

Company Code: 603288

Company Display Name: Hai Tian

Foshan Haitian Flavoring & Food Co., Ltd.

Stock code: 603288

Summary of 2018 Annual Report



March 2019

I. Important Information

- 1 This summary is a part of the Annual Report. Investors may visit the website of Shanghai Stock Exchange and other media specified by China Securities Regulatory Commission for more details so that you can have a full understanding of the Company's operating results, financial conditions and future development plan.**
- 2 The Board of Directors, Board of Supervisors and all directors and supervisors and senior management of the Company guarantee that all information stated herein is true, correct and complete, containing no false representation, misleading statement or material omission, and they jointly and separately accept the legal liability for all contents provided herein.**
- 3 All directors were present at the meeting of the Board of Directors.**
- 4 III. KPMG China (special general partnership) has issued a standard unqualified auditors' report for the Company.**
- 5 Profit distribution proposal for the reporting period or proposal for conversion of capital surplus into share capital approved by the Board of Directors.**

Based on the Company's total capital stock of 2,700,369,340 shares at the end of Year 2018, the Company proposes to distribute cash dividend to all shareholders at [9.80] yuan per 10 shares (including taxes), totaling [2,646,361,953.20] yuan cash dividend.

该预案须提交公司 2018 年年度股东大会审议。

This proposal must be submitted to 2018 annual general meeting of shareholders for deliberation.

II. Company Profile

1 Company profile

The Company's stocks				
Stock class	Exchange where the stock is listed and traded	Stock name	Stock code	Stock name prior to change
A-share	Shanghai Stock Exchange	Hai Tian	603288	

Contacts	Secretary to the Board of Directors	Representative of Securities Affairs
Name	Zhang Xin	Wu Weiming
Business address	No. 16, Wensha Road, Foshan City, Guangdong Province	No. 16, Wensha Road, Foshan City, Guangdong Province
Tel.	0757-82836083	0757-82836083
E-mail	OBD@haday.cn	OBD@haday.cn

2 Business conditions of the Company during the reporting period

(I) Major businesses of the Company

The major businesses of the Company stood the same during the reporting period, i.e. seasonings production and sales. At the same time, the Company settled down to increase product diversity, expanding its product line to soy sauce, oyster sauce, sauce, vinegar, chicken essence, MSG, cooking wine and other seasonings. It has recorded the first in this industry for years in terms of production and sales and sales income of seasonings, of which, soy sauce, flavored sauce and oyster sauce are three most important products of the Company currently. The production and sales of Hai Tian soy sauce remain the first in China for 22 consecutive years, and hold a safe lead from other providers. Its products are comprehensively directed at high-end, medium and bottom-end markets, covering all flavors and cooking methods, including those that have been popular with consumers for many years, a wide range of high-end soy sauces intended to lead consumption upgrades, and mass-market products affordable by ordinary consumers. The oyster sauce provided by the Company has a long historical standing, leading both in technique and sales in this country, especially the latter, which sees an absolute predominance. The gradual deepening market network and the unique flavor provided by Hai Tian oyster sauce have driven this product to show a rapid expansion trend, either from local to the whole nation or from catering industry to households. Hai Tian flavored sauce takes the leading position in China with a wide range of products, and each sauce is unique and sold at fair price and well received by consumers. In the reporting period, the Company's major businesses remained steady and strong, and its product competitiveness and comprehensive profitability were displayed with further improvement.

(II) Business model and operation strategy

Procurement model

The procurement model of the Company comes down to two key words: professional and centralized. It has a dedicated procurement department equipped with professional staff and they purchase in a centralized manner. The ERP system used for procurement management renders a precise and efficient overall supply chain system in the Company. Aiming at the same purpose allows the procurement department and the production department to identify the best procurement plan based on the production plan, effectively reducing capital occupation; well-maintained purchase quantity and flexible pricing strategy allow the Company to reduce procurement costs; keeping seeking cooperation with branded suppliers makes it possible for the Company to continuously improve procurement quality.

Production mode

Basically the Company develops its production plan based on “sales + reasonable inventory”; intelligent and automatic production process ensures food safety and improves production efficiency; application of information gathering and big data in the whole production process provides quality guarantee. The balance between production and selling has been well maintained for years, and the capacity utilization of the Company is also remained at a high level.

Sales model

The company sells mainly through dealers, seeking to maximize its market share and achieve a win-win situation; the “delivery upon receipt of payment” settlement method allows the Company to have abundant cash flow and help to prevent bad debts. The continual improvement of the annual sales strategy makes it possible for the Company to establish the right sales mode meeting its requirements.

Production process

The Company has always sought to produce soy sauce and soybean paste with traditional brewing technique and allowed the content to ferment naturally, and for this reason, its products require longer

fermentation cycle and more complex production process. The Company selects raw materials with a strict standard, and only high-quality raw materials are allowed to be used in production. In order to provide consumers with healthy, well-flavored and safe food, the Company allows no content to access to the next production step unless they meet the strict inspection imposed for each step.

