolidate its existing advantages, promote new products and improve the efficiency of its channels to continue to drive up its revenue scale and gross profit level.

- *Potato Puffed Food*

  Potato puffed food is an important category in the snack food market, with a relatively healthy market growth and solid competitive edges enjoyed by leading companies. As a leading domestic potato chips brand in China, Copico has a good reputation among young consumers and a well-established product matrix. Copico has a strong position in the mass market with its compound series, and meets the demand for high-end consumption with its pure cut series. In the first half of 2021, Copico continued to upgrade its products and expand its sales through trendy packaging and stylish flavors. On the other hand, Copico invested heavily in innovative marketing, including the expansion of new live-streaming channels, to continue expanding its influence among young consumers. Through continuous product innovation and upgrading, combined with innovative marketing approaches, Copico continued to grow steadily in 2021.

Looking forward, Copico will continue to capture the consumption trend of young consumers, invest in brand marketing and actively promote omni-channel sales through specialty products, thereby continuously increasing Copico's market share.

- *Biscuit*

  After years of development, the biscuit market has become more mature. Product upgrading will become an important driver for market development, and companies with high-end advantages will reap more market share. As a household name in China's market, Haochidian has great brand awareness, with a comprehensive product portfolio covering a variety of consumption scenarios and consumption groups. In the first half of 2021, Haochidian continued to rejuvenate its brand and launched upgraded and original products, which were targeted at and welcomed by young consumers. In terms of channels, Haochidian focused on the main channels for young consumers, expanding the convenience store chain coverage and broadening consumer groups through channel coverage. In terms of terminal management, it standardized the shelf image and introduced smaller-sized packaging suitable for sales in the convenience channel to drive rapid expansion of channel penetration.

  Looking forward, Haochidian will work on product positioning, channel and team to strengthen its core competitiveness, promote brand upgrade, increase mid-to-high-end market penetration and bring higher profit margins to the Group.

READY-TO-DRINK BEVERAGE INDUSTRY

Ready-to-drink beverage industry mainly consists of Hi-Tiger energy drinks, Heqizheng herbal tea and other beverage businesses. As the number of people travelling increases, the demand for ready-to-drink beverage is gradually rising. In addition, the demand for products with efficacy and fashion sense driven by consumer upgrading is also rapidly increasing. In the first half of 2021, the Group launched a number of innovative products in response to market trends and continued to expand sales by upgrading and extending existing products through accurate insights into market trends. In terms of channels, the focus was on improving distributor operations, helping them achieve a higher level of sales scale and increasing the proportion of quality distributors. In terms of teams, the Group optimized the incentive mechanism to fully mobilize the sales team. Benefited from improvement in product portfolio, team effort and channel management, the sales revenue of the Group's ready-to-drink beverage sector increased by 11.2% from RMB3,313 million for the first half of 2020 to RMB3,683 million in the first half of 2021, and the gross profit margin increased by 0.8 percentage point to 50.0%, which was mainly attributed to the expansion of revenue scale and the optimization of product portfolio.

- *Energy Drinks*

  As the tempo of society accelerates, the number of consumers who drink refreshing and anti-fatigue beverage and the frequency of consuming energy drinks have both increased, thereby contributing to a rapid growth in the energy drink market and a continued expansion of the market size in recent years. According to the data of Euromonitor, the retailing market size of energy drinks reached RMB44.8 billion in 2020 while the compound growth rate for the next five years is expected to reach 8.0%, Leading the growth for the ready-to-drink beverage industry in recent years. Through differentiated specification positioning and brand marketing, Hi-Tiger has built up a loyal consumer base in the industry, highlighting its advantage as a leading brand. The sales revenue for the first half of 2021 amounted to RMB1,900 million, representing a year-on-year increase of 15.1%.

