

Stock Code: 603288

Short Name: Haitian Flavoring

**Foshan Haitian Flavoring & Food Co., Ltd.**  
**2015 Annual Report Abstract**

**I Important Notes**

1.1 In order to fully understand the business operations, financial situation and future planning of the Company, investors are advised to read the full annual report on the website of Shanghai Stock Exchange and other websites as appointed by CSRC.

1.2 The Board of Directors, the Board of Supervisors, all directors, supervisors and Executives promise that the announcement is free from any false information, misleading statement or material omission and are jointly and severally liable for the information truthfulness, accuracy and integrity.

1.3 All directors attended the Board meeting.

1.4 KPMG (special general partnership) issued a standard and unqualified auditor's report.

## 1.5 Company Profile

Company Profile				
Stock Type	Stock Exchange	Short in English	Stock Code	Stock Abbreviation Prior to the Change
A	Shanghai Stock Exchange	Haitian Flavoring	603288	None

Contacts and liaisons	Secretary to the Board	Representative of Stock Affairs
Name	ZHANG Xin	WU Weiming
Tel	0757-82836083	0757-82836083
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1.6 The Company plans to pay out cash dividend of RMB 1,623,747,600.00 at a rate of RMB 6.00 per 10 shares based on a total share of 2,706,246,000 as of the end of 2015. The proposal will be subject for review and approval at the 2015 General Shareholders' Meeting.

**II Main Business or Products with in the Reporting Period****( I ) Main Business**

As the largest flavoring manufacturer and distributor around the globe, the Company has been in No.1 position in the flavoring industry for many years by turnover. Of its extensive product lines, soy sauce, seasoning sauce and oyster sauce are the company's main products. During the reporting period, the Company improved its overall competitiveness great a lot, thus enhanced steady growth and

profitability all its main business.

## **( II )Main Products and Their Application**

### **(1) Soy Sauce**

The production and sales volume of soy sauce has consistently remained No.1 in the industry for many years and has been well ahead of its competitors. Its extensive product line has covered products with different levels, of different flavors and a variety of cooking purposes. Many of the products have been popular and familiar to the consumers for many years. Some of them are high-end soy sauce brands that lead the consumption trend, such as Premium Golden Label Superior light soy sauce, Time-honored series, seafood soy sauce, Weijixian soy sauce, etc. There are also some economic brands that cater to the general consumers.

### **(2) Seasoning sauce**

The sales volume of seasoning sauce exceeds 210,000 tons, which is in the leading position. There are a variety of brands and each of them is unique and authentic. They are very popular among the consumers.

### **(3) Oyster Sauce**

The sales volume of oyster sauce is more than 400,000 tons, which is far ahead of those of its competitors. With the growth of its market network and the unique flavor of its oyster sauce products, Haitian oyster sauce has shown the rapid trend of growing from some provinces to nationwide, and from dining industry to household consumption.

## **(III) Business Model**

### **(1)Procurement**

Several specialized procurement departments have been in charge of procurement of different sectors, which is supported by the procurement strategy supervised by ERP system, so that the fully integrated procurement system is established. At the same time the procurement departments and production departments have formed the same supply chain with the consistent upstream and downstream and they make the optimal procurement plan based on the production plan, which effectively reduces the demand for capital. They have lowered procurement cost by stable procurement volume and flexible pricing strategy; and they have continuously improved procurement quality by cooperating with brand suppliers.

### **(2)Production**

The production plan is made according to the principle of “sales plus proper inventory”. The production process is highly automated to guarantee food safety and improve productivity. The whole production process is controlled by information technology to ensure quality. For many years, the company has realized the synchronized production and sales, which has enabled the capacity utilization maintain at a high level.

### **(3)Sales Strategy**

Basic model: mostly relies on dealers to cover maximum markets. Payments are made before product

delivery, which strongly guarantees sufficient cash flow and avoids bad debts. In the meantime of sticking to the basic model, the company changes its sales strategy every year and gradually establishes the sales system that is suitable to its growth. At any stage of development, one very fundamental idea has not changed: win together with the dealers.

#### **(IV) Development of Industry**

Flavoring industry has developed at a stable pace with low industry concentration. The companies are in different levels and there are many sub-segments on the market. According to the data of National Bureau of Statistics, the total revenue of flavoring industry has grown from 85.2 billion yuan in 2007 to 264.9 billion yuan in 2014, with a compounded growth rate of 18%. The profit has grown from 5.3 billion yuan to 22.6 billion yuan, with a compounded growth rate of 23%.

#### **(V) Industry Cycle**

Compared with other industries, the flavoring industry does not have an obvious cyclicity. With the upgrading of household and dining consumption, appearance of new brands which lead consumption and the improvement of health awareness, the average expenditure per person will steadily increase, which will facilitate the stable growth of the flavoring industry and will make the industry more concentrated.

