



Company Code: 603288

Abbreviation: Haitian Flavoring

Executive Summary of 2016 Annual Report of Foshan Haitian Flavoring & Food Co., Ltd

I. Important Reminder

1. This executive report is excerpted from the Company's Annual Report. To get a full picture of the Company's operations results, financial status and future development plan, investors are advised to read the full text of the Annual Report which is available at the website of Shanghai Stock Exchange and other websites as designated by China Securities Regulatory Commission (CSRC).

2. The Board of Directors, the Board of Supervisors, directors, supervisors and senior management shall guarantee that the Annual Report is correct, real, complete and free from any false description, misleading representations or major omissions and shall undertake several and joint liability.

3. All directors attended the Board Meeting.

4. KPMG Huazhen LLP (Special General Partnership) issued a standard auditing report without reservations.

5. According to the proposed profit distribution plan for the reporting period, or the provident fund-to-equity conversion plan as examined by the Board,

it is proposed to use the total number of share of 2,704,950,700 at last year-end as the base to pay out RMB6.8 (tax included) for every 10 shares to shareholders, with an overall cash dividend payout of RMB1,839,366,476.00.

The plan shall be submitted to 2016 Annual General Meeting of Shareholders for approval.



6. Company overview

About the Share				
Type of Share	Exchange of Listing	Short name	Code of Stock	Short name before change
A-Share	Shanghai Stock Exchange (SSE)	Haitian Flavorings	603288	

Contact Info	Secretary to the Board	Representative of Securities Affairs
Name	Zhang Xin	Wu Weiming
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II. Business overview

(I) Main Business

By the production and sales volume/revenue of flavorings, we have been the market leader for many years, and is the largest producer and seller of flavorings in the world. We have multiple product categories, in which soy sauce, seasoning sauce and oyster sauce are our main products. Within the reporting period, the comprehensive competitiveness of our products was strengthened, and the stability and profitability of our main business kept improving.

(II) Main Products and Usages

(1) Soy Sauce

For many years, we have been in the No. 1 position by the production and sales volume/revenue of soy sauce, far ahead of our competitors in the market. Our product categories cover high-to-low end with multiple tastes and purposes of cooking. There are mainstream products that are popular for decades, high-end Soy Sauces that lead the trend of consumption, as well as economic products that fit for ordinary consumers.

(2) Seasoning Sauce

With regard to seasoning sauces, we are also at a leading position in the market. We have a variety of them, each has its own features. With genuine ingredients and good prices, they have been very popular among consumers.

(3) Oyster Sauce

The sales of oyster sauce has been far ahead of other players, bringing an absolute leading position to us in the market. Along with the deepening of our market network and because of the unique taste, oyster sauce is going from regional to national and from restaurant to home kitchen.

(III) Operations Model

(1) Purchase Model

In our purchase strategy, we have different purchase departments dedicated for different business segments, and all purchase activities are monitored in the ERP system. Hence there has formed a stringent system. Between Purchase and Production departments, there formed an internal upstream-downstream supply chain so that purchase can be done at the optimal time based on the production plan, therefor reducing the occupation of capital effectively. Stable volume of purchase and flexible pricing strategy helps us to lower the purchase cost, and cooperation with brand suppliers helps us to keep improving quality of purchase.

(2) Production Model

We define our output mainly by “sales + reasonable inventory”. Non-human touch is allowed in the production process to ensure food safety and improve efficiency. Digital approaches are utilized along the production process to guarantee product quality. For years, we have maintained a fairly synchronized pattern of production and sales, as well as a high level of capacity utilization.

(3) Sales Model

By adopting a sales model focused on dealers, we maximize our coverage of market terminals and realize win-win situation. Using the settlement method featuring “payment before delivery”, we ensure that the Company enjoys sufficient cash flow, and prevent bad debt. Each year, we effective modify our sales strategy and gradually build up a sales model that fits in with our own development.

(IV) Industrial Development Status

Compared with other industries, the condiment industry has developed in a steadier manner with lower concentration. Enterprises in the industry are varied in performance and diversified into different segments. The periodic features of the industry are less prominent. With the upgrade of family and catering consumption, the emerging categories that guide consumption and consumer’s growing awareness of health, the industry sees steady increase in per capita expenditure on condiment that facilitating steady development and higher concertation in the industry.

(V) Performance Drivers in the Reporting Period

During the report period, the Company has taken effective measures in response to the weakened market environment and facilitated our comprehensive strength and status in the



industry through innovation and reform in various areas such as marketing, products, brands, production capacity and talent, thus driving growth in both size and profits of the Company.