  During the first half of 2021, Hi-Tiger optimized its product portfolio and offered more marketable products that were aligned with the characteristics of channels and consumer needs, thereby facilitating a rapid increase of channel penetration. For the management of channels, Hi-Tiger optimized its channel incentive mechanism, expanded channels and terminal network coverage, and at the same time reinforced management of core outlets, developed in-depth terminal sales and marketing plans, improved terminal display and explored sales potential of core outlets. For market operation, Hi-Tiger expedited nationwide penetration, continued to strengthen its market coverage in tier-1 and tier-2 cities and consolidated its market position in high-tier cities, and, in the meantime, leveraged on the brand effect to stimulate expansion in low-tier market and expanded sales in all facets. For brand marketing, Hi-Tiger actively captured market opportunities by sponsoring broadcast platforms during the European Cup Premier Tournaments to engage in in-depth communication and interaction with football fans, and thus enhanced its brand image as a professional energy drink.

  In the future, Hi-Tiger will continue to strengthen its professional brand image, increase investments in channels, optimize incentive mechanism and further expand the brand's foothold in the national market so as to capture market growth while increasing market shares.

- *Herbal Tea*

  As a traditional beverage used for "reducing heat", herbal tea possesses certain functional properties with relatively stronger brand loyalty as well as a larger market size and industry concentration. Currently, the competitive landscape for the herbal tea market has become steady, where top three players have dominated a majority of the market.

  During the first half of 2021, the sales revenue of the herbal tea sector grew by 1.2% to reach RMB1,045 million. Heqizheng has focused its product innovation and channels operation on young consumer groups to seize opportunities arising from the structural growth of the herbal tea market. In terms of new products, the Group saw new demands for beverage from younger consumers. Hence, based on its market position of traditional herbal beverage, it introduced sugar-free herbal tea and carbonated herbal tea with healthy ingredients and upgraded texture, thus injecting brand vitality to the traditional beverage sector. In terms of channels, Heqizheng explored high-growth specialty channels and utilized new products to achieve steady sales for the sector.

Looking into the future, Heqizheng will continue to capture demands from young consumer groups and promote new product sales in a bid to achieve healthy sales growth.

OTHER FINANCIAL INFORMATION

- *Sales and Distribution Expenses*

  Sales and distribution expenses of the Group increased by 10.6% from RMB1,847 million for the first half of 2020 to RMB2,042 million for the first half of 2021. Such expenses as a percentage of revenue remained stable as compared to that of the first half of 2020. The increase was mainly attributable to the increase in promotion and advertising expenses in respect of new products and the increase in labor cost due to higher headcount of relevant sales staff.

- *Administrative Expenses*

  Administrative expenses of the Group increased by 7.2% from RMB318 million for the first half of 2020 to RMB341 million for the first half of 2021. Such expenses as a percentage of revenue remained stable as compared to that of the first half of 2020, which was mainly attributable to the increase in labor cost due to higher headcount of administrative staff and the rise of average salaries.

- *Cash and Borrowings*

  The Group meets its liquidity needs mainly through cash flow generated from operation. The total value of the Group's pledged deposit, cash and bank deposits increased from RMB13,925 million as at December 31, 2020 to RMB16,694 million as at June 30, 2021. The increase was mainly due to the Group's net operating cash inflow of RMB2,326 million in the first half of 2021.

  The Group's short-term loans recorded a balance of RMB2,913 million as at June 30, 2021, of which 85.8% was denominated in RMB (December 31, 2020: RMB1,918 million). Such short-term loans of the Group were unsecured bank borrowings with interest rates ranging from 2% to 3% per annum. Benefiting from various domestic macroeconomic policies and the supporting policies of various financial institutions for the real economy after the outbreak of COVID-19, the Group obtained corporate phased preferential policies loan for the replenishment of working capital.

  As at June 30, 2021, the Group's gearing ratio was 28.1%, which is calculated by total liabilities divided by equity plus total liabilities. The gearing ratio increased as compared to 23.1% as at December 31, 2020, which was mainly attributable to the addition of unsecured short-term bank loans of the Group in the first half of 2021 and the outstanding payment of final dividend for 2020.