#### **(VI) Market Position of the Company**

The company is absolutely a market leader, ranking No. 1 with its main products in their respective segments. According to the data disclosed by China Flavoring Association, Haitian ranks No. 1 in overall production volume, and in the production volume of soy sauce, seasoning sauce and oyster sauce. It is in a leading position of the industry.

#### **(VII) Driving Factors during the Reporting Period**

During the reporting period, the company has taken effective measures to tackle the issues in the weak market. The company has made a lot of innovations in marketing, products, capacity and talents to strengthen the comprehensive capability and industry position, and has driven the growth of the scale and profitability of the company. During reporting period, the company has achieved revenue of 11.294 billion yuan, with a year-on-year growth rate of 15.05%. The net profit attributable to shareholders is 2.509 billion yuan, with a year-on-year growth rate of 20.06%. The company has achieved its operation goal set up at the beginning of the year.

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III Summary of Accounting Data and Finance Indicators

In RMB

	2015	2014	Change Year-on-Year(%)	2013
Total Asset	11,498,002,242.84	11,000,594,566.17	4.52	6,722,123,294.35
Operation Revenue	11,294,380,030.09	9,817,189,662.62	15.05	8,401,589,320.86
Net profit attributable to shareholders of the listed company	2,509,632,367.33	2,090,275,690.29	20.06	1,606,418,791.67
Net profit attributable to shareholders of the listed company after deducting non recurring gains and losses	2,439,404,808.55	2,007,951,742.23	21.49	1,546,198,540.36
Net assets attributable to shareholders of the listed company	8,751,125,601.73	7,487,912,155.39	16.87	3,914,438,998.01
Net cash flow from operating activities	2,194,831,656.35	2,739,330,825.61	-19.88	1,930,187,429.41
Final total share capital	2,706,246,000.00	1,503,580,000.00	79.99	711,000,000.00
Basic earnings per share (yuan / share)	0.93	0.78	19.23	0.63
Diluted earnings per share (yuan / share)	0.93	0.78	19.23	0.63
Weighted average return on net assets (%)	32	33	Decreased by 1 %	45

IV Key Financial Indicators of 2015 (by Quarters)

In RMB

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	Q1 (Jan-Mar)	Q2 (Apr-Jun)	Q3 (Jul-Sept)	Q4 (Oct-Dec)
Operation Revenue	3,193,725,348.90	2,452,171,082.86	2,476,492,709.45	3,171,990,888.88
Net profit attributable to shareholders of the listed company	733,595,720.00	601,612,120.62	505,963,455.30	668,461,071.41
Net profit attributable to shareholders of the listed company after deducting non recurring gains and losses	730,794,529.93	575,040,597.53	501,591,591.67	631,978,089.42
Net cash flow from operating activities	-581,478,915.89	715,734,439.92	513,039,713.11	1,547,536,419.21

**V Equity and Shareholder Status**

5.1 The number of common shareholders and preferred shareholders, and the top 10 shareholders

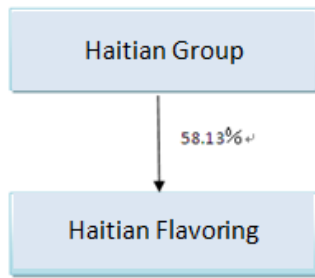
Unit: Per Share

Number of common shareholders by the end of reporting period		27,577					
Number of common shareholders by the end of the month before annual report disclosure date		28,219					
Top 10 shareholders							
Shareholder Name (full name)	Change during the reporting period	Number of shares held by the end of reporting period	ratio(%)	Number of shares held in a limited number of conditions of sale	Pledge or freeze		shareholder nature
					Share state	Quantity	
Guangdong Haitian Group Co., Ltd.	699,194,765	1,573,188,221	58.13	1,573,188,221	None	0	Non state owned legal person in China
Pang Kang	114,848,307	258,408,691	9.55	258,408,691	None	0	Domestic