III. Key Accounting Data and Financial Indicators

Unit: Yuan Currency: RMB

	2016	2015	Increase & Decrease Year on Year (%)	2014
Total Asset	13,463,592,998.27	11,498,002,242.84	17.10	11,000,594,566.17
Operating Income	12,458,558,940.81	11,294,380,030.09	10.31	9,817,189,662.62
Net profit attributable to the listed company's shareholders	2,843,133,968.17	2,509,632,367.33	13.29	2,090,275,690.29
Net profit after non-recurring gains and losses attributable to the listed company's shareholders	2,768,077,430.02	2,439,404,808.55	13.47	2,007,951,742.23
Net assets attributable to the listed company's shareholders	10,013,769,433.03	8,751,125,601.73	14.43	7,487,912,155.39
Net cash flow from operating activities	4,074,050,747.76	2,194,831,656.35	85.62	2,739,330,825.61
Basic EPS (RMB/share)	1.05	0.93	12.90	0.78
Diluted EPS (RMB/share)	1.05	0.93	12.90	0.78
Weighted Average ROE (%)	32	32	0	33



IV. Key Quarterly Accounting Data for the Reporting Period

Unit: Yuan Currency: RMB

	Q1 (Jan. – Mar.)	Q2 (Apr. – Jun.)	Q3 (Jul. – Sept.)	Q4 (Oct. – Dec.)
Operating Income	3,424,887,408.35	2,743,887,904.41	2,791,560,366.23	3,498,223,261.82
Net profit attributable to the listed company's shareholders	809,763,217.97	676,162,358.23	553,536,365.61	803,672,026.36
Net profit after non-recurring gains and losses attributable to the listed company's shareholders	796,554,852.97	656,970,673.42	537,017,308.26	777,534,595.37
Net cash flow from operating activities	224,742,721.30	821,944,008.30	715,851,372.68	2,311,512,645.47

V. Share Capital and Shareholders

5.1 Number of ordinary shareholders and proffered shareholders with restored voting rights and shareholdings of the top ten shareholders

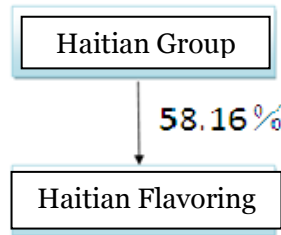
Unit: Share

Number of ordinary shareholders at the end of the period (account)						23,169	
Number of ordinary shareholders at the end of the month prior to the release of this annual report (account)						21,566	
Shareholdings of the Top Ten shareholders							
Name of Shareholder (full name)	Changes during the reporting period	Number of shares held at end of the period	Percentage (%)	Number of restricted shares held	Pledged or frozen shares		Type of Shareholders
					Status of shares	Number	
Guangdong Haitian Group Co., Ltd	0	1,573,188,221	58.16	1,573,188,221	None	0	Domestic non-state-owned legal person
Pang Kang	0	258,408,691	9.55	258,408,691	None	0	Domestic natural person
Cheng Xue	0	85,647,571	3.17	85,647,571	None	0	Domestic natural

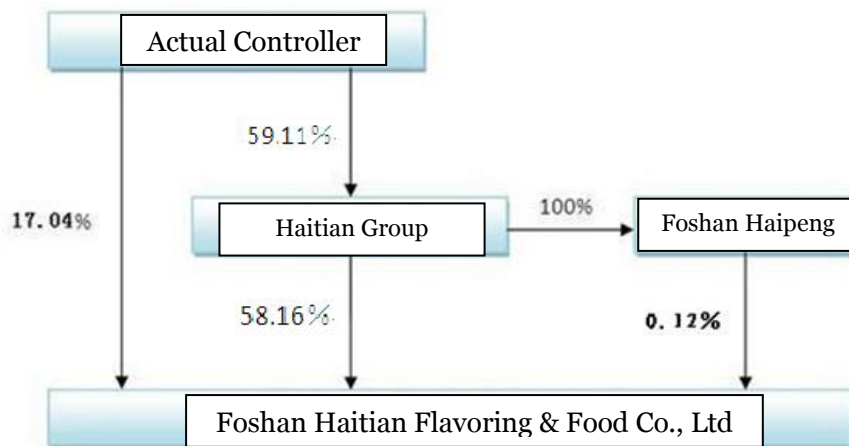


							person
Hong Kong Securities Clearing Co., Ltd	28,892,930	84,962,210	3.14	0	None	0	Overseas legal person
Li Xuhui	0	51,939,889	1.92	51,939,889	None	0	Domestic natural person
Pan Laican	0	42,293,898	1.56	42,293,898	None	0	Domestic natural person
Lai Jianping	0	40,807,048	1.51	40,807,048	None	0	Domestic natural person
China Securities Finance Co., Ltd	-236,965	37,746,505	1.40	0	None	0	State
Guotai Junan Securities – China Construction Bank – Hong Kong and Shanghai Banking Corporation	-98,035	22,549,295	0.83	0	None	0	Overseas legal person
Fang Zhancheng	0	20,007,284	0.74	20,007,284	None	0	Domestic natural person
Description for related relationship or acting in concert of the above shareholders	<p>1. Pang Kang, Cheng Xue, Li Xuhui and other 5 natural person shareholders are acting in concert.</p> <p>2. Among the top ten shareholders, Pang Kang, Cheng Xue, Li Xuhui, Pan Laican, Lai Jianping and Fang Zhancheng are shareholders of Haitian Group. Pang Kang and Cheng Xue are board directors of Haitian Group.</p> <p>3. Apart from the above, the Company has no knowledge about whether other shareholders have related relationship or act in concert.</p>						
Description of number of shares held by preferred shareholders with restored voting rights	None						