The production process of soy sauce:

Raw material test – raw material cooking – starter propagation – natural fermentation – physical squeezing – sterilization & clarification – production – inspection – packaging – inspection – packing and storage

The production process of oyster sauce:

Raw material test – raw material treatment – cooking of accessory materials – inspection – packaging – inspection – packing and storage

The production process of soybean paste:

Raw material test – raw material cooking – starter propagation – natural fermentation – cooking of accessory materials – production – inspection – packaging – inspection – packing and storage

Brand strategy

The Company appears on the market with one single brand and builds under it a master brand and a sub-brand, of which, the former leads the development of the entire product line while the latter differentiates such products. Products are the core of the Company's brand system. The Company has always considered brand construction at an important strategic level. Every year it retains a fixed brand investment to increase its brand awareness. Thanks to the product reputation, brand communication and channel construction pursued after by the Company over the years, it is able to show the market with a positive image featured by health, safety and profession, and promote its products to massive consumers.

(III) Present conditions of this industry

The "oil, salt, sauce and vinegar" provided by the seasoning industry are among the most required

daily commodities in Chinese households. According to the statistics released by China Condiment Industrial Association in 2017, the seasoning industry's operating income had exceeded 300 billion yuan. As a response to the strong demand in this market, the seasoning industry provides consumers with a wide range of products, and sees a stable and strong development tendency.

During the reporting period, the seasoning industry showed persistent efforts and progress. National development strategies, such as the reform launched by Chinese government on the supply side and the rural revitalization program, increase domestic demand, allowing players in this industry to benefit from such policies. This situation also contributes to the development of the Company. During the reporting period, the seasoning industry saw both opportunities and challenges. The rising of the living standard of Chinese people raises demand for seasonings. Innovative distribution modes show rapid growth in the market and raise higher demand for sales management for every player. Such as it is, players in this industry fight to survive in this market. Driven by innovation, they keep making new breakthroughs in products, market, channels, etc., making it possible for the entire industry to maintain steady growth.

For the past ten years, those branded players in seasoning industry get even stronger and thus grabbed larger market share. At the meantime, this industry also shows obvious changes in terms of industrial concentration. Currently more segmented markets appear in this industry and the entire market is getting more concentrated.

In the next few years, more investment in research, technology and equipment will allow those branded companies to develop more new products to meet the increasingly stronger cooking demand in this market. Demographic dividend, economic development and tax reform in China will also contribute to the steady and strong development of this industry.

3 Major accounting data and financial indicators

3.1 Major accounting data and financial indicators for recent 3 years

Unit: Yuan Currency: CNY

	Year 2018	Year 2017	Increase/decrease of current year than prior year (%)	Year 2016
	20,143,788,853.33	16,336,012,255.77	23.31	13,463,592,998.27

Total assets				
Operating income	17,034,475,127.23	14,584,310,896.60	16.80	12,458,558,940.81
Net profit attributable to shareholders of the listed company	4,364,813,027.88	3,531,436,928.16	23.60	2,843,133,968.17
Net profit excluding non-recurring profit or loss attributable to shareholders of listed company	4,124,089,122.69	3,383,734,780.35	21.88	2,768,077,430.02
Net asset attributable to shareholders of listed company	13,875,131,982.49	11,753,339,999.07	18.05	10,013,769,433.03
Net cash flows from operating activities	5,996,242,501.64	4,720,977,581.77	27.01	4,074,050,747.76
Basic earnings per share (yuan/share)	1.62	1.31	23.66	1.05
Diluted earnings per share (yuan/share)	1.62	1.31	23.66	1.05
Weighted average return on net asset (%)	32.66	31.12	Increase by 1.54 pps	31.65

3.2 Major accounting data of the reporting period (By quarter)

Unit: Yuan Currency: CNY

	Q1 (Jan.-Mar.)	Q2 (Apr.-Jun.)	Q3 (Jul.-Sep.)	Q4 (Oct.-Dec.)
Operating income	4,694,422,947.44	4,025,624,972.04	3,991,707,980.89	4,322,719,226.86
Net profit attributable to shareholders of the listed company	1,202,770,758.61	1,045,247,023.83	883,216,647.77	1,233,578,597.67
Net profit excluding non-recurring profit or loss attributable to shareholders of the listed company	1,149,964,028.55	1,000,785,482.80	788,056,463.61	1,185,283,147.73

Net cash flows from operating activities	453,960,848.63	1,035,620,137.78	1,310,130,289.53	3,164,930,219.72
--	----------------	------------------	------------------	------------------

Explanation of the differences between quarterly data and data from the disclosed regular reports.