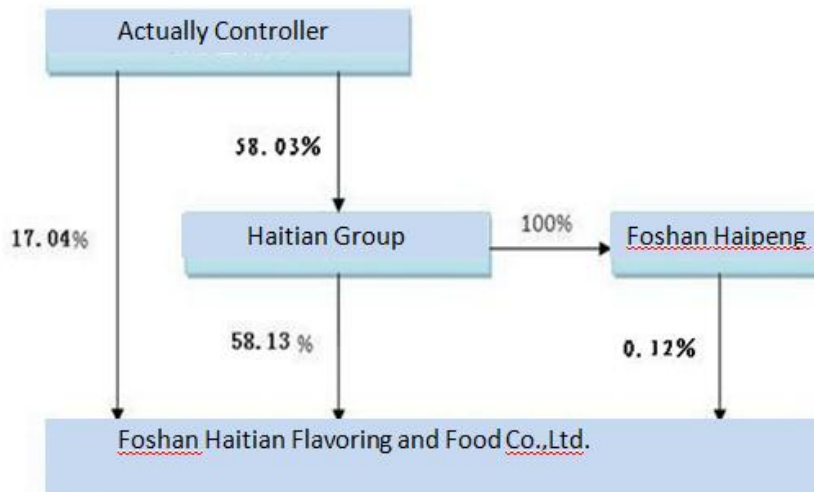
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							natural person
Cheng Xue	38,065,587	85,647,571	3.16	85,647,571	None	0	Domestic natural person
Hong Kong Securities Clearing Company Ltd. (HKSCC)	51,238,831	56,069,280	2.07	0	Unknown		Overseas legal person
Li Xuhui	23,084,395	51,939,889	1.92	51,939,889	None	0	Domestic natural person
Pan Laican	18,797,288	42,293,898	1.56	42,293,898	None	0	Domestic natural person
Lai Jianping	18,136,466	40,807,048	1.51	40,807,048	None	0	Domestic natural person
China Securities Finance Corp	37,983,470	37,983,470	1.40	0	Unknown		Country-owned
Guotai Junan Securities-Bank of Construction-HSBC	22,647,330	22,647,330	0.83	0	Unknown		Overseas legal person
Fang Zhancheng	8,892,126	20,007,284	0.74	20,007,284	None	0	Domestic natural person
Description of the above shareholders' association or concerted action	1. Pang Kang, Cheng Xue, Li Xuhui, Ye Yanqiao and four other natural-person shareholders are persons action-in-concert. 2. Among the top 10 shareholders, Pang Kang, Cheng Xue, Li Xuhui, Pan Laican, Lai Jianping, Fang Zhancheng, Wang Lizhan, Ye Yanqiao are the shareholders of Guangdong Haitian Group Co., Ltd. in which Pang Kang, Cheng Xue, Li Xuhui and Ye Yanqiao are board directors of the corporation. 3. Above all, the company is unaware of other association or action-in-concert among others shareholders						
Preferred shareholders and the number of share held in the restoration of the right to vote	No relevant matters						

5.2 Block Diagram of Controlling Shareholders



Block Diagram of Actual Controller and the Company



## VI Discussion and Analysis on Management

### ( I ) Discussion and Analysis on Management

2015 has proven to be a difficult year when the company had to minimize the impact of all the negative factors on the company’s operation, tried hard to achieve the core indicators such as sales and profits and guaranteed the sound growth of the company. Driven by the internal and external pressure, the company made reforms in many aspects, including marketing reform, product reform, technology reform and even HR reform. In 2015, the company has basically realized its targets of steadily growing its core indicators such as sales volume, revenue and net profits. Its core products also witnessed stable growth.

There are four highlights of the year:

#### 1. **Marketing: Proactive reform**

In 2015, the company has strategically optimized the sales and marketing by taking the initiative to reform the followings: (1)Increase the coverage and depth of sales network (2)Increase the products available in each market by ground sales promotion, integrate multiple product lines so as to boost the convergence effect of the group. (3)Continue to upgrade products, at the same time, pay more

attention to proactive competition on the low-end consumption market, in order to increase the market share in all the levels of the market.

These strategies and reforms, are not only the work of 2015, but will be implemented in future.

## **2. Products: Preemptive alignment**

The quality improvement and R&D of new products have experienced disruptive changes in 2015: (1)We have made the plan on how to improve the quality of existing products and we have gradually implemented this plan; (2)We have set up a road map to guarantee the absolutely competitive advantage of the quality of core products; (3)We have developed some new products, including some original products and have launched them systematically; (4)We have gradually explored the direction of new product development.

We have made preemptive alignment of our products and increased our confidence of participating in and leading future flavoring industry.

## **3. Capacity: release capacity in a positive way**

In 2015, the company has accelerated its pace in technology reform and production expansion in alignment with the market development: (1)The last phase of Wutou project is implemented as scheduled and is expected to be put into use by mid-2016; (2)The expansion projects of soy sauce phase I and seasoning industrial park have been basically completed. The capacity on the same area has been multiplied through the improvement of technology, process and equipment; (3) Phase I of factory in Shuqian of Jiangsu Province has completed its main structure, and its testing run is expected by mid-2016.

The positive interaction between capacity release and market development has maximized the capacity and ensured the aggressive growth of the core products such as soy sauce, oyster sauce and seasoning sauce. The production capacity is expanded as planned, which has enabled the company to optimize management and increase economic benefits and profitability by the upgrading technology and infrastructure.

## **4. Human Resources: Activating potential**

The reform in human resources in 2015 has been unprecedented: (1)Autonomous management model is promoted across different business units. A dozen of autonomous units, including flavoring unit, soy sauce unit, product R&D institute and some sales companies, are set up. (2)The company has reformed its compensation system. The new compensation system allows flexible use of revenue and



is more closely related to performance, thus making the compensation fair and better driving the key staff at different levels; (3)The reform focused on production and sales has made a unified target for every one and reduced internal friction;(4)New business development model enables employees to take part in the development of the company and provides them with more opportunities and development platforms.