5. 2 Block Diagram about Relationship of Property Rights and Control between Company and Controlling Shareholders



5.2 Block Diagram about Relationship of Property Rights and Control between Company and Actual Controller



VI. Operations Discussion and Analysis

(I) Management Discussion and Analysis

In 2016, in the face of multiple adverse factors such as the downgoing economic pressure and increased cost, the Company sought for new opportunities for progress and started comprehensive reform while focusing more on the quality of development and sustainable growth. Finally, with concerted efforts of all employees, we realized stable growth in operations revenue, net profit and other core operation indicators, thus improving our overall competitiveness steadily.

In 2016, we implemented business-critical programs that may decide our operations for this year and for the future in areas of product supply, marketing and sales, branding and human resources.

1. We continuously enhanced our product competitiveness by way of building up a team of craftsmanship through “Projects of Excellence”

(1) We mobilized all our staff to work with the spirit of craftsman and make the best

products of our own. Meanwhile, we invested more on product upgrading and raised the bar higher for our competitors, and realized fast growth in soy sauce and other products.

(2) Phase 1 of the capacity renovation project in the soy sauce base and the flavoring production base was completed, and Phase I of Jiangsu factory was put into operations, bringing the overall capacity of flavorings to over 2 million tons. The proactive capacity deployment will serve as a strong guarantee for us to achieve stable growth in the market.

(3) Through optimizing the PO module, reducing inventory and exploiting capacity potentials, overall improvement was achieved in the balance between production and sales, The higher efficiency from integration of internal and external resources enabled higher competitiveness, and a fine relationship of mutual promotion was set up at the supply, production and sales ends.

2. We accelerated the transformation of marketing to achieve quality growth.

(1) We accelerated the going-down of the network and achieved very good result last year, therefore laying a good foundation for the future growth.

(2) We sped up the growth of core products such as soy sauce, oyster sauce and seasoning sauce, pushed them to penetrate faster through our network and quickened the pace of promotion and volume realization so as to give the network a full play to achieve superimposed effect.

(3) We accelerated the logistics reform to cope with marketing transformation by establishing multiple RDCs to enrich logistics services, thus providing better logistic support and improving our responsiveness to the market.

3. We combined brands, products and media resources effectively and kept focusing on the core business.

We continuously pushed forward the brand development strategy and kept focusing on the core products such as soy sauce, oyster sauce and seasoning sauce, which not only facilitated sales but also helped with our brand extension.

Improved packaging details worked well in delivering a better experience of use to consumers.

4. We took skill improvement and core-work-focus as the internal impetus to deepen our reform on human resources.

(1) With regard to focusing on core work, we established a joint-unit and a business division to promote synergy between teams and realize the big goal of the Company.

(2) We continue deepening the building up of our featured compensation and motivation system. While emphasizing on self-operations, we put our focus on improving the skills of employees on all positions. Through improved skill, they will be able to create more tangible values to the Company and realize a fine cycle of value creation and benefit gains for themselves.



(3) In the areas of production, equipment, purchase and marketing/sales, we worked hard to build up our team of craftsman. Through improved skills, they will help to improve the quality of our products, work and services further.

(II) Operations overview in the reporting period

Within the reporting period, the Company realized operations revenue of 12.459 bn yuan, increased by 10.31% YoY, net profit attributable to shareholders of the listed company 2.843 bn yuan, increased by 13.29% YoY, net assets attributable to shareholders of the listed company of RMB10.013 bn, increased by 14.43% YoY, and overall gross profit margin 43.95%, increased by 2 percentage points YoY.

1. Main Business Analysis

(1) Income statement, cash flow statement and table of variations in related subjects.

UOM: yuan Currency: RMB

Subject	Current Period	Same Period Last Year	Variation (%)
Operations Revenue	12,458,558,940.81	11,294,380,030.09	10.31
Operations Cost	6,983,199,621.89	6,557,244,862.44	6.50
Sales Expenses	1,559,903,903.37	1,227,220,684.17	27.11
Management Expenses	519,685,281.65	534,901,347.04	-2.84
Financial Expenses	-45,681,637.22	-48,786,754.34	6.36
Net Cash Flow from operating activities	4,074,050,747.76	2,194,831,656.35	85.62
Net Cash Flow from investing activities	-1,757,827,443.15	-317,736,985.21	-453.23
Net Cash Flow in Financing Activities	-1,635,031,102.22	-1,279,886,600.00	-27.75
R&D expenditure	332,833,156.75	314,607,782.61	5.79
Net Profit Attributable to Shareholders of the Listed Company	2,843,133,968.17	2,509,632,367.33	13.29

(2) Revenue and cost analysis



(2.1) Main business by industry, product and region.