Applicable Not applicable

4 Equity and shareholders

4.1 Number of common shareholders and preferred shareholders with reinstated voting right and shareholdings of top 10 shareholders

Unit: Share

Total number of common shareholders at the end of the reporting period (account)						21,112	
Total number of common shareholders at the end of the previous month before the disclosure date of the annual report (account)						19,776	
Shareholdings of top 10 shareholders							
Name of shareholder (全称) (Full name)	Increase /decrease during the reporting period	Shares held at the end of the period	Proportion (%)	Shares subject to restrictions on sale	Whether subject to pledge or freezing		Nature of Shareholder
					Share state	Quantity	
Guangdong Haitian Group Co., Ltd.	0	1,573,188,221	58.26	0	N/A		Domestic non-state corporation
Pang Kang	0	258,408,691	9.57	0	N/A		Domestic natural person
	16,261,582	135,742,995	5.03	0			

Hong Kong Securities Clearing Company Limited					N/A		Overseas legal person
Cheng Xue	0	85,647,571	3.17	0	N/A		Domestic natural person
Li Xuhui	-2,004,389	49,632,300	1.84	0	N/A		Domestic natural person
Pan Laican	0	42,293,898	1.57	0	N/A		Domestic natural person
Lai Jianping	-6,638,500	28,303,217	1.05	0	N/A		Domestic natural person
China Securities Finance Corporation Limited	-6,432,299	25,514,826	0.94	0	N/A		Country
Wang Lizhan	-818,147	18,839,092	0.70	0	Pledge	5,050,000	Domestic natural person
Ye Yanqiao	0	16,151,562	0.60	0	N/A		Domestic natural person
Notes on connected relations or concerted actions of the above shareholders.	<p>1. Pang Kang, Cheng Xue, Ye Yanqiao and the other three natural person shareholders of the Company are persons acting in concert; 2. Pang Kang, Cheng Xue, Pan Laican, Lai Jianping, Wang Lizhan and Ye Yanqiao among the top ten shareholders are shareholders of Hai Tian Group, of which, Cheng Xue and Ye Yanqiao are directors of Hai Tian Group and Wang Lizhan is a supervisor of Hai Tian Group; 3. Save for the above, the Company is not aware of any other connected relation or concerted action between the other shareholders.</p>						

Notes on preferred shareholders with reinstated voting right and their shareholdings.	N/A
---	-----

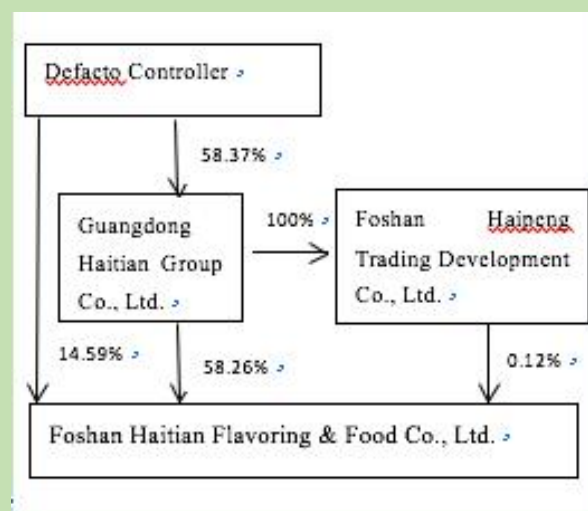
4.2 Chart of the shareholding structure and controlling relationship between the Company and its controlling shareholders

Applicable Not applicable



4.3 Chart of the shareholding structure and controlling relationship between the Company and its de facto controller

Applicable Not applicable



Total number of preferred shareholders and shareholdings of top 10 shareholders at the end of the period

Applicable Not applicable

5 Debt securities of the Company

Applicable Not applicable

III. Discussion and Analysis of the Company's Operating Performance

1 Operating performance of major businesses of the Company during the reporting period

During the reporting period, the operating income reached 17.034 billion yuan, 16.80 % higher than the previous year; the net profit attributable to shareholders of the listed company reached 4.365 billion yuan, up by 23.60 %; the net asset attributable to shareholders of the listed company reached 13.875 billion yuan, up by 18.05 %; the overall gross margin was 46.47% %, which increased 0.78 percentage points compared with the previous year.

2 Causes for the suspension of listing

Applicable Not applicable

3 Termination of listing and causes

Applicable Not applicable

4 Explanation of the Company on reasons and impacts of changes of accounting policies and methods

Applicable Not applicable

5 Explanation of the Company on reasons and impacts of corrections of major errors

Applicable Not applicable

6 In case of any changes in the consolidation scope of the consolidated financial statements comparing with the annual report of the previous year, the Company is obliged to provide explanations specific to such situation.

Applicable Not applicable

During the reporting period, the Company established two new subsidiaries. Please refer to "the analysis of major holding companies and joint stock companies " in 2018 Annual Report for details.

Chairman: Pang Kang

Foshan Haitian Flavoring & Food Co., Ltd.

March 25, 2019