The unique human resources philosophy and activities will provide the most valuable driving force from within.

## (II) The operating condition during the reporting period

During the reporting period, under the effort of the management and all the staff, the company has achieved its main targets, among which: operation revenue is 11.294 billion yuan, with a year-on-year growth rate of 15.05%; net profit attributable to shareholders of the listed company is 2.509 billion yuan, with a year-on-year growth rate of 20.06%; total assets attributable to shareholders of the listed company is 11.498 billion yuan, with a YoY growth rate of 4.52%; total gross margin is 41.94%, with a YoY growth rate of 1.53%.

### 1. Main Business Analysis

#### (1)Income statement, cash flow statement and table of changes in related subjects

Subject	In RMB		
	Current Period	Same Period Last Year	Change (%)
Business income	11,294,380,030.09	9,817,189,662.62	15.05
Business cost	6,557,244,862.44	5,850,369,613.46	12.08
Sales expense	1,227,220,684.17	1,050,482,287.92	16.82
Management expense	534,901,347.04	486,522,922.46	9.94
Financial expense	-48,786,754.34	-48,633,317.83	-0.32
Net cash flow from operating activities	2,194,831,656.35	2,739,330,825.61	-19.88
Net cash flow from investing activities	-317,736,985.21	-2,605,328,797.72	87.80
Net cash flow from financing activities	-1,279,886,600.00	1,537,358,006.46	-183.25
R & D expenditure	314,607,782.61	300,840,676.91	4.58
Net profit attributable to shareholders of the listed company	2,509,632,367.33	2,090,275,690.29	20.06

#### (2) Revenue and cost analysis

Within the reporting period, the company's business income grows steadily with effective control on costs and expenses, thus the overall revenue of the company has grown steadily.

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

In RMB

Main business by industry						
By Industry	Operation revenue	Business cost	Gross margin (%)	Change of business income YoY (%)	Change of business cost YoY (%)	Change of gross margin YoY (%)
Food manufacturing	11,170,976,346.95	6,454,180,157.60	42.22	14.81	11.39	1.77
Main business by product						
By Product	Operation revenue	Business cost	Gross margin (%)	Change of business income YoY (%)	Change of business cost YoY (%)	Change of gross margin YoY (%)
Soy sauce	6,716,153,941.00	3,738,715,926.28	44.33	6.62	2.18	2.42
Seasoning sauce	1,812,534,194.37	1,013,432,016.33	44.09	18.23	11.58	3.33
Oyster sauce	1,777,400,457.26	1,121,675,641.94	36.89	32.88	29.45	1.67
Main business by region						
By Region	Operation revenue	Business cost	Gross margin (%)	Change of business income YoY (%)	Change of business cost YoY (%)	Change of gross margin YoY (%)
East	2,521,426,211.53	1,492,352,460.11	40.81	10.70	7.68	1.66
South	2,603,115,462.63	1,509,272,497.03	42.02	15.26	13.64	0.82
Central	1,972,208,561.96	1,118,028,214.37	43.31	18.09	13.03	2.53
North	3,089,448,261.48	1,781,135,933.37	42.35	13.73	9.84	2.05
West	984,777,849.35	553,391,052.72	43.81	22.04	17.83	2.01

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

**1) By product**

Soy sauce: realizes Operation revenue of 6.716 billion yuan, 6.62% growth year-on-year. Although we have not reached the target, we have accelerated the product alignment in different levels and developed our unique products, which makes us more competitive in products of different levels. We can grow faster in high, medium and low-end consumption markets.

Seasoning sauce: realizes Operation revenue of 1.813 billion yuan, a 18.23% increase YoY. All products are very active and we have seen the potential of seasoning sauce products from the overlapping of existing products and new products.

Oyster sauce: Operation revenue of 1.777 billion yuan, 32.88% growth year-on-year. New products are

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launched according to plans, which could effectively cater to the needs of different consumption levels and tastes and increase the overall competitiveness of oyster sauce products. The current production and sales volumes of oyster sauce have been far ahead of our competitors. In the future, we will rapidly improve our product competitiveness and market share, and gradually establish the 1 million ton target of oyster sauce.

### 2) By region

In the reporting period, stable growth is observed in different sales regions in which the sound marketing networks have been established. In east and south regions, sales growth has increased significantly during the second half of the year: 10.7% of yearly growth rate of revenue in east region; 15.26% of yearly growth rate of revenue in south region and the west region still keeps a high growth rate of over 22%.