Unit: Yuan Currency: RMB

Main Business by Industry						
By Industry	Operations Revenue (OR)	Operations Cost (OC)	Gross margin (%)	OR Variation YoY(%)	OC Variation YoY(%)	Variation of gross margin YoY(%)
Food Manufacturing Industry	12,068,488,019.69	6,622,649,819.63	45.12	8.03	2.61	2.90
Main Business by Product						
By Product	Operation Revenue	Operations Cost	Gross margin (%)	OR Variation YoY(%)	OC Variation YoY(%)	Variation of gross margin YoY(%)
Soy Sauce	7,578,670,005.60	3,976,070,337.88	47.54	12.84	6.35	3.21
Seasoning sauce	1,814,440,258.26	1,003,370,413.95	44.70	0.11	-0.99	0.61
Oyster Sauce	1,862,706,997.92	1,150,500,558.83	38.24	4.80	2.57	1.35
Main Business by Region						
By region	Operations Revenue (OR)	Operations Cost (OC)	Gross margin (%)	OR Variation YoY(%)	OC Variation YoY(%)	Variation of gross margin YoY(%)
East	2,598,289,003.14	1,439,043,220.48	44.62	3.05	-3.57	3.81
South	2,695,525,215.63	1,488,808,883.78	44.77	3.55	-1.36	2.75
Central	2,283,225,923.86	1,243,424,822.99	45.54	15.77	11.22	2.23
North	3,340,429,602.67	1,831,673,602.60	45.17	8.12	2.84	2.82
West	1,151,018,274.39	619,699,289.78	46.16	16.88	11.98	2.35

Description of main business by industry, by product and by region



1) By product

Soy Sauce:

During the reporting period, the company realized operation revenue of 7.579 billion yuan, 12.84% growth year-on-year, thus enhanced our competitiveness in soy sauce products with the help of our effective combination of producing excellent products and expanding markets. We achieved a lot in terms of accelerating growth, upgrading structures, promoting sustainable development of fundamental products and improving gross profit rates.

Seasoning sauce:

During the reporting period, the company realized operation revenue of 1.814 billion yuan, basically the same as last year. We put more efforts on regulation of traditional soy sauce markets, optimized product structure and reduced reliance on existing specifications, thus laying the foundation for the new rounds of development of seasoning sauce and the foundation for the simultaneous development of soy sauce and non-soy sauce.

Oyster Sauce

In the reporting period, the company realized revenue of 1.863 billion yuan, 4.8% growth year-on-year. The Company will upgrade quality of oyster sauce and enhance its promotion around China. Though the targets for oyster sauce remain unrealized, the frontier markets of it grow rapidly, laying foundation for the work in 2017. The absolute advantage of our oyster sauce business keeps expanding.

2) By region

During the reporting period, the company accelerated development of network and we maintained a stable growth after optimizing and integrating our businesses in south and east China. Meanwhile, our business in central and west China develops quite fast.

(2.2) Analysis of sales and production

Unit: Yuan Currency: RMB

Main Products	Production	Sales	Inventory	Change in Production YoY(%)	Change in Sales YoY (%)	Change in Inventory YoY (%)
Soy Sauce	147.37	148.03	4.45	10.33	10.26	-12.92
Seasoning Sauce	21.58	21.79	0.54	4.05	3.03	-28.00
Oyster Sauce	43.49	42.69	1.53	11.09	6.54	109.59

Illustration on production and sales

During the reporting period, the company maintained a higher level of production and



sales volume while realizing a successful combination of production and sales, thus guaranteeing a virtuous decrease of finished products on the premise of maintaining reasonable inventory. At the end of the period, the oyster sauce enjoyed an increase of inventory compared with same period last year, mainly because of the additional production and stock-up according to the follow-up sales plan of oyster sauce.

(2.3) Analysis of Production Cost

Unit: Yuan Currency: RMB

By Industry							
By industry	Cost Structure	Current amount	Current ratio in total cost(%)	Amount of the Same Period Last Year	Last year ratio in total cost(%)	Change YoY (%)	Remarks
Food Manufacturing Industry	Direct Materials	5,792,947,408.31	87.47	5,608,464,869.85	86.90	3.29	-
	Manufacturing Cost	657,957,973.85	9.93	674,040,740.42	10.44	-2.39	-
	Direct Labor Cost	171,744,437.47	2.59	171,674,547.33	2.66	0.04	-
By product							
By product	Cost Structure	Current amount	current ratio in total cost(%)	Amount of the Same Period Last Year	Last year ratio in total cost (%)	Change YoY(%)	Remarks
soy sauce	Direct Materials	3,470,464,978.45	52.39	3,252,741,554.55	50.40	6.69	-
	Manufacturing Expenses	419,503,956.94	6.33	402,725,432.49	6.24	4.17	-
	Direct Labor	86,101,402.49	1.30	83,248,939.24	1.29	3.43	-



Seasoning sauce	Direct Materials	869,387,376.59	13.13	880,712,598.88	13.65	-1.29	-
	Manufacturing Expenses	88,504,745.00	1.34	87,061,315.26	1.35	1.66	-
	Direct Labor	45,478,292.37	0.69	45,658,102.19	0.71	-0.39	-
Oyster Sauce	Direct Materials	1,082,096,838.47	16.34	1,054,725,919.86	16.34	2.60	-
	Manufacturing Expenses	50,303,225.00	0.76	49,662,694.08	0.77	1.29	-
	Direct Labor Cost	18,100,495.36	0.27	17,287,028.00	0.27	4.71	-