- *Inventories*

  The Group's inventories decreased by 14.1% from RMB1,075 million as at December 31, 2020 to RMB923 million as at June 30, 2021, mainly due to the fact that the Group effectively controlled material inventories according to price fluctuation of raw materials. The inventory turnover days decreased from 33.1 days in 2020 to 25.8 days for the first half of 2021.

- *Trade and Bills Receivables*

  The Group's trade and bills receivables increased by 26.1% from RMB900 million as at December 31, 2020 to RMB1,134 million as at June 30, 2021, primarily due to the Group's optimization and relaxation of credit conditions for some channel distributors in accordance with the development of our business and the sales market, the relatively speedy growth of e-commerce and the new retail operation with longer turnover days. The trade and bills receivables turnover days increased from 14.1 days in 2020 to 16.2 days for the first half of 2021.

- *Trade and Bills Payables*

  The Group's trade and bills payables overall remained relatively stable, recording an increase of 0.5% from RMB984 million as at December 31, 2020 to RMB989 million as at June 30, 2021. The Group has effectively controlled our trade and bills payables in accordance with the market development. The trade and bills payables turnover days decreased from 33.0 days in 2020 to 25.5 days for the first half of 2021.

- *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 Group in Mainland China were denominated in RMB, the subsidiaries of the Company in Mainland China were not subject to significant foreign currency risk. As at June 30, 2021, the Group's assets and liabilities denominated in HK$ were mainly held by the Company and certain subsidiaries incorporated outside Mainland China and had currencies other than RMB as their functional currencies.

  The Company and these subsidiaries incorporated outside Mainland China also held bank balances denominated in RMB, from which foreign currency exposures arise. The Group has not undertaken any hedging activities.

- *Contingent Liabilities*

  As at June 30, 2021, the Group did not have any significant contingent liabilities.

- *Asset Pledge*

  As at June 30, 2021, the Group's bills payable and debentures were secured by the pledge of its short-term deposits amounting to RMB100 million (December 31, 2020: RMB100 million).

Use of Proceeds from the Listing

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on November 20, 2015 with net proceeds from the global offering of approximately HK$8,665 million (after deduction of underwriting fees and commissions and estimated expenses payable by the Company in connection with the global offering). According to the intended use as set out in "Future Plans and Use of Proceeds" in the prospectus published on November 10, 2015 (the "**Prospectus**"), the amount utilized as at June 30, 2021 were as follows:

Use of Proceeds from the Listing(as at June 30, 2021)

unit: HK$ million

No.	Items	Percentage	Available	Utilized during the six months ended June 30, 2021	Accumulated utilized	Unutilized	Expected timetable of the use of the unutilized net proceeds[1]
1	Development, introduction and promotion of new products	20%	1,733	165	1,666	67	It is expected to be fully utilized on or before December 31, 2021
2	Expansion and upgrade of production facility and manufacturing network	20%	1,733	–	1,733	–	N/A
3	Enhancing presence in sales channels and promoting brands	20%	1,733	–	1,733	–	N/A
4	Potential acquisitions and business cooperation	30%	2,600	–	–	2,600	It is expected to be fully utilized on or before December 31, 2024
5	Working capital and other general corporate purposes	10%	866	–	866	–	N/A
Total		100%	8,665	165	5,998	2,667	

The Company does not intend to utilize the proceeds for purposes different from those stated in the Prospectus.

- *Capital Expenditures and Capital Commitments*

  The Group had capital expenditures of RMB580 million during the first half of 2021, primarily used for (i) establishment of production lines for new products; (ii) construction and land acquisition of plants and workshops for new factories; and (iii) equipment upgrades and renovation work for each production workshop of the factories.

  As at June 30, 2021, the Group's capital commitments relating to property, plant and equipment were RMB340 million, primarily used for (i) establishment of production lines for new products ; (ii) construction of plants and workshops for new factories.