### 3) Major Customers

Top 5 customers are listed as below

In RMB

Customer Name	Operation revenue	Accounted for overall Operation revenue (%)
No.1	75,725,061.45	0.67
No.2	68,686,525.50	0.61
No.3	62,607,716.62	0.55
No.4	48,276,753.27	0.43
No.5	40,242,148.92	0.36
Total	295,538,205.76	2.62

### (2.2) Analysis of sales and production

In 10,000 Tons

Main product	Production	Sales	Inventory	Change in Production YoY (%)	Change in Sales YoY (%)	Change in Inventory YoY (%)
Soy Sauce	133.57	134.26	5.11	2.38	3.87	-11.87
Seasoning Sauce	20.74	21.15	0.75	7.70	13.11	-35.29
Oyster Sauce	39.15	40.07	0.73	23.49	29.96	-55.99

Illustration on production and sales

During reporting period, the company has accelerated its pace in upgrading the product structure. The high-end soy sauce experiences strong growth rate and the production and sales of all the products

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have continued to grow at the same pace. The production-sales ratio maintains at a high level and the inventory has decreased in a positive way at the end of the period. At the same time, the company has increased productivity and improved the inventory management by strengthening supply chain management, enhancing delivery efficiency and speed and optimizing production plan based on production-sales linkage. Within the reporting period, the production growth is lower than the sales growth and the finished product inventory has decreased at the end of the period compared to the same period of last year.

### (2.3) Analysis of Production Cost

In 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	Direct material	5,608,464,869.85	86.90	5,032,730,639.10	86.85	11.44	-
	Manufacturing cost	674,040,740.42	10.44	610,811,640.49	10.55	10.35	-
	Direct labor cost	171,674,547.33	2.66	150,870,432.26	2.60	13.79	-
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 material	3,252,741,554.55	50.40	3,190,020,053.36	55.05	1.97	-
	Manufacturing cost	402,725,432.49	6.24	388,209,841.03	6.70	3.74	-
	Direct labor cost	83,248,939.24	1.29	80,859,005.65	1.40	2.96	-
Seasoning sauce	Direct material	880,712,598.88	13.65	789,325,265.76	13.62	11.58	-
	Manufacturing cost	87,061,315.26	1.35	78,732,620.69	1.36	10.58	-
	Direct labor	45,658,102.19	0.71	40,173,266.09	0.69	13.65	-

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	cost						
Oyster sauce	Direct material	1,054,725,919.86	16.34	810,297,205.67	13.98	30.17	-
	Manufacturing cost	49,662,694.08	0.77	42,356,408.78	0.73	17.25	-
	Direct labor cost	17,287,028.00	0.27	13,858,102.91	0.24	24.74	-

### (2.4) Major Suppliers

Top 5 suppliers are as below

Supplier Name	Amount	Ratio accounted for total procurement (%)
No.1	416,783,423.42	6.95
No.2	285,501,658.00	4.76
No.3	250,939,624.38	4.18
No.4	247,604,529.43	4.13
No.5	238,232,957.32	3.97
Total	1,439,062,192.55	24.00

#### Further description on cost analysis

During reporting period, by effectively managing the procurement cost, strengthening internal cost control, promoting technology update, implementing energy-effective measures and finding internal potential projects, the company has lowered unit costs and has contributed to the steady growth of the overall gross margin. During reporting period, the company's business cost is 6.557 billion yuan, 12.08% rise YoY. It is lower than the growth of Operation revenue, Among the business costs, the cost of main business is 6.454 billion yuan, increasing by 660 million yuan over last year, with the YoY growth rate of 11.39%.

### (3) Expenses

Expense change YoY :

Project	Current amount	Previous amount	In RMB
			Change YoY%
Sales expense	1,227,220,684.17	1,050,482,287.92	16.82
Management expense	534,901,347.04	486,522,922.46	9.94
Finance expense	-48,786,754.34	-48,633,317.83	-0.32

Note:

(3.1) Sales expense grows 16.82% YoY, which is greatly due to the increase of market promotion fees during the reporting period, in an effort to build up and break through market channels.

(3.2) The management expense is well controlled at a growth of 9.94% YoY. The management expense ratio is 4.74%, which is at the same level of last year.

#### (4) R&D Investment

##### (4.1) Table of R&D

In RMB

Current cost of R & D investment	314,607,782.61
Current capital investment of R & D investment	-
Total investment of R&D	314,607,782.61
Total R & D investment accounted for operating income (%)	2.79
Number of R & D personnel	289
Number of R & D personnel accounted for total number of staff (%)	11.87
The ratio of R & D investment capital (%)	-

##### (4.2) Remarks

During reporting period, the total spending of R&D is 315 million yuan, a YoY growth rate of 4.58%. The R&D investment accounts for 2.79% of annual Operation revenue. This is in accordance with the requirement 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 has enhanced new product research and development by sorting out and streamlining research and development tasks. The company makes further request on R&D investment and return, and guides the R&D to focus on future technology barriers and improvement of core competence.