Further description on cost analysis

During the reporting period, the company effectively carried out the delicacy cost control through internal reform of management in order to drive down costs for various categories of products over year-on-year basis and increase gross profit rate while maintain stable improvement of product quality. During the period of report, the operation cost was 6.983 billion yuan, 6.5% growth year-on-year, slightly lower than the growth rate of operation revenue of 10.31%. The main business cost was 6.623 billion yuan, with the YoY growth rate of 2.61%.

(2.4) Main Clients and Suppliers

Sales turnover of top 5 of our clients reached RMB313,5548million, accounting for 2.52% of total annual sales, in which the sales for affiliated parties was zero, accounting for 0% in total annual sales.

The purchase volume by the top 5 clients mounted up to 1.4900313 billion yuan, accounting for 24.01% of total annual purchase, in which the purchase by affiliated parties was zero, accounting for 0% in total annual purchase.

Sales of Top 5 Clients:

Unit: Yuan Currency: RMB

Name of Client	Operation Revenue	Proportion in Total Operation Revenue (%)
No.1	82,719,345.28	0.66
No.2	66,733,560.58	0.54
No.3	57,900,539.82	0.46
No.4	57,132,619.79	0.46
No.5	49,068,699.44	0.39



Name of Client	Operation Revenue	Proportion in Total Operation Revenue (%)
Total	313,554,764.91	2.51

Purchase by Top 5 Clients:

Unit: Yuan Currency: RMB

Name of Suppliers	Amount	Ratio accounted for total procurement (%)
No.1	417,437,358.16	6.73
No.2	305,153,670.70	4.92
No.3	268,635,304.39	4.33
No.4	259,578,649.71	4.18
No.5	239,226,285.01	3.85
Total	1,490,031,267.97	24.01

(3) Expenses

Expense Change YoY:

Unit: Yuan Currency: RMB

Project	Current amount	Previous amount	Change YoY %
Sales Expenses	1,559,903,903.37	1,227,220,684.17	27.11
Management Expenses	519,685,281.65	534,901,347.04	-2.84
Finance Expenses	-45,681,637.22	-48,786,754.34	6.36

Note:

(3.1) Sales expenses increased by 27.11% YoY, mainly due to accelerated injection into markets and brand building as well as the construction and expansion of sales channels during the period of report.

(3.2) We achieved a better control of management expenses and maintained it at the level of 4.17%.

(3.3) Financial income decreased by 6.36% YoY, mainly due to the fact that the Company tried to receive more financial investment income through raising its limit for financial management which results in reduction of existing fund and the interest on deposit during the period of report.

(4) R&D Investment



(4.1) Table of R&D Investment

	Unit: Yuan
Current expensing R&D investment	332,833,156.75
Current capitalizing R&D investment	0
Total R&D investment	332,833,156.75
Proportion of total R&D investment in operation revenue (%)	2.67
Number of R&D personnel	317
Proportion of R&D personnel in total staff (%)	14.36
Proportion of capitalizing R&D investment (%)	0

(4.2) Remarks

During reporting period, the total spending on R&D is 333 million yuan, a YoY growth rate of 5.79%. The R&D investment accounts for 2.67% of annual operation revenue. This is in accordance with the requirements of Gaoming Haitian R&D, a subsidiary of the company, on the R&D investment ratio as a high-tech company. . During reporting period, the company continues to enhance the research and development of new product and technology and conduct further exploration and research while retaining the products’ traditional unique flavours, in order to improve its core competitiveness through a series of industry-leading core technologies obtained in the breakthroughs in scientific research. In 2016, the company focused on the technology research in respects of the breeding of fermentative strains, the process regulation & synergistic multi-strains fermentation s, the food-flavour improving and the food security inspection. Meanwhile, it enhanced efforts to develop new products, including high-end fermented soybean sauce, oyster sauce, sauce, vinegar and other flavourings.

(5) Cash Flow

YoY change of cash flow:

	Unit: Yuan		
Project	2016	2015	Change (%)
Cash inflow from operating activities	15,282,241,368.23	12,347,911,604.40	23.76
Cash outflow from operating activities	11,208,190,620.47	10,153,079,948.05	10.39
Net cash flow from operating activities	4,074,050,747.76	2,194,831,656.35	85.62
Cash inflow from investment activities	4,201,067,609.66	2,828,044,231.93	48.55
Cash outflow from investment	5,958,895,052.81	3,145,781,217.14	89.42



activities			
Net cash flow from investment activities	-1,757,827,443.15	-317,736,985.21	-453.23
Cash inflow from financing activities	-	-	-
Cash outflow from financing activities	1,635,031,102.22	1,279,886,600.00	27.75
Net cash flows from financing activities	-1,635,031,102.22	-1,279,886,600.00	-27.75
Net increase in cash and cash equivalents	681,192,202.39	597,208,071.14	14.06

Remarks on changes over 30%:

(5.1) Net cash flow from operating activities increases by 85.62% over the same period of last year and the net inflow increases by 1.879 billion yuan. This is mainly due to an increase of current cash inflow from operating activities (2.934 billion yuan) and an increase of cash outflow from operating activities (1.055 billion yuan).

