



Company Code: 603288

Company Abbreviation: Hai Tian

Foshan Haitian Flavouring & Food Co., Ltd.

Stock code: 603288

Summary of 2020 Annual Report



March 2021

I. Important Information

- 1 This summary is sourced from 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 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 share capital of 3,240,443,208 shares at the end of Year 2020, the Company proposes to distribute cash dividend to all shareholders at 10.3 yuan per 10 shares (including taxes), and to distribute them 1 bonus share per 10 shares (including taxes), totaling 3,337,656,504.24 yuan cash dividend and 324,044,321 bonus shares.

Based on the Company's total share capital of 3,240,443,208 shares at the end of 2020, it is proposed to transfer 2 shares for every 10 shares to all shareholders in the form of conversion of capital surplus into share capital, totaling 648,088,641 shares.

This proposal must be submitted to 2020 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	

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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 outranked this industry for years in terms of production and sales and sales income of seasonings, of which, soy sauce, flavoured sauce and oyster sauce are the most important products of the Company currently.

The production and sales of Haitian soy sauce remain the first in China for 24 consecutive years, and hold a safe lead from other providers, with a 14.5% average annual growth for three consecutive years. Its products are comprehensively directed at high-end, medium and bottom-end markets, covering all flavours 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 affordable mass-market products for ordinary consumers. The Company has consistently and comprehensively promoted its high-quality strategy, effectively sharpened its products' competition edge, and taken measures to focus on channel efficiency and quality development. Its soy sauce category shows stable and rapid development, and the product mix and profitability have further improved, further shoring up its comprehensive competitive strengths.

The oyster sauce provided by the Company has a long historical standing, leading both in technology and sales in China, with an average annual growth of 21.3% for three consecutive years and a momentum of accelerated growth. The gradual penetration of the market network and the favorable and unique flavour of Haitian oyster sauce have brought this product to rapid expansion, from local to the whole nation and from catering industry to households. The Company effectively seizes the development opportunities of national expansion of oyster sauce and mass consumption, resulting in further elevation of the leading edge of oyster sauce and qualitative improvement of the comprehensive competitiveness of the product.

Haitian flavoured sauce has secured dominance in the market with a sales volume growing at an average annual rate of 8.4% for three consecutive years. The Company strengthens the active adjustment of the traditional market of flavoured sauce, effectively improves the profitability of the product and consolidates the foundation for subsequent development through the optimization of product mix specifications and market channel adjustment. It has many varieties of flavoured sauce, each with unique feature and cost effectiveness, some being basic sauce catering to national preference for flavour and the rest being special local flavoured sauce. Over the years, Haitian has achieved steady advancement and is very popular among consumers.

(II) Business model and operation strategy

(1) Procurement model

The Company has always had high standards for procurement. The procurement model has been continuously innovated in a bid to improve the quality and reduce the cost of procurement through the innovation of the procurement model. The Company has a designated procurement department with professionals and implements a centralized procurement. The Company emphasizes a both professional

and centralized procurement model. In the management system, the procurement is managed through the ERP system, making the whole corporate supply chain system tight and efficient. The procurement department and the user department form the upstream and downstream of the supply chain with the same goal and make optimal procurement plans according to the production plans, thus effectively reducing the capital occupation. The procurement cost is reduced through a stable procurement volume and flexible pricing strategy. The procurement quality has been continuously improved through ongoing cooperation with brand suppliers. A good reputation has won the Company many stable and high-quality suppliers.

(2) Production mode

The production cycle of the Company's products is long with a complex technological process. To ensure a stable product quality and food safety, the Company controls the whole production process through the use of big data such as intelligence, digitization, automation and information technology to ensure product quality. The production efficiency is greatly improved while ensuring food safety. Over the years, the Company has basically realized the synchronization of production and sales, and the production is determined based on "sales volume + reasonable inventory", maintaining a pretty high-capacity utilization.

(3) Sales model

The Company adopts a distributor-based sales model and the settlement method of "payment before delivery" to effectively guarantee abundant cash flow and prevent bad debts. By improving the quality of distributors, we can maximize the coverage of market terminals and fully achieve a win-win situation in the cooperation with distributors. The sales strategy has been continuously optimized each year and a sales model suitable for the Company's development has been gradually established.