#### (5) Cash flow

Change of cash flow:

In RMB

Project	2015	2014	Change (%)
Cash inflow from operating activities	12,347,911,604.40	11,874,502,222.98	3.99
Operating cash outflow subtotal	10,153,079,948.05	9,135,171,397.37	11.14
Net cash flow from operating activities	2,194,831,656.35	2,739,330,825.61	-19.88

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Cash inflow from investment activities	2,828,044,231.93	110,278,071.39	2464.47
Cash outflow for investment activities	3,145,781,217.14	2,715,606,869.11	15.84
Net cash flow from investing activities	-317,736,985.21	-2,605,328,797.72	87.80
Cash inflow from financing activities	-	1,971,983,175.00	-
Cash outflow for financing activities	1,279,886,600.00	434,625,168.54	194.48
Net cash flows from financing activities	-1,279,886,600.00	1,537,358,006.46	-183.25
Net increase in cash and cash equivalents	597,208,071.14	1,671,360,520.35	-64.27

### Remarks on changes over 30%:

(5.1) Net cash flow from operating activities totals 2.195 billion yuan, reducing by 0.544 billion yuan over the same period of last year. This is mainly due to the poor growth of cash inflow from operating activities (3.99%), which is lower than the growth of cash outflow from operating activities. By the end of reporting period, to further support the distributors' development under a rather weak economic environment at the same time to reduce their burden on cash, the company has adjusted the timeline for year-end payment, allowing distributors to complete their prepayments by Jan 2016, before the goods are sent out. This action has led to the balance of prepayment reduced by 903 million yuan over last year, and has eventually decreased the net cash inflow from operating activities during the reporting period.

(5.2) Net cash outflow from investing activities is reduced by 2.288 billion yuan compared to the same period of last year. This is mainly due to the fact that some wealth management products and time deposits have matured in this period, whose amount is 1.8 billion yuan. On the other hand, the wealth management outflow is 1.5 billion yuan during this reporting period, reducing by 0.3 billion yuan over last year. So the net cash flow from investing activities in this reporting period has decreased over last year.

(5.3) Net cash flow from financing activities records an outflow of 1.28 billion yuan this year, stark contrast to the inflow of 1.537 billion yuan last year. The reason behind is the company's IPO debut in a share during last period has raised capital, while there is cash dividend on shares in this period which has contributed to a net cash outflow on financing activities.

## 2. Analysis of asset and liability

### Assets and Liability

In RMB

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	4,519,091,067.15	39.30	5,117,565,091.95	46.52	-11.69	-
Advance payment	7,279,517.87	0.06	21,882,548.01	0.20	-66.73	-
Interest receivable	753,269.40	0.01	9,681,644.14	0.09	-92.22	-
Inventory	999,924,009.12	8.70	1,154,208,319.45	10.49	-13.37	-
Other current assets	1,640,624,402.16	14.27	722,327,034.84	6.57	127.13	-
Investment real estate	5,923,756.26	0.05	6,533,067.14	0.06	-9.33	-
fixed assets	3,263,644,592.88	28.38	3,198,675,437.04	29.08	2.03	-
Construction project	786,640,648.16	6.84	504,653,050.44	4.59	55.88	-
Accounts payable	584,833,180.73	5.09	599,248,049.80	5.45	-2.41	-
Payment in advance	1,118,865,208.36	9.73	2,022,083,979.88	18.38	-44.67	-
taxes and fees payable	271,101,353.14	2.36	141,129,716.15	1.28	92.09	-
Other current liabilities	6,792,580.58	0.06	933,898.10	0.01	627.34	-

Remarks

Explanation on changes of 30% or above:

(1) By the end of reporting period, prepayment reduces by 66.73% YoY, mainly due to the reduction of advertising prepayments in this period.

(2) At the end of reporting period, interest receivable has decreased by 92.22% , it is because the reduction of fixed deposits and structured deposits has relevant results on interests.

(3) By the end of reporting period there is 127.13% increase in other current assets, this is the result of purchase of financial management products which will be due in/within one year.

(4) By the end of reporting period, the projects under construction have increased by 55.88%, which is largely attributed to the building of Haitian factory in Jiangsu province.



(5) By the end of reporting period, prepayment has been reduced by 44.67%, which is the outcome of an interim measure meant to relieve the financial pressures on distributors by postponing their deadline for prepayment.

(6) By the end of reporting period, taxes and fees payable has increased by 92.09%, which is due to the growth of taxes and fees in this period.

(7) By the end of reporting period, other current liabilities have increased by 627.34%, this is due to the expectation of receiving government subsidiaries and rewards within the year.