1) Cash inflow from operating activities grows by 2.934 billion yuan, with an increase of 23.76%, mainly because that:

1.1) During reporting period, the company's operation revenue increases by 1.164 billion yuan and the cash inflow from relevant operating activities increases by 1.362 billion yuan;

1.2) By the end of last year, the company has adjusted the timeline for prepayment, resulting in the increase of current cash inflow from operating activities;

By the end of last year, to further support the distributors' development and to reduce their burden on cash, the company has promptly adjusted the timeline of year-end prepayment, dealers allowing distributors to complete their prepayments by Jan. 2016, before the goods are sent out. This action has led the balance of prepayment at the end of last period to reduce by 900million yuan year on year and has eventually increased the current cash inflow from operating activities at the start.

1.3) By the end of reporting period, the distributors actively pay in advance to order goods, and the deposit received at the end of period increases by 690 million yuan, resulting in corresponding increase of cash flow from operating activities.

2) Cash outflow from operating activities grows by 1.055 billion yuan, with an increase of 10.39%, almost equal to that of operation revenue, which is mainly because that the increase of inside sales during reporting period drives the increase of the cost of various outsourcing raw materials concerning operating activities, the market investment and the salary costs.

(5.2) Net cash outflow from investment activities grows by 1.44 billion yuan, with an YoY increase of 453.23%), which is mainly due to that the current financing scale increases from 1.5 billion yuan to 2.6 billion yuan, resulting in an increase of 1.1 billion yuan of current cash outflow, plus the net cash inflow of 300 million yuan generated by financing activities and fixed time deposit.



(5.3) Net cash outflow from financing activities reaches 1.635 billion yuan, with an YoY increase of 27.75%, which is mainly due to the net cash outflow from financing activities during reporting period, resulting from the cash dividends during the same period.

2. Assets and Liabilities

Unit: Yuan

Project Name	As at the end of this period	As a percentage of total assets (%)	As at the end of last period	As a percentage of total assets (%)	Change in percentage (%)	Remarks
Monetary fund	5,196,574,520.25	38.60	4,519,091,067.15	39.30	14.99	-
Prepayment	16,997,928.74	0.13	7,279,517.87	0.06	133.50	-
Interest receivable	2,071,262.81	0.02	753,269.40	0.01	174.97	-
Inventory	939,884,332.90	6.98	999,924,009.12	8.70	-6.00	-
Other current assets	2,666,423,818.65	19.80	1,640,624,402.16	14.27	62.52	-
Investment real estate	5,314,445.51	0.04	5,923,756.26	0.05	-10.29	-
Fixed asset	3,830,285,320.94	28.45	3,263,644,592.88	28.38	17.36	-
Construction project	582,415,461.85	4.33	786,640,648.16	6.84	-25.96	-
Accounts payable	546,931,168.31	4.06	584,833,180.73	5.09	-6.48	-
Payment in advance	1,809,254,480.79	13.44	1,118,865,208.36	9.73	61.70	-
Taxes and fees payable	262,194,019.14	1.95	271,101,353.14	2.36	-3.29	-
Other current liabilities	5,329,782.27	0.04	6,792,580.58	0.06	-21.54	-

Other Remarks

Explanation on changes over 30%:

(1) By the end of reporting period, the prepayment has increased by 133.50% year on year, mainly due



to the growth of prepayment for materials and advertisements.

(2) By the end of reporting period, the interest receivable has increased by 174.97%, mainly due to an increase of undue fixed time deposit by the end of 2016 compared with the year before and the resulting increase of interest receivable.

(3) By the end o reporting period, there has been 62.52% increase in other current assets, mainly due to the purchase of financial management products which will be due in/within one year.

(4) By the end of reporting period, the payment in advance has increased by 61.70%, mainly due to the active ordering and advance payment by distributors at the end of the year and the resulting increase of account receivables by the end of period.

**3. Analysis of Investment****(1) General Analysis of Foreign Equity Investment**

During the reporting period, Shenzhen Qianhai Tianyi Trading Co., Ltd, a new subsidiary, was registered with a capital of 20 million yuan.