(4) 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 strict standards, and only high-quality raw materials are allowed to be used in production. In order to provide consumers with healthy, well-flavoured and safe food, the Company allows no content to enter 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 accessorial 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 accessorial materials – production – inspection – packaging – inspection – packing and storage

(5) Brand strategy

Brand development is one of the Company's strategies. Over the years, the Company has been building and communicating its brand and has established a brand system with its products as the core. The main brand is used to guide the development of the whole product system, and the sub-brands are used to distinguish the product categories. The Company has always placed brand development as an important strategy of the Company and has promoted brand awareness through regular investment in brand development every year. With many years of product reputation built up, brand communication and channel building, the Company has established a healthy, safe, professional and trustworthy brand image, which has been widely recognized by the market and consumers.

(III) Present conditions of this industry

Cooking oil, salt, sauce, vinegar, etc in the Chinese condiment industry is the most basic and rigid demand in people's necessities of life. The development of the catering industry and the food processing industry, as well as the upgrading of consumption, have become the main factors to promote the development of this industry. With the technological upgrading and innovation of condiment enterprises, condiments are increasingly meeting the culinary needs of consumers, and condiments have become an indispensable part of people's daily meals. Statistics from the China Condiment Industrial Association shows the operating income of the condiment industry has exceeded 300 billion RMB. The condiment industry is rich in varieties and categories and there's a strong demand for it. The condiment industry is embracing stable and prosperous development.

In the past ten years, as more and more enterprises enter the capital and develop fast with the help of the capital market, big-brand enterprises in the condiment industry have become increasingly stronger. Those enterprises further increased their market shares and the industrial concentration has seen some significant changes. The industry is in a growing stage of ongoing product segmentation and market concentration. With continuous investment in scientific research, technology, equipment and techniques, condiment enterprises have gained more stable product quality and improved product technology. In the next few years, big-brand enterprises will develop more new products to meet the increasing culinary needs of consumers. The industry will also maintain a stable and healthy development under the impacts of China's demographic dividend, economic development and other factors.

During the Reporting Period, with the continuous improvement of people's quality of life and strong domestic demand in the market, the condiment industry has maintained a stable development with various supports such as the national tax reform bonus, and as such the Company has also benefited from the



tailwinds. Opportunities and challenges coexist in the condiment industry. People's rising living standard has increased the demand for condiments. The rapid development of various new types of sales also puts forward higher standards for the sales management of enterprises. However, condiment enterprises are facing the challenges head on. Driven by innovation, they have continuously made breakthroughs in products, markets and channels, thus ensuring stable development of the entire condiment 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 2020	Year 2019	Increase/decrease of current year compared with previous year (%)	Year 2018
Total assets	29,533,620,038.66	24,753,888,098.68	19.31	20,143,788,853.33
Operating income	22,791,873,936.49	19,796,889,800.07	15.13	17,034,475,127.23
Net profit attributable to shareholders of the listed company	6,402,859,991.91	5,353,185,029.35	19.61	4,364,813,027.88
Net profit excluding non-recurring profit or loss attributable to shareholders of listed company	6,177,209,312.74	5,083,877,209.23	21.51	4,124,089,122.69
Net assets attributable to shareholders of listed company	20,068,416,163.35	16,581,955,058.64	21.03	13,875,131,982.49
Net cash flows from operating activities	6,950,432,014.98	6,567,569,488.52	5.83	5,996,242,501.64
Basic earnings per share (yuan/share)	1.98	1.65	20.00	1.35
Diluted earnings per share (yuan/share)	1.98	1.65	20.00	1.35
Weighted average return on net asset (%)	36.13	33.69	Increase by 2.44 pps	32.66

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	5,883,827,457.90	5,710,802,273.16	5,491,526,641.31	5,705,717,564.12
Net profit attributable to shareholders of the listed company	1,612,628,919.42	1,640,066,085.80	1,318,708,800.93	1,831,456,185.76
Net profit excluding non-recurring profit or	1,571,913,391.59	1,593,807,917.19	1,233,913,321.30	1,777,574,682.66



loss attributable to shareholders of the listed company				
Net cash flows from operating activities	414,456,412.40	1,155,627,395.93	1,646,312,133.57	3,734,036,073.08

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 rights and shareholdings of top 10 shareholders