### **3. Analysis of the industrial business**

Currently, there are many flavoring companies, the industrial concentration is low, and the industry still registers a high growth rate. Fierce competition and varied business levels have shown that the industry is still at its primitive stage and predicts a trend of high-end, branding and high concentration in future. This will inevitably bring opportunity and development bonus to those companies with absolute advantage in branding, market channels, quality control, product R&D, capital, etc. The gap between different companies will continue to expand, triggering further industry integration and the market concentration. Meanwhile, the supply side innovation of flavoring will create consumers needs and bring development opportunity for the industry. China has a profound history of food culture, and people have higher demand on good food. The upgrade of living standards and the vibrant development of catering industry have made room for the rapid growth of flavoring industry. Household and restaurants diversify their demands for flavoring products despite the slowdown of economy, which has little impact on the growth of flavoring industry. The flavoring industry is the necessity of people's everyday life. It will retain stable growth. This is a feature of this industry. This industry will continue to flourish together with the economic growth, urbanization, second child policy, and the continuous development of people's livelihood and the catering industry.

**4. Analysis of investment**

**(1) Analysis of equity investment**

Foshan Haisheng Food Co.,Ltd., a new subsidiary, was registered with a capital of 10 million yuan during the reporting period.

**(1.1) Significant non-equity investment**

Overall use of fund raised

In 10,000 RMB

Year of fund raising	Fund raising method	Fund raised total	Total amount of fund spent this year	Accumulated amount of fund spent	Total amount of funds unused	The usage of unused fund
2014	First issue	183,791.61	8,983.67	182,742.65	2,240.55	Expansion project for production of 1,500,000 tons of soy sauce and flavoring
Total	/	183,791.61	8,983.67	182,742.65	2,240.55	/
Overall use of funds raised			1. On 29 Jan 2014, the company raised 1,837.9161 million yuan from public. 2. On 24 Mar 2014, examined and approved by the 5 <sup>th</sup> meeting of the 2 <sup>nd</sup> session of board directors, the company substituted the self-financed fund as by 28 Feb 2014, of 1,634.93 million yuan, by the public raised funds. 3. The company spent 89.8367 million yuan of the fund raised in 2015, while the total spending of the fund raised amounted to 1,827.4265 million yuan. 4. By 31 Dec 2015, the total balance of raised fund amounts 22.4055 million yuan(inclusive interest of 11.9159 million yuan),which the company will continue to spend on the production expansion project of 1.5 million tons of soy sauce and flavoring, and will manage and spend the funding in accordance to the “Guidelines for fund management for the listed corporations in Shanghai Stock Exchange”.			

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Other significant non-equity investment

In 10,000RMB

Project Name	Project amount	Project progress	Investment of this year	Accumulated Investment	Source of funding
Haitian Jiangsu brance construction project	44,396.82	60.60%	22,249.74	26,924.82	Self-financed

**(1.2) Financial assets in fair value**

In 10,000 RMB

Project name	Investment cost			Fair value			income from investment 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		
Bank financial products	60,000.00	150,000.00	90,000.00	61,801.97	150,669.64	88,867.67	7,056.80	Self-financed
Total	60,000.00	150,000.00	90,000.00	61,801.97	150,669.64	88,867.67	7,056.80	

**5. Analysis of major shareholding companies****(1) Foshan Haitian (Gaoming) Flavoring and Food Co., Ltd.**

Founded on 7 June 2004, with registration capital of 50 million yuan, Gaoming Haitian's share was 100% held by the company, directly or indirectly. The business scope for Gaoming Haitian includes flavoring, grocery, food, drinks, packaging materials, agricultural products processing, food package recycling, information consulting, etc.

As of 31 Dec 2015, the total asset of Gaoming Haitian is 9.191 billion yuan, with net asset of 159 million yuan and net profit of 2.133 billion yuan.

**(2) Xingzhao Global Investing Co., Ltd.**

Founded on 4 Jul 2001, with issue of shares of 50,000 priced at 1 USD each, Xingzhao Global Investing is the fully-owned subsidiary of the company. Its main business inequity investment, and it holds 30% share of Gaoming Haitian company.

By 31 Dec 2015, the asset of Xingzhao Global totaled 881 million yuan, with net asset of 879 million yuan and net profit of 647 million yuan.

**(3) Guangdong Guangzhonghuang Food. Co., Ltd.**

Founded on 28 Mar 2014, with registration capital of 10 million yuan, Guangdong Guangzhonghuang is a fully-owned subsidiary of Haitian Flavoring. Its business scope includes bean products (Fermented bean product), vegetable products (pickles)(with national permit for production), the primary processing of edible agricultural products, economic information consulting, import and export of goods and technology.

By 31 Dec 2015, its assets totaled 130 million yuan, with net asset of 9.5031 million yuan and net profit of 0.6251 million yuan. During the reporting period, Guangdong Huangzhonghuang is fully

concentrated on internal upgrade of production and quality and therefore its products are not available on national sales network yet.