(1.1) Significant Non-Equity Investment

Overall use of fund raised

Unit:10,000 Yuan Currency: RMB

Year of fund raising	Fund raising method	Total amount of fund raised	Total amount of fund spent this year	Total accumulated amount of fund spent	Total amount of funds unused	Usage and allocation of unused fund
2014	First issue	183,791.61	2,248.67	184,991.32	-	During the reporting period, all funds raised have been used up.
Total	/	183,791.61	2,248.67	184,991.32	-	/
Overall use of funds raised			<p>1. On 29th Jan. 2014, the company raised a total fund of 1.8379161 billion yuan through IPO.</p> <p>2. On 24th Mar. 2014, examined and approved by the 5th meeting of the 2nd sessions of board directors, the company substituted the self-financed fund which was already invested in money-raising investment project as by 28 Feb. 2014, of 1,634.93 million yuan, by the public raised funds.</p> <p>3. The company spent 22.4867 million yuan of the funds raised in 2016 (including the bank interests of 11.9971 million yuan and the service charges incurred of 1502.83 yuan), and the total spending of the funds raised amounted to 1.8499132 billion yuan.</p> <p>4. By 31 Dec. 2016, all funds raised has been used up.</p>			

Other significant non-equity investment



Unit:10,000 Yuan Currency: RMB

Project name	Project amount	Project progress	Investment of this year	Accumulated investment	Source of funding
Construction Projects of Haitian Flavouring and Food (Jiangsu)	44,396.82	99.6%	17,281.20	44,206.01	Self-financed



(1.2) Financial Assets in Fair Value

Unit:10,000 Yuan Currency: RMB

Project name	Investment cost			Fair value			Investment Income from the reporting period	Source of funding
	Balance at the beginning of the period	Balance at the end of the period	Change	Balance at the beginning of the period	Balance at the end of the period	Change		
Financial Management Products	150,000.00	260,000.00	110,000.00	150,669.64	263,164.59	112,494.95	8,707.94	Self-financed
Total	150,000.00	260,000.00	110,000.00	150,669.64	263,164.59	112,494.95	8,707.94	

4. Analysis over Major Holding and Joint-stock Company

(1) Foshan Haitian (Gaoming) Flavouring & Food Co., Ltd.

Established on 7th June 2004, Gaoming Haitian was registered with a capital of 50 million yuan and held direct and indirect ownership of 100%. The business scope for Gaoming Haitian includes flavourings, grocery, food, beverages, packaging materials, agricultural products processing, food package recycling, information consulting, rental of self-owned property and equipment and industrial tourism service.

As of 31 Dec. 2016, Gaoming Haitian enjoyed a total asset of 5.918 billion yuan, with a net asset of 134 million yuan and a net profit of 2.376 billion yuan.

(2) Xingzhao Global Investment Co., Ltd.

Founded on 4 Jul 2001, Xingzhao Global, the wholly-owned subsidiary of the company, was authorized to issue 50,000 shares priced at 1 USD each. It mainly deals with the inequity investment and holds 30% shares of Gaoming Haitian company.

By 31 Dec. 2016, Xingzhao Global had a total asset of 1.6 billion yuan, with a net asset of 1.598 billion yuan and a net profit of 719 million yuan.

(3) Guangdong Guangzhonghuang Food Co., Ltd.

Founded on 28 Mar 2014 and with a registered capital of 10 million yuan, Guangdong Guangzhonghuang is a fully-owned subsidiary of the company. Its business scope includes: bean products (fermented bean product), vegetable products (pickles) (approved for operation in accordance with *National Industrial Product Manufacture Licensing Certificate*), preliminary processing of edible

agricultural products, economic information consultation service, imports & exports of goods and technology.

By 31 Dec. 2016, Guangdong Guangzhonghuang had a total asset of 128 million yuan, with a net asset of 7.628 million yuan and a net profit of -1.8751 million yuan.

(4) Foshan Haitian (Jiangsu) Flavouring & Food Co., Ltd.

Founded on 25 Mar 2014 and with a registered capital of 10 million yuan Haitian (Jiangsu) is a fully-owned subsidiary of the Foshan Haitian.. Its business scope includes: flavourings, grocery,, food, beverages, bean products, packaging material production, sales project preparation, processing and sales of agricultural products, logistics and information consultation service, imports and exports of various self-operating goods and technologies (excluding the goods and technologies prohibited by the State from being operated or imported or exported by enterprises).

By 31 Dec 2016, Haitian (Jiangsu) had a total asset of 542 million yuan, with a net asset of 1.8167 million yuan and a net profit of 2.7386 million yuan. During the reporting period, it is mainly in the phase of preparation and trial production.

(5) Foshan Haisheng Food Co., Ltd.

Foshan Haisheng was established on 10th Feb. 2015, with a registered capital of 10 million yuan. It is a fully-owned subsidiary of the company. Its business scope includes: food, flavouring, agricultural products, aquatic products, food additives, production, processing and sales of bean products, retailing and wholesale of plastic products, paper products, glassware, metal materials, chemical products (excluding dangerous products), imports and exports, cargo and transportation.

By 31 Dec. 2016, Foshan Haisheng had a total asset of 56.9962 million yuan, with a net asset of 12.4135 million yuan and a net profit of 1.9474 million yuan.

(6) Shenzhen Qianhai Tianyi Trading Co., Ltd.