Unit: Share

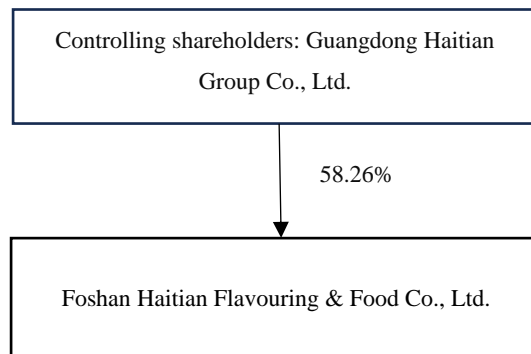
Total number of common shareholders as of the end of the Reporting Period (account)		66,719					
Total number of common shareholders at the end of the previous month before the disclosure date of the annual report (account)		103,720					
Total number of preferred shareholders with reinstated voting rights as of the end of the Reporting Period (account)							
Total number of preferred shareholders with reinstated voting rights at the end of the previous month before the disclosure date of the annual report (account)							
Shareholdings of top 10 shareholders							
Name of shareholder (Full name)	Increase/decrease during the Reporting Period	Shares held at the end of the period	Proportion (%)	Number of restricted shares held	Whether subject to pledge or freezing		Nature of Shareholder
					Share state	Quantity	
Guangdong Haitian Group Co., Ltd.	314,637,644	1,887,825,865	58.26	0	N/A	0	Domestic non-state corporation
Pang Kang	51,681,738	310,090,429	9.57	0	N/A	0	Domestic natural person
Hong Kong Securities Clearing Company Limited	49,363,902	206,221,998	6.36	0	N/A	0	Overseas legal person
Cheng Xue	17,129,514	102,777,085	3.17	0	N/A	0	Domestic natural person
Li Xuhui	6,744,520	54,805,320	1.69	0	N/A	0	Domestic natural person
Pan Laican	8,075,249	50,369,147	1.55	0	N/A	0	Domestic natural person
China Securities Finance	5,102,966	30,617,792	0.94	0	N/A	0	Country



Corporation Limited							
Lai Jianping	1,338,099	27,250,000	0.84	0	N/A	0	Domestic natural person
Ye Yanqiao	3,200,312	19,201,874	0.59	0	N/A	0	Domestic natural person
Huang Wenbiao	2,888,879	17,333,274	0.53	0	N/A	0	Domestic natural person
Notes on connected relations or concerted actions of the above shareholders.	1. Pang Kang, Cheng Xue, Huang Wenbiao and the other two natural person shareholders of the Company are persons acting in concert; 2. Pang Kang, Cheng Xue, Pan Laican, Lai Jianping, and Huang Wenbiao among the top ten shareholders are shareholders of Hai Tian Group, of which, Pang Kang, Cheng Xue and Huang Wenbiao are directors 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.						
Notes on preferred shareholders with reinstated voting rights and their shareholdings.	N/A						

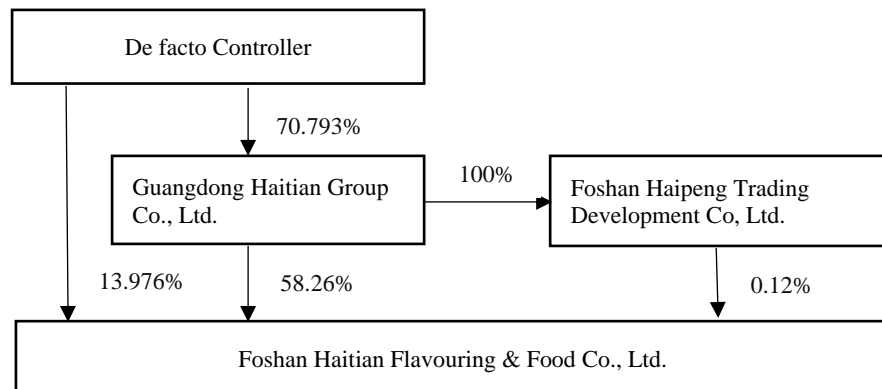
4.2 Chart of the shareholding structure and controlling relationship between the Company and its controlling shareholders

Applicable Not applicable



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

Applicable Not applicable



4.4 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 22.792 billion yuan, 15.13% higher than the previous year; the net profit attributable to shareholders of the listed company reached 6.403 billion yuan, up by 19.61% year on year; the net asset attributable to shareholders of the listed company reached 20.068 billion yuan, up by 21.03% year on year; the overall net profit margin was 28.12%, which increased 1.06 percentage points compared with the same period of the previous year.