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. The Group 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 the first half of 2021, the Group continued to introduce professional talents, actively identified talents from the existing employees and jointly established a cultivation mechanism for the talents with key universities and colleges in China on a long-term basis. The Group established a tutor management system and a training management system. They are to form a talent selection and promotion mechanism for competition for posts and performance appraisal, maintain the core competitiveness of corporate talents, and cultivate an experienced, stable and reliable management team. Meanwhile, the Group continued to optimize and upgrade our management structure, promote fine management and upgrade information management, laying a solid foundation for the Group's sustainable development.

As at June 30, 2021, the Group had a total of 40,607 employees (as at December 31, 2020: 39,216). 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 six months ended June 30, 2021, the total employee benefits expenses (including Directors' remuneration) were RMB1,256 million (for the six months ended June 30, 2020: RMB1,158 million), mainly attributable to the increase in sales and management personnel relating to the new business, resulting in an increase in the remuneration and benefits expenses.

PROSPECTS

Looking ahead to the second half of 2021, the Group will continue to seize the opportunity of development to lead the trend of household consumption and healthy consumption, and continue to expand its market share and capture the incremental market. For the household consumption segment, the Group will speed up the large-scale layout process of Meibeichen, improve the quality of sales and increase market penetration. Also, we will strengthen the brand promotion of Doubendou so as to speed up the cultivation and conversion of consumers' preferences; star products will be made to facilitate the process of industrialisation of plant-based protein. As for the snack food segment, the Group will increase its penetration of the mid-to-high-end consumption market to further consolidate our leading position in the industry. As for the ready-to-drink beverage segment, the Group will step up our efforts in launching innovative products and enhance the incentive mechanism for distributors and teams. In terms of widening our channels, we will expand the coverage of modern channels such as the convenient store network and livestream channels such as TikTok and Kuaishou, so as to accelerate the construction of community group purchasing teams and rapidly improve the operational capabilities of our teams.

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

In the future, Dali will adhere to the principle of "Creating Quality with Heart" with a pragmatic yet proactive corporate culture. We will keep our faith to offer more delicious and healthy products for the consumers and continue to strive for enormous returns for our shareholders.

DIVIDEND

On August 27, 2021, the Board has resolved to declare payment of an interim dividend of HK$0.087 per ordinary share for the six months ended June 30, 2021 (the "**2021 Interim Dividend**"), to shareholders whose names appear on the register of members of the Company on September 16, 2021. The declared 2021 Interim Dividend represents 50 per cent of the profit attributable to shareholders of the Company for the six months ended June 30, 2021.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of the shareholders of the Company to receive the 2021 Interim Dividend, the register of members of the Company will be closed from Tuesday, September 14, 2021 to Thursday, September 16, 2021, both dates inclusive, during which period no transfer of shares of the Company will be registered. The record date for entitlement to the 2021 Interim Dividend is Thursday, September 16, 2021. In order to qualify for the entitlement to receive the 2021 Interim Dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong, not later than 4:30 p.m. on Monday, September 13, 2021. The payment date of the 2021 Interim Dividend is expected to be on Thursday, September 30, 2021.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Board considered that for the six months ended June 30, 2021, the Company has complied with the applicable code provisions set out in the CG Code, save and except for code provision A.2.1. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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 Company has appointed Mr. Xu Shihui as both the chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the chairman and chief executive officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors.

COMPLIANCE WITH MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (the "**Securities Dealing Code**") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Model Code and the Securities Dealing Code during the six months ended June 30, 2021.

AUDIT COMMITTEE

The unaudited interim condensed consolidated financial statements of the Group for the six months ended June 30, 2021 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2021.

EVENTS AFTER THE REPORTING PERIOD

There was no significant event which has occurred to the Group after the six months ended June 30, 2021.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.dali-group.com). The interim report of the Company for the six months ended June 30, 2021 will be dispatched to the shareholders of the Company and made available on the above websites in due course.

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

Hong Kong, August 27, 2021

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