#### **(4) Foshan Haitian (Jiangsu) Flavoring and Food Co., Ltd.**

Founded on 25 Mar 2014 with registration capital 10 million yuan, Jiangsu Haitian is a fully-owned subsidiary of Foshan Haitian. Its business scope is: flavoring, grocery, food, drinks, bean products, packaging material production, sales project preparation, processing and sales of agricultural products, logistics and information consulting, import and export of goods and technology (except for those prohibited by the government). (The business activities are subject to administrative approval before being implemented)

By 31 Dec 2015, the asset of Jiangsu Haitian totaled 332 million yuan, with net asset of 4.5553 million yuan and the net profit of -4.9485 million yuan. Jiangsu Haitian is still in setup stage, the reporting period only observes factory construction and upfront investment. It is expected to operate in the second half of 2016.

#### **(5) Foshan Haisheng Food Co., Ltd.**

Foshan Haisheng was founded on 10 Feb 2015 with registration capital of 10 million yuan and is the fully-owned subsidiary of Haitian Flavoring. Its business scope includes food, flavoring, agricultural products, aquatic products, food additives, production, processing and sales of bean products, wholesale and retailing of plastic products, paper products, glassware, metal materials, chemical products (exclusive hazardous products), import and export, cargo transportation.

By 31 Dec 2015, the asset of Foshan Haisheng amounted to 39.8638 million yuan with net asset of 10.4662 million yuan and the net profit of 466,200 yuan.

### **(III) Discussion and analysis on the company's future development**

#### **(1) Competitive landscape and development trend**

Though there is a slowdown in domestic economy and the overall consumption is weak, as the necessity of people's life, flavoring industry still maintains stable development. This is the feature of the industry. It will retain stable growth and will continue to flourish in future years, together with the economic growth, urbanization, second child policy, and the continuous development of people's livelihood and the catering industry.

Currently, there are many flavoring companies, the industrial concentration is low, and the industry

still registers a high growth rate. Fierce competition and varied business levels have shown that the industry is still at its primitive stage and predicts a trend of high-end, branding and high concentration in future. This will inevitably bring opportunity and development bonus to those companies with absolute advantage in branding, market channels, quality control, product R&D, capital, etc. The gap between different companies will continue to expand, triggering further industry integration and the market concentration.

## **(2) The company's development strategy**

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. At the same time, the company will expand its advantage in oyster sauce and seasoning sauce. On the other hand, it will continue to develop high potential products including cooking wine, vinegar and compound sauce, etc. The company will maintain its advantage in its core products of flavoring and utilize the platform and resources of the company, accelerate the development of new business and build up new competitiveness.

## **(3) Business Plan**

2016 is the third year of the second five-year plan. The company's management will continue to lead the staff to thrive for excellence, and aim to double the scale and net profit of 2013 by 2018 while keeping the development in a sustainable, healthy and stable way. The company will continue to consolidate its leading position in soy sauce, oyster sauce and seasoning sauce product categories, and will build up its competitive advantage in more product segments including cooking wine, vinegar and compound sauce. The company will maintain its advantage in its core products of flavoring and utilize the platform and resources of the company, accelerate the development of new business and build up new competitiveness.

2016 will observe the reinforcement and consolidation of the four major achievements of 2015, and the company will continue to activate the internal and external forces. Meanwhile, to accelerate the development of the company is another major task for 2016: (1) Accelerate new business development: The company will go outside and borrow experiences from others, combine its competitive advantage with other companies' quality resources, and accelerate the growth of new business, especially innovative business. (2) Promote merge and acquisition, build strong flavoring

brands with unique and regional features. The flavoring industry has huge potential and stable growth. The companies are at different levels and there is huge room for exploration. (3) Gradually build staff entrepreneurship and innovation platform. As the reform on human resources continues, more potential of staff will be mobilized, and all the company needs to do is to help staff to realize their new concepts and entrepreneurship.

#### Major business indicators of 2016

Main Indicator	Target	Change YoY
Operation revenue	12.99 billion yuan	15%
Net profit	3.012 billion yuan	20%
Non net profit	2.932 billion yuan	20%

Under the positive economic development trend of the country, the flavoring industry will continue to grow stably. The company will take full advantage of this bonus to facilitate the growth of the industry and will try its best to give employees, shareholders and communities maximum returns.

#### (4) Potential risks

1. 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 non-genetically 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: agriculture products such as soybean and sugar are the main materials of the company. The prices of agriculture 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. The risk of declining industry prospects: though the demand for flavoring 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 Matters relating to financial reporting**

### **7.1**

If the accounting policy, accounting estimation and calculation methods are changed over the last year's financial statement, the company shall explain the situation, reasons and consequences.

Not Applicable

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

Not Applicable

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

On 10 Feb 2015, the company invested 10,000,000.00 yuan to set up Foshan Haisheng, a fully-owned subsidiary. Please refer to appendix 7 of the annual financial report for details of Foshan Haisheng.

7.4 If the accounting firm has issued non-standard auditing opinion on the financial statement, the board of directors and board of supervisors shall explain the relevant issues.

Not Applicable

Chairman: Pang Kang

Foshan Haitian Flavoring and Food Co., Ltd.

9 Mar 2016