Qianhai Tianyi was established on 3rd Mar. 2016, with a registered capital of 20 million yuan. It is a fully-owned subsidiary of the Company. Its business scope includes: domestic trade (excluding monopolized commodity or commodity under special government control); sales of such items as articles of daily use, packaging materials, plastic products, glassware, metal materials and chemical products (excluding dangerous products); sales of self-produced commodity; logistic information consultation; imports and exports of goods and technology (excluding those items prohibited by laws, administrative regulations and statutes made by the State Council; the restricted items shall be subject to the business certificate), the sales of flavourings, food, beverages, agricultural products; cargo transportation aquatic.

By 31 Dec. 2016, Qianhai Tianyi had a total asset of 22.6 million yuan, with a net asset of 20.9459 million yuan and a net profit of 945,900 yuan.

(III) Discussion & Analysis about Future Development of Company



(1) Competitive landscape and development trend

The flavouring industry, rich and abundant, is the one with Chinese characteristics. Flavourings are the necessities close to our daily diet and also the development of the catering industry and food processing industry. Therefore, the flavouring industry has maintained its unique features and stable development for years. It will retain stable growth and will continue to flourish in future years, together with the economic growth and the continuous development of people's livelihood and the catering industry.

Currently, there are numerous companies in flavouring industry, which is featured by low concentration ratio, fierce competition as well as huge development gaps among industry players. This indicates that the whole industry is now in an initial transformation phase, so it will gradually turn increasingly high-end, branding and concentrated. Such a trend will bring more opportunity and development bonus to those enterprises with absolute advantages in branding, channel, quality control, product R&D, capital, etc. The gap between enterprises will continue to enlarge, triggering further industry integration and the market concentration.

(2) Development Strategy of Company

The company will continue to implement its second five-year plan which aims to double the scale and net profit of 2013 by 2018. The company will continue to maintain the trend of stable, healthy and sustainable development while reinforcing its leading position in soy sauce industry. On one hand, the company will expand its advantage in soybean sauce, oyster sauce and seasoning sauce. On the other hand, it will continue to develop highly potential products including cooking wine, vinegar and compound sauce, etc. The company will maintain its advantage in its core products of flavouring and utilize its own platform and resources to accelerate the development of new business and build up new competitiveness.

(3) Operation Plan

It is expected that the macroeconomic environment will still be faced with certain pressure in 2017 and chances are that the cost will increase. Confronted with the challenges and opportunities, the company will still focus on core issues and spare no efforts to realize its operation goals for 2017.

(1) Markets –We will continue to enhance our brands and push forward the high-quality market development through the reforms in marketing & human resources and realization of internet promotion and follow-up categories, laying development foundation for the coming two to three years.

(2) Benefits –We will mainly get benefits from highly-effective management and supply chain competency while absorbing the cost through suitable regulation of the product prices, to realize the profit target and promote the company's virtuous and healthy development.



(3) Quality – We will push forward the construction of excellent projects as our routine work. Through such projects, we can provide more competitive products and services and create a team of “craftsmen” with higher skills.

(4) Integration – We will accelerate the expansion of other businesses and expand the existing superior resources outward.

Main business indicators of 2017

Main indicator	Target	Change YoY
Operation revenue	RMB14.53billion	16%
Net Profit	RMB3.42billion	20%
Net profit after deducting extraordinary gains and losses	RMB3.3billion	20%

Always focusing on its main business, the company will take hold of the opportunities and follow the development philosophy that is pragmatic, prudent and innovative in order to develop to a new level and bring fruitful returns to our shareholders.

(4) Potential risks

1. Food safety risks: Food safety risk: As our country increasingly emphasizes food safety and as consumers are more aware of food safety and rights protection, food safety and control have become the priority of food processing companies. The company is now strictly implementing quality control in all stages and setting up strict procurement standards on raw materials and ingredients. The company will send the raw materials and ingredients to authorized bodies for safety and nongenetically modified testing on a regular or random basis. Since the company was founded, it has passed all sampling tests conducted by the government. Even so, there are still potential risks on its quality and safety control.

2. Price fluctuation of raw materials: agricultural products such as soybean and sugar are the main materials of the company. The prices of agricultural products are affected by planting area, climate, demand and supply, and international futures market prices, etc. If the prices of raw materials increase, it will impact the gross margin.

3. Risk of declining industry prospects: though the demand for flavouring product is rigid, it still will be influenced by factors like economic slowdown and the decline of high-end catering industry. The



growth rate of mass consumption products is also likely to go downward. But this is good to the industry integration.

VII Items Related to Financial Report

1. Reasons about temporary delisting

Applicable Not Applicable

2. Description and Reasons about delisting

Applicable Not Applicable

3. If the accounting policy and accounting estimation are changed, the company shall explain the situation, reasons and consequences.

Applicable Not Applicable

4. If the significant accounting errors need to be corrected or reviewed, the company shall correct the amounts, explain the situation, reasons and consequences.

Applicable Not Applicable

5. If the consolidation scope of the financial statement is changed over the last year's financial statement, the company shall explain.

Applicable Not Applicable

During the reporting period, a new subsidiary was established. See Annotation VI in annual financial report for details.

Chairman: Pang Kang

Foshan Haitian Flavouring & Food Co., Ltd