2 Causes for the suspension of listing

Applicable Not applicable

3 Risk of 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

(1) Implement the *Accounting Standards for Business Enterprises No. 14—Revenue (Revised)* (hereinafter referred to as the “New Revenue Standards”)

The Ministry of Finance revised *Accounting Standards for Business Enterprises No. 14—Revenue* in 2017, and the Group has implemented the New Revenue Standards since January 1, 2020. According to the standards, the Company only adjusts the amount of retained earnings at the beginning of 2020 and other related items in the financial statements for the cumulative impact numbers of contracts that have not been completed at the date of initial implementation, and no adjustment is made to the comparative financial statements.

Compared to the previous revenue standards, the impact of the implementation of the New Revenue Standards on the relevant items in the 2020 financial statements is as follows:

- (a) Analysis on impacts of changes of accounting policies on each item in the consolidated income statement and the parent company's income statement for 2020:

	(Decrease)/increase in the amount of current statement items using the changed accounting policies	
	The Group	The Company
Operating income	(337,489,586.48)	(291,398,664.95)
Operating cost	743,750,329.38	740,103,743.60
Sales cost	(1,081,239,915.86)	(1,031,502,408.55)

- (b) Analysis on the impacts of changes of accounting policies on each item in the consolidated balance sheet and the parent company's balance sheet as of December 31, 2020:

	(Decrease)/increase in the amount of statement items using the changed accounting policies	
	The Group	The Company
Liabilities:		
Advance receipts	(4,788,681,380.93)	(4,670,393,676.02)
Contractual liabilities	4,451,535,500.47	4,342,408,887.65
Other current liabilities	337,145,880.46	327,984,788.37

- (c) The items in the consolidated statement of cash flows and the parent company's statement of cash flows for 2020 prepared using the changed accounting policies have no impacts compared with those items in the statement prepared assuming in accordance to the previous accounting policies.

- (2) Implement the *Interpretation No. 13 of the Accounting Standards for Business Enterprises* (hereinafter referred to as the "Interpretation No. 13")

In terms of Interpretation No. 13, three elements of business composition were revised, the conditions for business judgment were refined, and the option of "concentration test" was introduced for the buyer of a corporation merger not under the same control to determine whether the acquired business activities or asset combination constitutes a business.

In addition, Interpretation No. 13 further clarifies that the related parties of the enterprise also include joint ventures or associated enterprises of other member units of the enterprise group (including the parent company and subsidiaries), as well as other joint ventures or associated enterprises of investors who exercise joint control over the enterprise.

Interpretation No. 13 has been implemented since January 1, 2020, and the Group adopts the prospective approach for accounting treatment of changes of the above accounting policies.

According to Interpretation No. 13, joint ventures or associated enterprises of other member units of the enterprise group (including the parent company and subsidiaries) constitute related parties, and the above-mentioned associated enterprises include associated enterprises themselves and their subsidiaries. Therefore, the joint ventures or associated enterprises of Hai Tian Group and its subsidiaries have become related parties with the Group since January 1, 2020. See Appendix 12 for details of related party transactions.

(3) *Provisions on the Accounting Treatment of the COVID-19 Pandemic-Related Rental Concessions* (Cai Kuai [2020] No. 10)

Cai Kuai [2020] No. 10 provides a simplified approach for rent concessions that meet certain conditions and are directly caused by the COVID-19. If the enterprise chooses to adopt a simplified approach, it is not necessary to evaluate whether there has been a lease change or to re-evaluate the lease classification. The Cai Kuai [2020] No. 10 has been implemented since June 24, 2020, based on which the relevant rent concessions that occurred between January 1, 2020 and the start date of implementation of this regulation can be adjusted.

The implementation of Cai Kuai [2020] No. 10 did not have an impact on the financial conditions and operating results of the Group.

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

Applicable Not applicable

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

Applicable Not applicable

During the Reporting Period, the Company set up six new subsidiaries and acquired one subsidiary. For more details, please refer to Appendix 9 - "1. Rights & Interests in Subsidiaries".

Chairman: Pang Kang
Foshan Haitian Flavouring & Food Co., Ltd.
March 30, 2021